



Financing Water and Sanitation in Small Urban Centres

Money does not come too easily

According to UN-HABITAT's new report *Achieving Global Goals in Small Urban Centres: Water and Sanitation in the World's Cities (2006)*, small urban centres and especially those in low-income countries experience severe problems in securing long-term finance for urban development and especially for water and sanitation projects. They also lack political influence to secure national or international public financing and are not able to secure credit on their own.

Additional constraints to financing water supply and sanitation in small urban centres include low levels of consumer affordability; inadequate and unreliable revenue to cover operational costs, debt financing, and political and foreign exchange risks associated with getting short-term funds from external sources.

Such constraints make urban centres with low incomes unable to afford the sort of systems that would enable them to meet the MDGs without subsidies.

Domestic and International Funding

Water and Sanitation funding comes both from domestic and international sources. Domestic financing supplies about US\$ 10.1 billion or 67 percent of the annual budget requirement, while foreign sources contribute US\$4.9 billion or 33 percent.

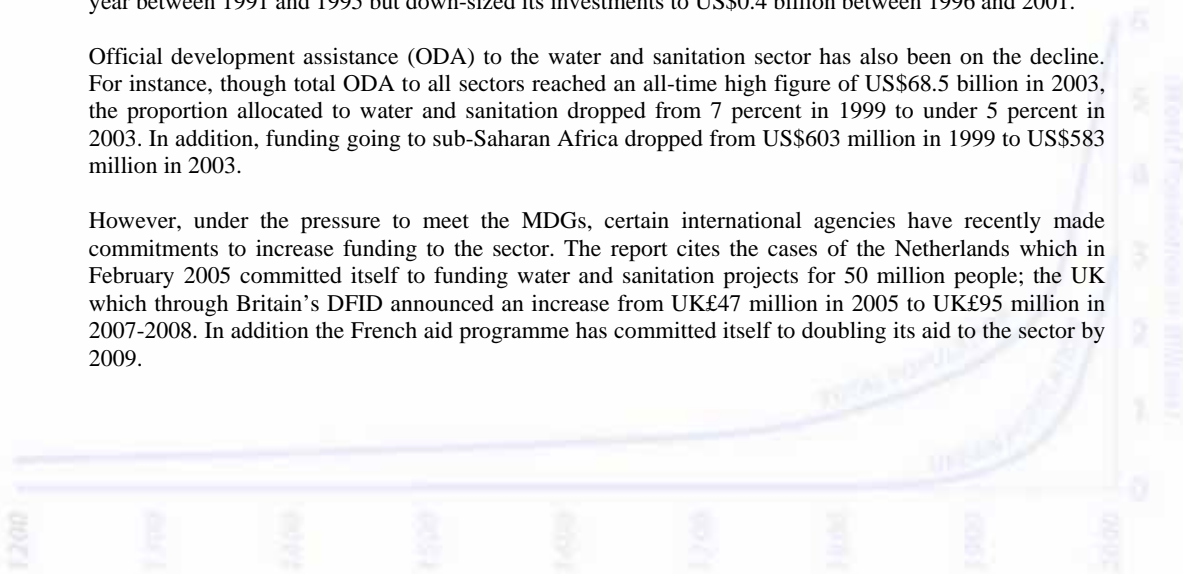
In general, the various sources of domestic financing include national budgets drawing on taxes levied by both national and local governments, which amounts to US\$6.6 billion annually. Other domestic sources include cash generated from tariff and user-charges; and investments made by small-scale community providers and by households.

The Changing Patterns of International Financial Assistance

Internationally, the report says that there is a consistent downward trend. Between 1990 and 1998, the World Bank had been committing US\$1.5 billion annually. This went down to US\$0.8 billion in 1999 and 2002. Likewise, the Inter-American Development Bank (IADB) had committed US\$0.64 billion each year between 1991 and 1995 but down-sized its investments to US\$0.4 billion between 1996 and 2001.

Official development assistance (ODA) to the water and sanitation sector has also been on the decline. For instance, though total ODA to all sectors reached an all-time high figure of US\$68.5 billion in 2003, the proportion allocated to water and sanitation dropped from 7 percent in 1999 to under 5 percent in 2003. In addition, funding going to sub-Saharan Africa dropped from US\$603 million in 1999 to US\$583 million in 2003.

However, under the pressure to meet the MDGs, certain international agencies have recently made commitments to increase funding to the sector. The report cites the cases of the Netherlands which in February 2005 committed itself to funding water and sanitation projects for 50 million people; the UK which through Britain's DFID announced an increase from UK£47 million in 2005 to UK£95 million in 2007-2008. In addition the French aid programme has committed itself to doubling its aid to the sector by 2009.





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MEETING DEVELOPMENT GOALS IN SMALL URBAN CENTRES



However, there is still an anomaly in the way aid is disbursed. For instance, Africa's share has decreased slightly while that going to the Americas has increased. In addition, aid to the water and sanitation sector is concentrated in certain countries with the 10 largest recipients receiving 53 percent of the total disbursements in 2000-2001. These countries included China, India, Vietnam, Peru, Morocco and Egypt. In contrast, countries where a large proportion of the population lack access to safe water and sanitation receive very little aid to address the problem. In this regard, 12 percent of the total aid to the sector in 2000-2001 went to countries where less than 60 percent of the population have access to an improved water source.

Aid to small urban centres

According to the report, too little aid is allocated to water and sanitation sectors in small urban centres. For example, of the US\$3 billion in ODA allocated to water supply and sanitation in 2003, only about US\$360 million went to small urban centres. Small towns tend to be overlooked because they fall between large urban centres and rural areas.

There is however evidence that the World Bank which allocates US\$6 billion to the sector is beginning to direct sizeable resources to small urban centres through its Water Supply and Sanitation Programme. The Bank has launched the Small Towns and Multi-Village Initiatives to study how water supply and sanitation is handled across the world's small urban centres.

This includes: the US\$15.5 million Kyrgyz Republic's Small Towns Infrastructure and Capacity Building Project; the Chongqing Small Cities Infrastructure Improvement Project in China which has a budget of US\$280.7 million; the US\$23.27 million Cambodia Provincial and Peri-Urban Water Supply Project; the Small Towns Water Supply and Sanitation Project in Ghana with a fund of US\$31 million; and, the Water and Sanitation Sector Support Project in Cambodia with a budget of US\$70 million.

In all these projects, the World Bank promotes decentralization, greater private sector involvement in building and management of water utilities; a business planning approach that brings together utility managers and town administrators and a high focus on infrastructure improvement through technical and managerial assistance. It also promotes community participation: "When community members have committed their own time, effort and resources to establishing improved water and sanitation systems, they are more committed to maintaining and sustaining their investments."

A call for more targeted funding

The report concludes by calling for more international resources to be directed towards improving living conditions in small urban centers. In particular, it states that donor funding should not be for small one off grants for small projects but should encourage a process by which local initiatives and innovations can be supported.

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Mr. Sharad Shankardass, Spokesperson, Ms. Zahra Hassan, Press & Media Liaison, Press & Media Relations Unit, Tel: (254 20) 7623153/7623151/7623136, Fax: (254 20) 7624060, E-mail: habitat.press@unhabitat.org, Website: www.unhabitat.org

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