



# THE COVID-19 CRISIS AND ITS LONG-TERM IMPACTS ON FINANCIAL SUSTAINABILITY OF THE WASH SECTOR IN EMERGING ECONOMIES

## BACKGROUND

Meeting the SDG6 target of clean water and sanitation for all by 2030 requires substantial investments and close partnerships between countries and across governance levels. According to the International Finance Corporation (IFC), emerging economies require an additional \$114 billion each year up to 2030 (in addition to existing investments) to close the water sector infrastructure gap<sup>1</sup>.

Apart from this “finance gap”, the longer-term financial and economic impact of the COVID-19 pandemic may present a further hindrance to the sustainability of WASH systems and infrastructure in emerging economies. According to the United Nations Conference on Trade and Development (UNCTAD), African economies will contract by an average of about 1.4% in GDP due to COVID-19<sup>2</sup>. This is part of an unprecedented global recession, with a world GDP slump of between 0.5% and 3.8 % expected<sup>3</sup>. The COVID-19 pandemic may contribute to the first increase in global poverty in over 20 years, and by 2021, an additional 150M people could be pushed into extreme poverty (i.e. living on less than \$1.90 per day)<sup>4</sup>. This will retard progress in sectors including education, health and WASH, and is likely to hit the most vulnerable people, including women and girls, hardest.

## HOW MIGHT COVID-19 IMPACT THE WASH SECTOR LONG-TERM?

Immediate challenges associated with the COVID-19 pandemic include limiting infections, providing emergency assistance, and coping with shocks to systems and institutions. However, the longer-term impacts of the pandemic on the financial health of water utilities, infrastructure operation and maintenance, and individual incomes present a systemic risk to the WASH sector that is likely to persist after the pandemic has receded or is controlled.

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<sup>1</sup> IFC 2020 The Impact of COVID-19 on the Water and Sanitation Sector. International Finance Corporation, Washington DC.

<sup>2</sup> UNCTAD 2020 Assessing the Impact of COVID-19 on Africa’s Economic Development United Nations Conference on Trade and Development brief UNCTAD/ALDC/MISC/2020/3

<sup>3</sup> <https://www.worldbank.org/en/news/feature/2020/06/08/the-global-economic-outlook-during-the-covid-19-pandemic-a-changed-world>

<sup>4</sup> <https://www.worldbank.org/en/news/press-release/2020/10/07/covid-19-to-add-as-many-as-150-million-extreme-poor-by-2021>

The specific implications for WASH systems and infrastructure in emerging economies include a reduction in financial resources available for investment. The economic shocks due to COVID-19 include loss of jobs and income for people in emerging economies, accompanied by a loss of ability to pay for WASH services. The consequent revenue losses by water utilities threaten their sustainability. Sectors of the economy (including water and sanitation) that are damaged by the economic impact of the COVID-19 pandemic may take years to rebuild, and the recovery may be slow and uneven.

In addition to slow global growth, one of the key challenges that many poor countries will face in recovery from the crisis is a lack of foreign exchange necessary to import goods. Remittances provide a major source of 'global hard currency' and prior to the COVID-19 crisis, amounted to more than half a trillion dollars in 2019 – larger than either foreign direct investment or aid, for example. According to the UN's Department of Economic and Social Affairs<sup>5</sup>, around half of global remittances go to rural areas, where three quarters of the world's poor and food insecure live. However, COVID-19 threatens remittances as incomes for many migrant workers in industrialized countries have fallen. In turn, recipients of remittances in emerging economies are less able to pay for services including WASH. Falling remittances also threatens the financial health (balance of payments) of the emerging economies themselves, making it harder to purchase the spare parts, chemicals and other imported goods needed to keep WASH systems working. Commodity price slumps (e.g. in oil revenues or agricultural earnings) will worsen this position for some emerging economies.

## WHAT IS BEING DONE?

Three main responses can be identified globally. Firstly, specialized financial instruments, including loans, debt-restructuring, stimulus packages and grants are being mobilized by multilateral development banks and their partners to offset the impacts of the COVID-19 pandemic globally. Secondly, industrialized countries are acting to minimize job losses, and to provide unemployment benefits and other kinds of support, including to workers who remit part of their income to emerging economies. Thirdly, emerging economy governments themselves are implementing fiscal and monetary policy responses to the COVID-19 pandemic, including direct support to water utilities. For example, in November 2020 water boards in South Africa were awarded an additional ZAR 600M (about USD 40M) to offset cash shortages due partly to the pandemic<sup>6</sup>.

Ultimately, the COVID-19 pandemic and its aftermath may focus more attention on WASH, and help to underscore the links between WASH sustainability and other sectors. According to the IFC, "In the medium to long term, a clear lesson from the [COVID-19] crisis is water and sanitation systems to underserved areas must be expanded and improved."<sup>7</sup>

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<sup>5</sup> <https://www.un.org/development/desa/en/news/population/remittances-matter.html>

<sup>6</sup> <https://infrastructurenews.co.za/2020/12/01/r600m-lifeline-given-to-cash-strapped-water-boards/>

<sup>7</sup> International Finance Corporation 2019 The Impact of COVID-19 on the Water and Sanitation Sector. IFC, Washington DC.

## RECOMMENDATIONS

- WASH program design can be informed by awareness of the longer-term financial impacts of the COVID-19 pandemic and its aftermath, including loss of income and ability to pay for WASH services. For example, implementing partners and water management committees may need to take a reduced ability to pay into account;
- Stimulus packages and other financial instruments that alleviate the recessionary aftermath of the COVID-19 pandemic can include provisions for WASH to help backstop the gains already made towards SDG6;
- Remittances by migrants can be highlighted as important to WASH infrastructure in emerging economies;
- Lessons from the COVID-19 pandemic in crisis preparedness and management, continuity of operations plans, resilience, and alternative modes of working, can inform and strengthen WASH programming;
- Water committees may need to be trained and equipped in diversifying their income assets for water utility by looking into collective and alternative livelihoods; integration of water utilities and village savings and lending schemes, taking advantage of insurance schemes for routine operation and maintenance, and training and hiring out or taking advantage of area mechanics who may conduct routine O&M more cost effectively. Partners may have to look beyond the conventional program design for water or WASH committees to strengthen revolving funds for water utilities;
- More study could be promoted around income diversification and water utilities and its challenges during COVID 19 to better inform and contextualize WASH programming.

## CONTACT INFORMATION

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