

Document Administration

Version Number	Approval Process	Date
1	Approved by WSSCC Steering Committee	Approved on: 6 May 2020 Effective from: 1 July 2020

The Sanitation and Hygiene Fund (SHF) Co-financing Policy

This SHF Co-financing Policy complements the following and related SHF policies which, taken together, describe how the SHF engages with countries and invests funding to scale up sanitation and hygiene services for those most in need:

- a. Funding Policy
- b. Eligibility and Transition Policy
- c. Allocation and Prioritization Policy
- d. Fragility Policy

*Included as part of a “Call for Applications,” the SHF **Application Guidelines** provide support and instructions on how to best prepare a funding request for review and approval. Additional guidance on co-financing requirements can be found there.*

1 Purpose

This policy describes how the Sanitation and Hygiene Fund (SHF) uses its investments to catalyze additional support from government to increase financial commitments to national sanitation and hygiene plans, accelerating safe access for all people, with a particular focus on those most left behind. The purpose of the **SHF Co-financing Policy** is to ensure that alongside the SHF support, countries increase domestic resources to fund national responses and build sustainable sanitation and hygiene systems and programs.

Domestic funding is key to a country's successful provision of even basic sanitation and hygiene services and the achievement

of impact and lasting results. Given the significant resource gap facing this sector globally, it is critical that SHF funding be positioned to leverage additional investments to advance the reach and improve access to safe sanitation and hygiene for all people. Increasing government investments will also enhance country ownership and advance long-term sustainability planning. In this way, the SHF co-financing requirements are designed to support less dependence on external sources and help prepare SHF countries for the time when they are no longer eligible to receive SHF funding. This is addressed in the **SHF Eligibility and Transition Policy**.

2 Principles

Drawing on the experience from the Global Sanitation Fund and lessons from other global funds, the following principles will guide the SHF approach¹ to co-financing:

- **Serve as a catalyst:** SHF funding shall serve as a catalyst to leverage domestic resources, thereby maximizing overall funding, and shall not displace current investments;
- **Align to eligibility status and support transition planning:** a country's SHF eligibility status, as determined from its income level (GNI per capita Atlas method) and sanitation burden², will determine the applicable SHF co-financing requirements and these shall increase progressively in line with a country's ability to pay;
- **Use and or strengthen country systems:** SHF co-financing requirements (and the reporting of these) will support national systems used for effective management of public resources where these exist; or incentivize capacity development efforts in cases where this needs reinforcement;
- **Reinforce country-led processes and multi-stakeholder engagement:** to build robust, viable sector policies,

strategies and plans and to ensure national ownership and commitment to meet SHF co-financing requirements;

- **Promote** governments' achievement of global sanitation and hygiene commitments by capturing progress as part of co-financing requirements, and transparent country and global mutual accountability processes;

- **Engage early** and **support predictability**: co-financing requirements will be communicated in a transparent manner including, wherever possible, sufficient timeframes to support predictability and sound resource planning; and
- **Allow for flexibilities**: certain country contexts may require special consideration and flexible applications of certain aspects of this policy.

3 Definitions

3.1 Domestic public resources

All government revenues (taxes, tariffs and transfers) and government borrowings. With the exception of loans and debt relief, all other forms of international assistance, even when channeled through government budgets, are not considered as public resources for the purposes of the SHF co-financing requirement.

3.2 Domestic co-financing

The domestic resources (only public funding, not household contributions to their sanitation and hygiene infrastructure) that finance sanitation and hygiene programs supported by the SHF.

3.3 WASH Accounts

Tracking of financing into and through the sanitation and hygiene sector, identifying how funds are allocated and used at national and sub-national levels.³

4 Co-financing requirements

All countries receiving an SHF allocation must meet certain co-financing requirements. While an increasing number of countries are improving their data systems for the WASH sector, most SHF eligible countries do not yet have financial tracking systems in place to report on public expenditures.⁴ As such, the SHF co-financing requirements will first support development of WASH Accounts, with disaggregated data for sanitation and hygiene.

As more SHF eligible countries develop these tracking systems and quality financial data becomes available to support national priority setting and monitoring of expenditures, SHF supported countries will be expected to report on increasing levels of co-financing of national plans, progressively taking up key costs as they near transition away from SHF eligibility. This part of the co-financing requirement shall be based on a percentage match corresponding to the income-level and burden groups as described in the **SHF Eligibility and Transition Policy**.

The particular requirements are presented below and further detailed in Annex 1 of this policy:

4.1 Developing robust financial tracking

All SHF supported countries will be required to develop WASH accounts that disaggregate water supply data from sanitation and hygiene and enable financial data to be accurately reported and tracked.

4.2 Matching contribution

All SHF supported countries will be required to meet a certain financial matching threshold (to be aligned to income-level and SHF eligibility thresholds). The details are set out in **Annex 1** to this policy.

To ensure clear terms and agreement related to the co-financing requirements, each SHF country will agree to the co-financing requirements, including the arrangements for monitoring and reporting on these, as part of the grant review and approval process.

5 Related requirements

The following are associated requirements that shall support a country's ability to formulate and meet its SHF co-financing commitments.

5.1 Applications based on costed national plans

SHF funding shall be based on costed national strategic sanitation and hygiene plans and shall consider the country's review of available resources and funding gaps. Where these do not yet exist, SHF funding shall support governments in developing such plans, along with building the requisite and capacity.

5.2 Multi-sector endorsement

The SHF application and subsequent co-financing agreement will require multi-sector engagement, including endorsement from the Finance Ministry in addition to the other government stakeholders and partners working on sanitation and hygiene.

5.3 Funding for recurrent costs⁵

Funding for recurrent costs that form part of the SHF supported program shall be prioritized for funding from domestic resources.

6 Determinations of compliance

The co-financing requirements are a key pillar to the SHF strategy and will be closely monitored by the SHF Secretariat and reported on an annual basis to the SHF Board⁶. Countries implementation SHF support will comply with routine reporting⁷ to ensure that agreed-upon co-financing requirements are being met. This reporting (and validation) shall leverage existing mechanisms, such as Joint Sector Reviews, to the extent practicable. The SHF Secretariat will record compliance using the following categories:

- **Requirements fully met:** based on fully executed commitments at or above the agreed-upon levels;
- **Requirements conditionally met:** based on communications to confirm the country is in the process of meeting the requirements;
- **Requirements not met with justifiable circumstances:** based on country contextual factors and determined by the SHF Secretariat to impede the country's capacity to meet the requirement.
- **Requirements not met** (see the next section).

7 Non-compliance

In cases where SHF supported countries fail to comply with co-financing requirements and are determined to be non-compliant, several measures may be taken by the Secretariat. These will be considered on a case-by-case basis and may include (but are not limited to): the suspension or reduction

of grant disbursements, a decreased allocation amount in a subsequent allocation period, or even ineligibility should the political will or financial commitment to make reasonable efforts to meet the co-financing requirements be completely lacking.

8 Effective date and review of policy

The effective date of this policy is 1 July 2020 as approved by the WSSCC Steering Committee on 6 May 2020. This policy will be reviewed and updated based on lessons learned as and when required. Any amendments are subject to SHF Board approval.

ANNEX 1 – Illustrative co-financing requirements for SHF’s 2020 Call for Applications

Given the important connection to the allocation amounts a country receives, the specific matching requirements per the categories below will be determined only after the SHF applies the methodology approved by the Steering Committee.

Eligibility Status	Co-financing Requirement	
	For First 2 years of SHF Funding	From Year 3 onwards
Lower income Countries (LIs)	Develop WASH accounts that disaggregate water supply data from sanitation and enable financial data to be accurately reported and tracked.	<ul style="list-style-type: none"> Must demonstrate a contribution that matches 15% of the SHF supported program
Lower middle-income countries (LMIs) Tier 1		<ul style="list-style-type: none"> Must demonstrate a contribution that matches 30% of the SHF supported program
Lower middle-income countries (LMIs) Tier 2		<ul style="list-style-type: none"> Must demonstrate a contribution that matches 60% of the SHF supported program

End notes

1. More information and guidance on the operationalization of this policy is provided in the SHF Operations Manual.
2. Full details and definitions are presented in the SHF Eligibility and Transition Policy.
3. One methodology for tracking financing is the WHO TrackFin/WASH Accounts, see https://www.who.int/water_sanitation_health/publications/trackfin-guidance-summary/en/
4. GLAAS report, WHO, 2019
5. Such as salary expenses or other related costs associated with human resources. More details provided in the SHF Application Guidelines.
6. Currently the Water Supply and Sanitation Collaborative Council Steering Committee
7. For more information, see the SHF Operations Manual.