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Financial support measures that strengthen WASH continuity and affordability in the time of COVID-19

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Purpose of this document

The purpose of this note is to develop thinking and guidance around financial support measures that ensure continuity of WASH services, with three specific main objectives:

1. To develop thinking on the optimal response to the socio-economic impacts of COVID-19, the role of government subsidies, market-based programming and cash transfers in that response, and to make concrete links with these initiatives as they develop;
2. To provide narrative that can be further developed and used in our discussions with donors and partners;
3. To provide key points for further reflection for regional and country offices wishing to engage in social protection programmes, and serve as a basis for later development of instructions or guidance.

Introduction

Discerning the essential from the non-essential in a pandemic. When a global pandemic such as COVID-19 strikes, it has a major disruptive effect on both businesses and public services with implications for jobs and livelihoods and hence household incomes. The scale and extent of measures taken to respond to COVID-19 are unparalleled in history – and the lockdowns have had far-ranging consequences on economies and societies, reflected in stock prices and forecasts of global economic recession. Due to the direct and indirect health impacts of the disease, mobility restrictions, and adjustments in supply chains, many services that are considered essential to the population to weather the crisis need special attention to avoid breakdown. Water, sanitation and hygiene (WASH) are among this list of essential services.

Responses to keep water running have been widespread. Many governments in the developing world have been quick to respond to the crisis, implementing lockdown measures well in advance of many more developed countries that were hit earlier in the pandemic, and instigating mitigative measures to reduce the impact on the population. By early April, many governments of UNICEF programme countries had already granted their population three months of free water supply, through planned government financial transfers to water and wastewater providers. This not only ensures that households and essential services can continue operating as they were before, but it

also guarantees adequate water for handwashing – which in many countries has experienced a steep increase in practice. And along with solid waste, sanitation services are being prioritized in many countries to ensure no further disease outbreaks or environmental pollution occurs as a result of service breakdown.

Different support mechanisms required for different contexts. However, ensuring utilities keep operating is not enough to provide for the WASH needs of many populations in UNICEF’s programme countries, especially in poor or informal urban areas and rural locations where there is no networked service or single provider through whom such safety nets can be provided. Hence cash transfers to households themselves becomes one essential way to ensure the liquidity of households to pay for essential items such as rent, food, health care and WASH. Advocates for market-based approaches claim that, where feasible, they promote economic recovery, resilience, acceptance and sustainability, when compared with free handout of essential supplies, which often includes importation of foreign goods

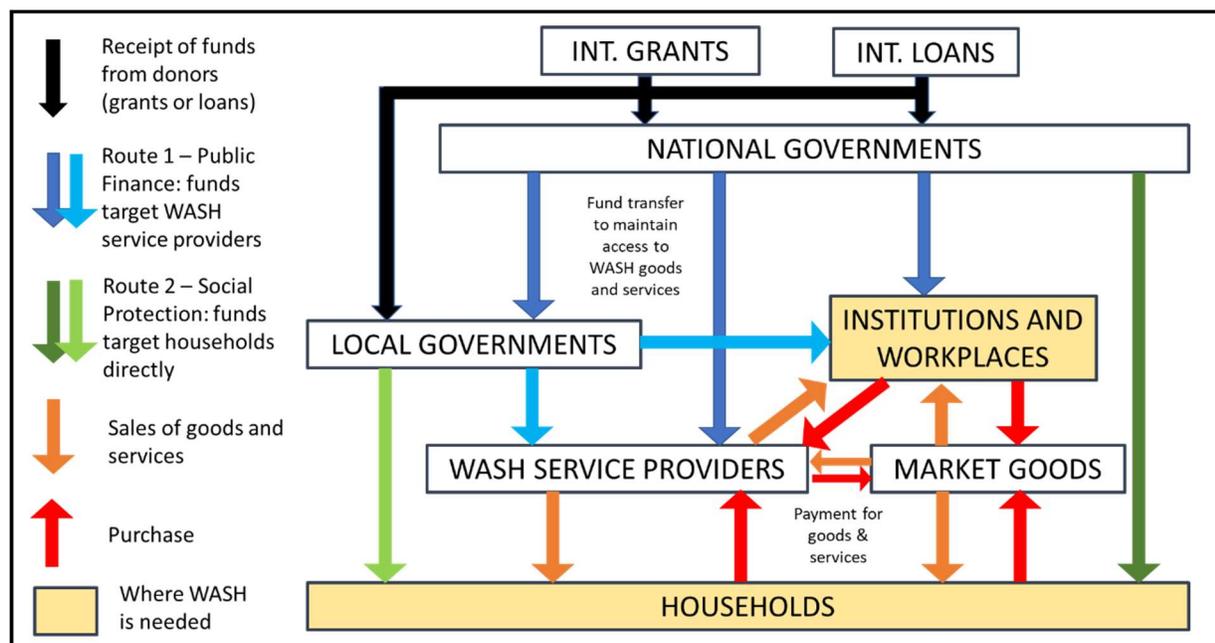
Cash transfers are imperative to keep many households above the breadline.

Hence, market-based programming is a key approach to enable continuation of services, while strengthening rather than disrupting the market, and thus enabling a smoother transition back to normal after the crisis has passed. This paper touches on the four main approaches in market-based programming¹, though there is greater focus on the first (cash transfers) and fourth (market supply strengthening) as alternative but complementary ways of reaching populations with essential WASH services. Cash transfers can be conditional (e.g. cash-for-work, cash-for training) or unconditional cash grants. Typically, these transfers cover the required payments that would normally be paid by households to meet their basic living needs, and that they would face difficulty meeting due to the crisis situation. In this case it is mainly due to loss of income-earning activities, but in some cases it may also be due to price increases due to supply constraints.

Resources are starting to flow through many different channels. Figure 1 shows a general schema for the way in which funds and services might flow through the system, illustrating two main scenarios. National governments are responding by raising funds from a mixture of sources – (a) reallocation of existing budgets to the crisis response, (b) borrowing through raising bonds or taking loans from national or international lending entities, (c) accepting grants from the international community, and (d) setting up a national solidarity fund contributed by high net worth individuals and the general public. Some of these sources may flow directly to local governments at different levels, or the latter receives a grant from the national government.

¹ (1) Cash transfer programming (CTP), (2) Demand generation, such as social marketing and improved market access, (3) Strengthening regulatory framework, covering advocacy and capacity building, (4) Market supply strengthening, such as strengthening market infrastructure and services, support to traders and supply chain strengthening

Figure 1. Flow of funds for assuring access to and effective demand for essential WASH services



There are two main routes whereby these funds are used to assure the essential WASH goods and services are provided to and consumed by the population:

1. **Public finance:** Via the supply side (blue lines in Figure 1). WASH service providers or else product suppliers are given the funds so that goods and services can be provided free to all or a selected group in the population.
2. **Social protection:** Via the demand side (green lines in Figure 1). Households receive cash directly from government or NGOs. In the COVID-19 response, there is an emphasis on unconditional cash transfer.

In UNICEF programme countries, it is likely that both routes will be necessary. The following sections explore what are the implications of each route – questions to ask, evidence to collect.

Issues arising and ways to address them

Issues in public finance (route 1)

First, governments whether local or national will need to formulate a response to the major risk in the current crisis to WASH providers and supply chains. If governments make pledges to cover the entire operating costs of utilities, it will mean a major financial burden to them – leading to indebtedness of governments. Therefore, in advising governments, it is preferable to focus public funds on the poorest and most vulnerable populations, including those without pre-existing basic WASH services. If

non-poor households whose income is not affected considerably by the crisis are provided free WASH services, it will lead to loss of income of the utility that could have been collected and a greater burden to government finances. Also, once populations are given free services, they may come to expect them in the future – hence careful messaging is needed around the temporary nature of government support.

When a government decides to support utilities or goods suppliers directly in route 1, several issues arise:

Does the fiscal transfer to utilities cover the service cost? Depending on what was agreed, it will be important to ensure the government pays all the promised funds to get the utility through the crisis period so that it can operate at least the same level, if not at a higher level, given that household water demand will likely increase. Also, as business demand will fall, the margin the utility makes on water sales may fall considerably, if businesses are paying a higher rate in a block tariff system. Hence, the reduced demand from businesses could cut severely into the revenues. Hence this should be taken into account in the government allocations.

What is the sensitivity of services to disruption of inputs? Given the strictness of many lockdowns, governments will need to conduct risk assessments of water providers and support them in obtaining critical inputs – chemicals, energy, and personnel mobility (and cover for when workers get sick).

Especially in water scarce contexts, consumers need to be sensitized on responsible water use. When utilities are not charging for water (or wastewater) services, and there is no longer a price mechanism to regulate their usage (where water meters are used), measures are needed to ensure households do not waste water. Instead of giving unlimited amounts of water, governments might set a limit of free water consumption per capita or household, where there are water meters. If this is considered, the amount of free water should take into account connections with a large number of HH members (such as in the case of shared connection).

Should all households benefit from free water, or a free water allowance? Given the scarcity of public funds; given uncertainties about how long the lockdown and recovery periods will last for; and given the fact that many better-off households do not need free water – there should be consideration from early on about who should benefit from free WASH services. It will depend to some extent on the relative weight of vulnerable population in the total population, the instruments available for targeting social protection, and the transaction costs. Innovative ways of ensuring sufficient funds are received for O&M should be sought, to reduce the burden on the government budget (and its future debt levels). For example, customers could be appealed to for their solidarity, and pay water bills if they can afford to, on a voluntary basis. Solutions will vary between different jurisdictions, given very different socio-economic contexts within the same country.

Issues in social protection (route 2)

As an essential service that households may otherwise choose to cut back on, those households not covered by route 1 (above) should be covered through other mechanisms. When route 2 is selected, it will be important to include WASH as part of the Minimum Expenditure Basket (MEB) which includes a contribution to essential consumption items for a targeted household until the crisis period is over. Unit costs per household for each service will be needed to inform the WASH-component of the MEB.

Cash transfers for WASH should be unconditional, unless strongly justified otherwise. If WASH is included in the estimations for the cash transfers, it should be expected that the transfers are unconditional. As an overall approach, UNICEF supports government owned and -led systems². In the context of a multi-sectorial response, not every sector or outcome area should be asking for conditionalities, as it adds to the transaction cost and conflicts with some of the principles of cash transfers.

When cash transfers are made, some knowledge and monitoring is needed to ensure minimum levels of WASH are achieved. To be impactful for WASH outcomes, unconditional transfers should be combined with ongoing sensitization about the essential WASH services and behaviours during the COVID-19 response period and that have been allowed for in the cash transfer value. Through monitoring there should be assessment of how households are using the funds and identify whether (some) households are consuming below essential levels or revert to unsafe practices. The risks are noted that, when cash is in extremely short supply, households must make tough decisions between competing needs.

If the goods and services are not likely to be available in the volumes needed, other mechanisms will be needed. Route 2 is dependent on the preconditions for market-based programming – which are that there are sufficient goods in the market for the population to satisfy the demand – and that the market is responsive to increased demand (and that market does not only adjust by increasing prices). Where this condition cannot be met, an alternative or complement to MBP will be needed (e.g. mass distribution of goods).

Making best use of public funds is critical, especially if the support needs to be sustained over a longer time period. Like for route 1, it is important to make best use of public funds by targeting the deserving households. However, the costs of targeting (and the risks of type I and type II errors) needs to be known to make a decision on whether targeting will be efficient and inclusive.

² “UNICEF does not actively promote the use of conditionality in its technical assistance, in light of human rights and operational concerns and insufficient evidence of the added value of conditionalities. UNICEF’s application of this approach is context-specific, taking into consideration national priorities and political economy, and the social and economic vulnerabilities of children and their families” (page 3, “Conditionality in cash transfers: UNICEF’s approach”. Social Policy Summaries. February 2016.

As route 1 and 2 will both be used, it is important to know which populations will benefit from route 1 in order to ensure non-networked households will access cash transfers to have access to an equivalent service via route 2.

Recommendations

Responses need to be both organization- and economy-wide, as much as possible. UNICEF needs to act as one, hence close collaboration from programme division will be needed with various divisions (EMOPS, PPD) as well as within PD – under the leadership of Social Protection. The latter has issued a number of guidelines both COVID-19 specific³ and general (see reading list).

Recommendations for both public financing and social protection

1. Understanding the impacts on children of the crisis and how systems can respond
2. Many countries are extending cash transfers to more of the population, hence country offices should make efforts to ensure that the amounts are enough to cover WASH needs. On the other hand, this must be done without placing further strains on national budgets or crowding out existing vital services
3. Efforts on financing should be linked with WASH messaging and services, and to monitor its impact in this area
4. Work closely with Social Policy, Emergency and other relevant teams covering humanitarian assistance and social protection issues in the response
5. WASH & SP colleagues can also support one another on helping governments calculate the costs and propose inclusion of adequate cash transfers in govt re-prioritization of funding and access to WB, IMF and IFI covid emergency financing
6. Understanding of the costs of current service provision and related budget needs, by major budget items
7. Understanding of the costs of additional service provision to close current gaps, and ways in which those services could be delivered
8. When both routes 1 and 2 are used, data and analyses are needed to ensure all vulnerable households are covered under one or other route
9. Take swift action to direct or redirect and mobilise (a) others' resources, including rapid mobilisation of concessional finance from the IMF and World Bank; (b) UNICEF's own resources to the response, based on gaps and priorities
10. Ensure approved funds are rapidly delivered to frontline service providers or households through mechanisms such as advances, front-loaded transfers or simplified spending authorisation or procurement, balanced with appropriate accountability for ex-post review

Recommendations for public financing

1. Country offices should argue for financing for such waivers and subsidies to be included in the proposals governments make to WB and IMF for COVID financing.

³ UNICEF Social Protection response to COVID-19

However, the public financial support should be focused on the poor and vulnerable households, those non-poor considerably affected by the crisis, and paying special attention to those without pre-existing basic WASH services.

2. Assessments need to be made of the total fiscal needs for this route, under different cost sharing scenarios
3. Where water meters are in use, consideration of payment above a certain minimum level per connection (considering number of HHs per connection)
4. Government support cannot stop with financial allocations – but WASH service providers need to be assessed for risks of service interruptions (guaranteed energy supplies and chemicals, workforce)
5. Modeling of the likely changes in water demand, and whether water providers can meet these demands. If demand exceeds supply, consumer sensitization will be needed, or pricing.
6. Explore innovative ways to raise funds for utilities, and ensuring the subsidies go to the most deserving

Recommendations for social protection

1. Support programme adaptation – this includes ensuring that routine cash transfer programmes are not disrupted as a result of the crisis and/or expanding the existing cash transfer programmes horizontally (to more people) and vertically (increasing transfer amounts). Where government systems are not in place or cannot be used, this can include supporting direct provision of humanitarian cash transfers
2. Ensure WASH is engaged in the multi-sectoral discussions on the Minimum Expenditure Basket so that it is included, where relevant
3. Have data available on the costs of meeting essential WASH needs in different national contexts (rural, urban, networked, non-networked)
4. Support to rapid crisis appropriate implementation: Including beneficiary identification, updated communication, payments systems (including not exposing recipients at payment points) and linkages to other services
5. Key indicators will need to be defined to be followed up, with adequate household sampling, on their WASH decisions and practices – preferably as part of a broader management information systems (MIS)

Further reading

Guidance on market-based programming for humanitarian WASH practitioners. Global WASH Cluster. 2019. <https://wrc.washcluster.net/document/guidance-market-based-programming-humanitarian-wash-practitioners>

Cash and markets in the WASH sector. A global WASH Cluster position paper. December 2016. <https://wrc.washcluster.net/document/cash-and-markets-wash-sector>

Global Social Protection Programme Framework. UNICEF.

<https://www.unicef.org/media/61011/file/Global-social-protection-programme-framework-2019.pdf>

Programme Guidance on Shock Responsive Social Protection Systems. UNICEF.

<https://www.unicef.org/media/63846/file>

Guidance Package on Social Protection across the Humanitarian-Development Nexus.

<https://europa.eu/capacity4dev/sp-nexus/wiki/guidance-package-span-resources>