

Urban Water Catalyst Initiative (UWCI)

Supporting utilities in the transition to financial sustainability and climate resilience



Urban Water
Catalyst
Initiative

A unique and innovative offering to accelerate utility performance improvements and results

The Urban Water Catalyst Initiative (UWCI) supports urban water utilities to make the essential transition to sustainable financing, enabling them to become climate resilient while leaving no one behind. The UWCI offers a unique package of technical and financial assistance to reform-minded utilities to support their transformation into well-performing, financially sustainable service providers.

Water utilities play a critical role in providing essential services to support livelihoods in urban areas, the home of 4.5 billion people globally.¹ These services are capital intensive and large investments are needed, particularly in the context of rapid population growth² and climate change.³ Government funding is not nearly sufficient to meet the Sustainable Development Goals 6.1 (safe affordable drinking water for all) and 6.2 (universal access to safely managed sanitation and hygiene), with an estimated funding gap of US\$ 140 billion per year.⁴ Additional funding is needed to for water utilities to become climate resilient (SDG 13).

While the contribution of public funds to meeting these Sustainable Development Goals is very important, the sustainability of water services, their expansion and the building of climate resilience will depend significantly on the ability of many utilities to access finance over and above what is available from government.

The UWCI supports utilities to become creditworthy, that is, trusted by financiers and able to access loan finance. At the same time, the UWCI offers or facilitates finance to these utilities in the form of local currency lending or guarantees, thus directly enabling them to increase their level of investments and realise their SDG 6 and 13 goals. This integrated approach presents utilities committed to making this transition with a unique opportunity to enter into an innovative partnership designed to succeed.

A partnership for success

Recognising the crucial role of sustainable finance in sector progress, Germany, in partnership with the Government of the Netherlands and with support from the European Union, presented the Urban Water Catalyst Initiative at the UN Water Conference in New York in March 2023.⁵ The UWCI mission is centred on utility performance improvements and enabling utilities to mobilise additional finance through enhanced cost recovery and creditworthiness in order to make meaningful contributions to the water, sanitation and climate Sustainable Development Goals.



Mission: The UWCI seeks to improve and accelerate the performance and climate resilience of urban water and sanitation utilities by mobilizing additional finance through enhanced cost recovery and creditworthiness.

Key goals:



Support utilities to achieve cost recovery and creditworthiness, setting them onto a sustainable financing path



Expand access to water and sanitation services and improve service quality (SDG 6)



Build climate resilience (SDG 13)

1 UNCTAD Handbook of Statistics 2023 (<https://hbs.unctad.org/total-and-urban-population/>).
 2 The urban population is projected to increase by over 2 billion over the next three decades and cities will become home to nearly 70% of the global population (<https://hbs.unctad.org/total-and-urban-population/>).
 3 Increasing water stress, water scarcity and flood damage will increase the costs of providing sustainable levels of water services.
 4 Joseph, G., Hoo, Y.R., Wang, Q., Bahuguna, A. and Andres, L. 2024. Funding a Water-Secure Future: An Assessment of Global Public Spending. World Bank, Washington, DC.
 5 <https://www.urbanwaterci.org/news>

The UWCI works with utilities in low- and middle-income countries that are committed to achieving significant improvements in their operational and financial performance. Becoming creditworthy will open the doors to additional sources of investment.

At the heart of the UWCI sits its Turnaround Facility, a global grant facility that will provide tailored support to participating utilities through integrated technical assistance and operational finance offerings. A complementary Loan and Guarantee Facility will offer direct corporate loans for priority infrastructure investments and guarantees to support local commercial financing.

Vision and Rationale

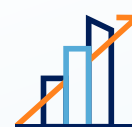
The UWCI is founded on the premise that it is possible and beneficial for utilities to move towards self-financing, whilst extending services and building resilience, even in challenging contexts. Accessing repayable finance and providing reliable services across the city, even in low-income areas, are not mutually exclusive. There is evidence that with a professional and committed management team, operating within a 'good enough' enabling environment, urban water utilities can operate sustainably and generate sufficient revenues to fulfil their mandates.⁶

The UWCI vision is to provide **access to safe and climate-resilient water and sanitation services in urban areas, for all.** Creditworthiness is the means to unlock much-needed investment into climate-resilient infrastructure and expanding access for underserved population groups. Helping utilities transform themselves into well-performing, financially sustainable service providers is how the UWCI supports the achievement of global commitments to climate resilience and leaving no one behind.

Service provision through professional utilities remains the most efficient way of delivering reliably safe and affordable urban water and sanitation services, including and especially to consumers who are underserved. However, many water and sanitation utilities are not operating efficiently. Unable to recover the costs for operations and maintenance, let alone achieve full cost recovery,⁷ they cannot increase coverage and quality of service. This entrenches disadvantage and discrimination. Women, children and other vulnerable groups, for instance, are disproportionately affected by the absence of safe water and sanitation services.

Substantive change requires pragmatic and long-term sustainable solutions: only an efficient utility with sufficient access to sustainable finance can invest in service expansion and so contribute to SDG 6. However, despite comprehensive donor support and sector reforms, average business performance remains poor and a deterrent for investment. Utilities are thus trapped in an unsustainable dependency on subsidies and official development assistance, perpetuating poor services and undermining social justice.⁸ Future climate risks will exacerbate overall water insecurity and inequities unless they are mitigated through adaptation.

Accelerating utility turnarounds is necessary and the most promising strategy to reach those left behind and build climate resilience. The UWCI will support its partner utilities to transition away from relying on operating subsidies and development assistance, increase the demand for domestic commercial loan finance and chart a path towards more sustainable and cost-effective lending.



⁶ See, for example, Engelsman, G. and Leushuis, M. 2016. Review of success stories in urban water utility reform. Rebel Group. Final Report to the State Secretariat for Economic Affairs (SECO), Switzerland and Heymans, C., Eberhard, R., Ehrhardt, D. and Riley, S. 2016. Providing Water to Poor People in African Cities Effectively: Lessons from Utility Reforms. World Bank.

⁷ Only a third of utilities tracked through the international benchmarking network are able to cover their operations and maintenance costs, with a much smaller fraction achieving full cost recovery. Typical efficiency losses are reported in the region of 16% of average total operating costs. (Joseph, G., Hoo, Y.R., Wang, Q., Bahuguna, A. and Andres, L. 2024. Funding a Water-Secure Future: An Assessment of Global Public Spending. World Bank, Washington, DC.)

⁸ See, for example, Winpenny, J, Trémolet, S. and Cardone, R. with Kolker, J., Kingdom, W. and Mountford, L. 2016. Aid Flows to the Water Sector: Overview and Recommendations. World Bank, Washington, DC.

The UWCI concept

The UWCI offers a way to break this dependency and the cycle of build-neglect-build that characterises current practice in many contexts. With a view to scaling the offering and impact, the UWCI seeks cooperation with public and philanthropic donors, development financiers as well as impact-first investors across the globe to reach those left behind and build climate resilience. The UWCI's unique approach puts utility performance front and centre of an integrated package of long-term technical and financial support.

UWCI has been designed to create a virtuous circle of better performance attracting new investment resulting in further performance improvements and so on. The initiative works with reform-minded utilities in countries where external conditions are sufficient to allow for good utility performance, including establishing creditworthiness. Accessing loan finance to bolster resources for investment, currently hampered by a lack of capacities and long-term concepts for cost recovery, then becomes a realistic option.⁹

A whole-of-utility approach

The UWCI embraces a whole-of-utility approach to financial transformation, supporting utilities on their turnaround journey in a uniquely structured way. It offers a dedicated mechanism to stimulate performance improvements through a combination of technical assistance, small-scale financial assistance and (commercial) investment finance. Whilst tailored to individual circumstances, UWCI support is only available in the form of the integrated and carefully sequenced package depicted in **figure 1**.

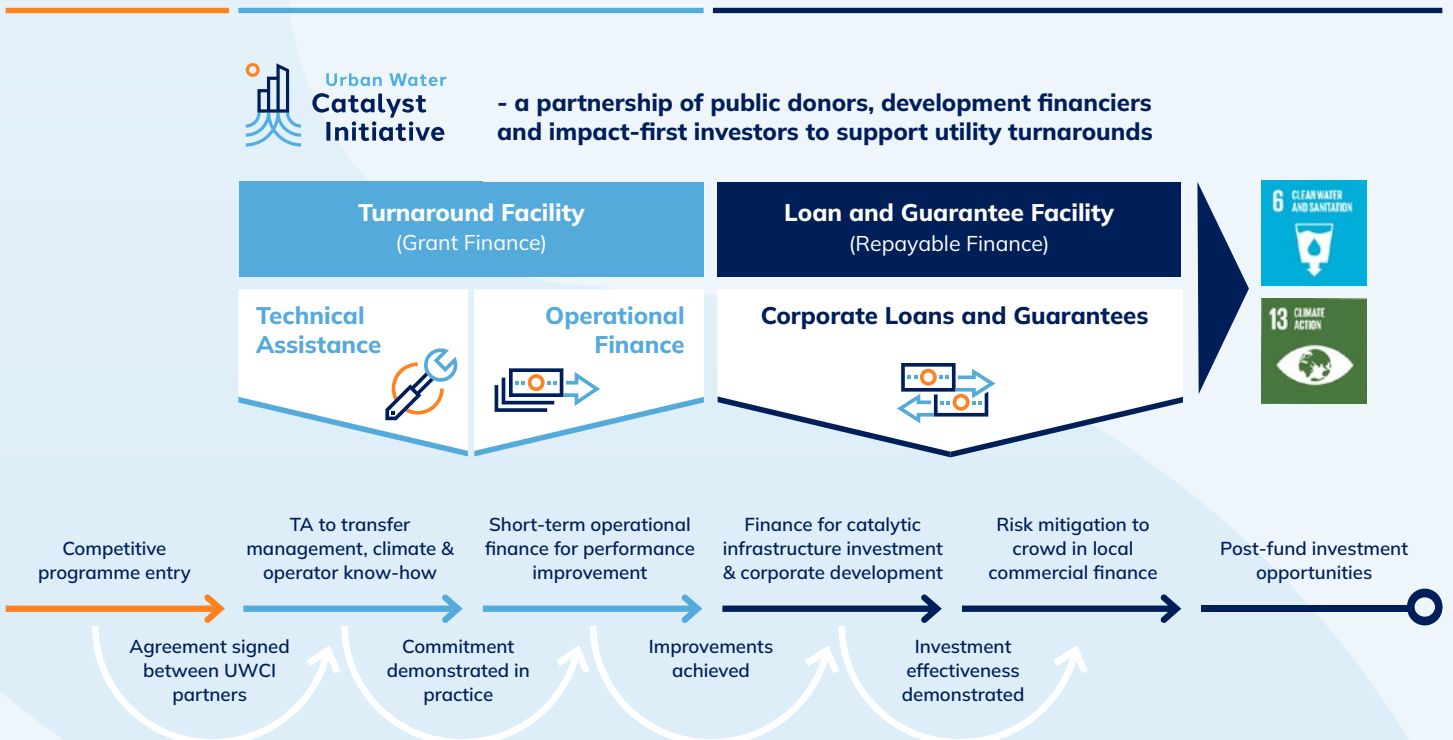


Figure 1: The overall concept of the Urban Water Catalyst Initiative (UWCI)

⁹ Performance improvement as a primary focus also serves to ensure more effective use of government funding and development finance – the current situation often being likened to ‘pouring water into a leaking bucket’.

Working in partnership with committed utility leaders

The UWCI works closely with the utility leadership to strengthen effective management. It explicitly recognises the role of sound governance and selects for commitment to protect essential conditions for success, that is capable, accountable leadership with political backing, and a realistic pathway for the utility to achieve revenue sufficiency and substantive financial autonomy over time.

Achievement of mutually agreed commitments is facilitated through flexible, just-in-time and fit-for-purpose support. Technical assistance is offered in response to the prioritised needs of the utility management team. Pairing utility leaders with highly experienced individuals acting as ‘trusted advisors’ forms a key part of the UWCI partnership approach. To facilitate the transfer of specific management experience and technical know-how, the UWCI will draw extensively on international best practice, including North to South and South to South peer learning and exchanges through water operators’ partnerships.¹⁰

Phased support through milestones

Utilities progress through three distinct UWCI phases (Figure 2) subject to meeting key milestones, which are independently monitored and verified. During an initial Early Engagement Phase successful applicants must demonstrate commitment by making improvements using the utility’s own resources and UWCI advisory support. A rapid results approach to generate early momentum and tangible improvements is encouraged.

More comprehensive technical support is provided during Phase 1 to accelerate performance improvements across the business, with a focus on increasing and making effective use of operational cash flows. The UWCI Turnaround Facility will make operational finance available early in this process to address the common initial hurdle of efficiency improvements often requiring small investments.

Any subsequent financing package offered or brokered by the UWCI through its Loan and Guarantee Facility and other financiers is provided as balance sheet finance in support of the utility’s identified infrastructure investment needs. The utility exits the initiative with an appropriate creditworthiness target achieved and additional external financing arranged.

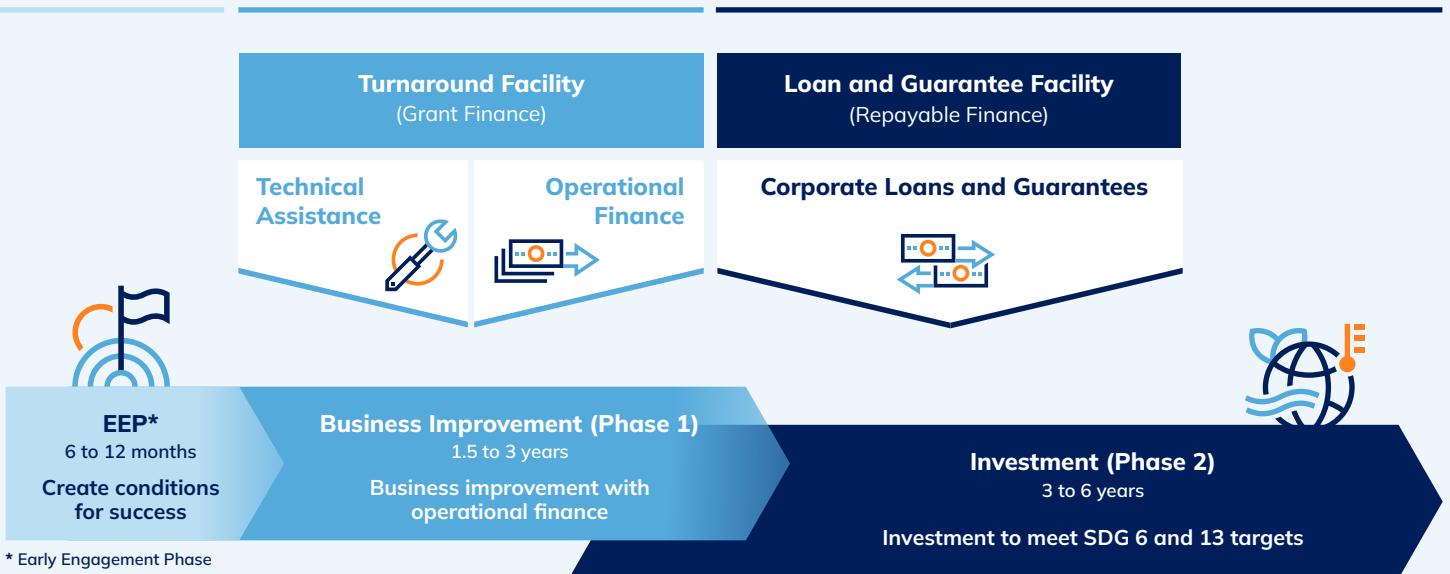


Figure 2: Phases of technical and financial support facilitated by the Urban Water Catalyst Initiative

10 Examples include the Utility of the Future and the Utility Turnaround Framework (developed by the World Bank) and methods adopted by WaterWorX and the German Utility Partnership Platform.

Straightforward funding arrangements

All UWCI funding will be based on the utilities' demonstrated investment needs and long-term strategic plans. It will be incremental, matching the absorptive capacity of the utility, and contingent on meeting defined performance thresholds. Conventional project-specific appraisals are replaced by quick disbursement of funds based on well-defined assessment criteria and milestones, shifting the focus towards predictable and secure cash flows, which in turn enhance the credibility of utility leadership and hence creditworthiness of the business.

The UWCI will promote local currency lending, in particular through guarantees, and offer advisory services for local banks to support domestic commercial lending to the participating utilities.

Finance in the service of an overall mission

Climate resilience and universal access to safe water and sanitation services are central objectives of the support and funding offered and facilitated by the UWCI. Mobilisation of domestic commercial finance must fit within and support this overall objective.

Status

Following the introduction of UWCI at the UN Water Conference in 2023, a competitive call for applications resulted in the selection of the first seven participant water and sanitation utilities in Colombia, Egypt, Indonesia, Kenya and Tanzania. Having secured parliamentary approval for the establishment of the Turnaround Facility in November 2024, the UWCI is now pressing ahead. More intensive activities with the selected utilities will commence in early 2025. Funding has been provided by the German Government and a guarantee from the European Fund for Sustainable Development Plus (EFSD+) to support the loan and guarantee offering is being assessed. The initiative is also supported by the Dutch Government.



Figure 3: Selected Utilities

Join us

Scaling for greater impact is firmly on the agenda. The next global competitive call for applications is planned for 2025. The German Development Cooperation is cooperating with Dutch and German water operator partnership programmes to develop a suitable pipeline of utilities eligible for technical and financial support from the UWCI. The expansion of the initiative to other geographies will be considered based on existing and new country eligibility assessments.

Successful implementation at scale will become possible through the cooperation and support of governments, development partners, finance institutions (development and commercial), utilities and professionals. In particular, the Urban Water Catalyst Initiative will reach out to, and invites approaches from, the following:



Funders and financiers may participate directly in the initiative, support it financially and/or provide concessional finance through the initiative. There will also be opportunities to provide investment finance to utilities that have become creditworthy through the process.



Experienced utilities: UWCI is developing a network of **creditworthy utilities** willing and able to partner with the UWCI to offer their know-how through operator partnerships.



Seasoned professionals: UWCI is developing a resource pool comprising experienced utility managers, who have successfully led and managed creditworthy urban water and sanitation utilities, to act as trusted advisors to participating utility CEOs.

Utilities wishing to participate can enter in the competitive calls for applications.



Interested parties are invited to make enquiries at uwci@giz.de.

Information on the programme will be regularly updated at www.urbanwaterci.org.

- 11 KfW, GIZ and WaterWorX are partnering on the operational implementation of the initiative. WaterWorX is a Dutch water operators' partnerships programme (See gwopa.org/what-we-do/projects/waterworx). Further information on the German Utility Partnership Platform can be found at www.utilityplatform.connective-cities.net.
- 12 Studies have been undertaken in 15 countries: Bangladesh, Colombia, Egypt, Ethiopia, Indonesia, Kenya, Laos, Moldova, Morocco, Philippines, Tanzania, Uganda, Ukraine, Vietnam and Zambia.

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