

PHASE I: WATER FOR ALL

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PHASE II:

**WATER FOR SUSTAINABLE
GROWTH AND DEVELOPMENT**







MUNICIPAL INDABA 2008 FINANCE SYNDICATE GROUP

Syndicate Discussion Paper # I

STATUS AND CHALLENGES OF FINANCING WATER AND SANITATION TOWARDS MDGS

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STRUCTURE OF PRESENTATION



1. International perspectives of MDGs



2. The status of MDGs in South Africa

3. Financing MDGs for WSS

4. Challenges in financing water and sanitation

5. Conclusion



1. INTERNATIONAL PERSPECTIVES OF MDGS

Aim of the Millennium Goals

- The Aim of the MDGs is to cut poverty by half in a generation
- Thus all the MDGs are closely related and mutually supportive
- Achieving any of the MDGs depends, to a large extent, on investments and policies for the other Goals
- Thus Target 10 is important only to the extent that it forms an integral part of all the MDGs.
- Hence, to the maximum extent, all the Goals **SHOULD AND CAN BE MET**



- The Water & Sanitation Target is:
 - *to reduce by half, by 2015, the proportion of people without sustainable access to basic water & sanitation*
- Its context is:
 - the Millennium Declaration of September 2000 by 189 heads of state which defined the Millennium Development Goals or MDGs
- The MDGs have **8 goals and 18 Targets**
- Water & Sanitation comes under Target 10, which is one of the targets under **Goal 7: *Ensuring Environmental Sustainability***



A GIFT FROM THE CORPORATE WORLD!

Johannesburg World Summit 2002

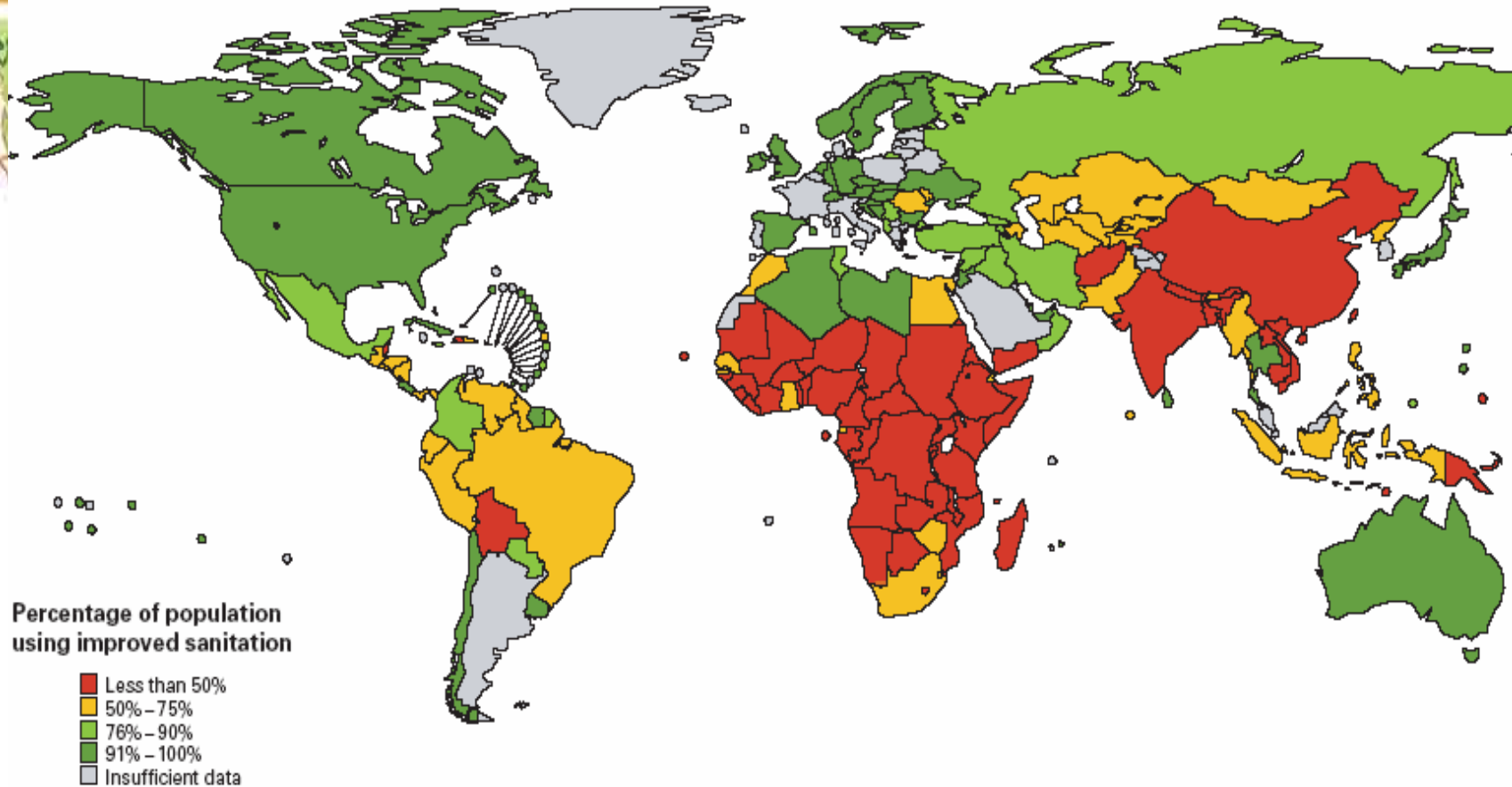
SUSTAINABLE DEVELOPMENT

- PROFIT
- SELF-REGULATION
- UNFAIR TRADE

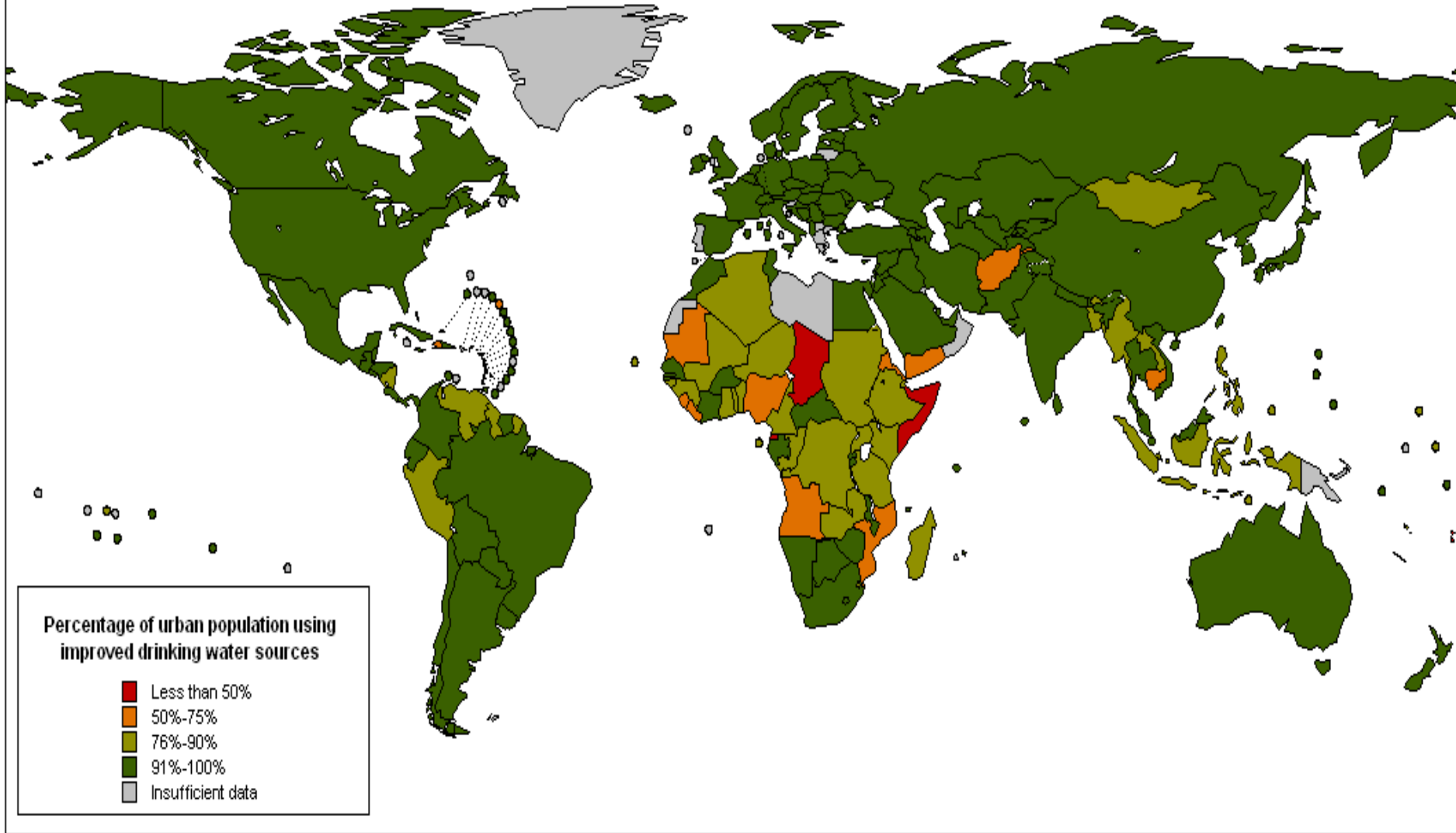


The challenge of meeting the sanitation Goals

Access to improved sanitation, 2002



Urban drinking water coverage in 2004

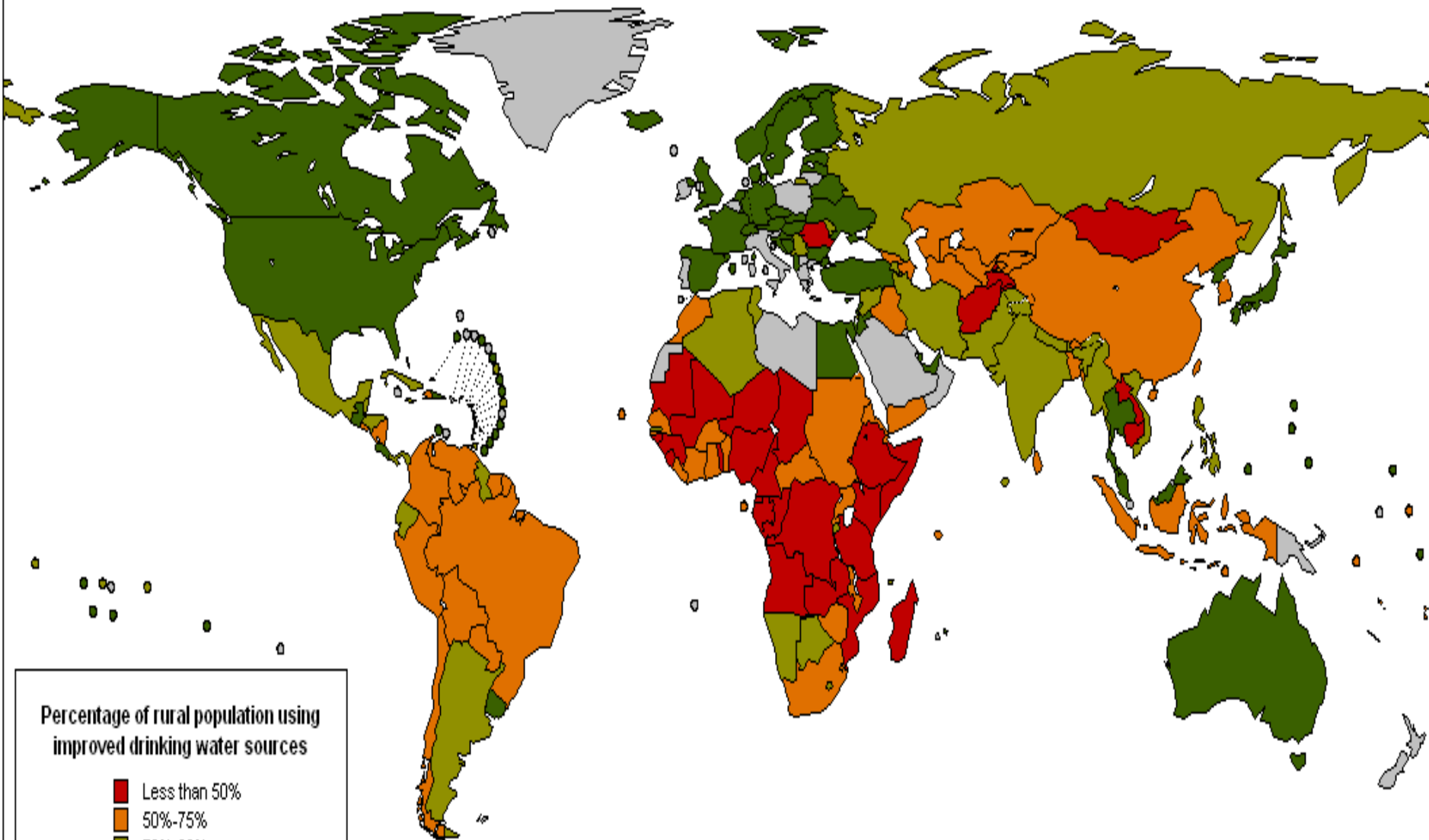


Water: Urban and rural disparities 2004: 84%

without access live in rural areas

Source: WHO/UNICEF
JMP, 2006

Rural drinking water coverage in 2004



Percentage of rural population using improved drinking water sources

- Less than 50%
- 50%-75%
- 76%-90%
- 91%-100%
- Insufficient data

The world is not on track to meet the MDG sanitation target

THE WORLD HAS MADE INSUFFICIENT PROGRESS TOWARDS THE MDG SANITATION TARGET

The MDG target is to halve, by 2015, the proportion of people without sustainable access to basic sanitation. An analysis of the most recent estimates by the WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation (JMPS) for the period 1990–2004 shows that 50 developing countries are on track to reach the target, 4 have made progress, though insufficient to reach the target, and 41 are not on track. In 49 developing countries, data were insufficient to estimate trends.

- **On track:** Coverage in 2004 was less than 5 per cent below the rate it needed to be for the country to reach the MDG target, or coverage was 95 per cent or higher.
- **Progress but insufficient:** Coverage in 2004 was 5 per cent to 10 per cent below the rate it needed to be for the country to reach the MDG target.
- **Not on track:** Coverage in 2004 was more than 10 per cent below the rate it needed to be for the country to reach the MDG target, or the 1990–2004 trend shows unchanged or decreasing coverage.
- **Insufficient data:** Data were insufficient to estimate trends.

Note: The MDG sanitation targets in this map and in the table on pages 30–32 are expressed as the proportion of the population using improved sanitation facilities. These targets are calculated by adding half of the proportion of the population not using improved sanitation facilities in 1990 to the proportion of the population using improved facilities in 1990. For countries without a 1990 baseline, MDG targets were calculated based on coverage in 1995 (where such estimates were available), on the assumption that from 1990–1995 the countries were 'on track' to reach the MDG target. 'On track', 'progress but insufficient' and 'not on track' classifications were calculated by comparing actual coverage rates in 2004 with the coverage rate the country should have had in 2004 if it was on track to reach the MDG target.

This map is stylized and not to scale. It does not reflect a position by UNICEF on the legal status of any country or territory or the delimitation of any frontiers. The dotted line represents approximately the Line of Control in Jammu and Kashmir agreed upon by India and Pakistan. The final status of Jammu and Kashmir has not yet been agreed upon by the parties.

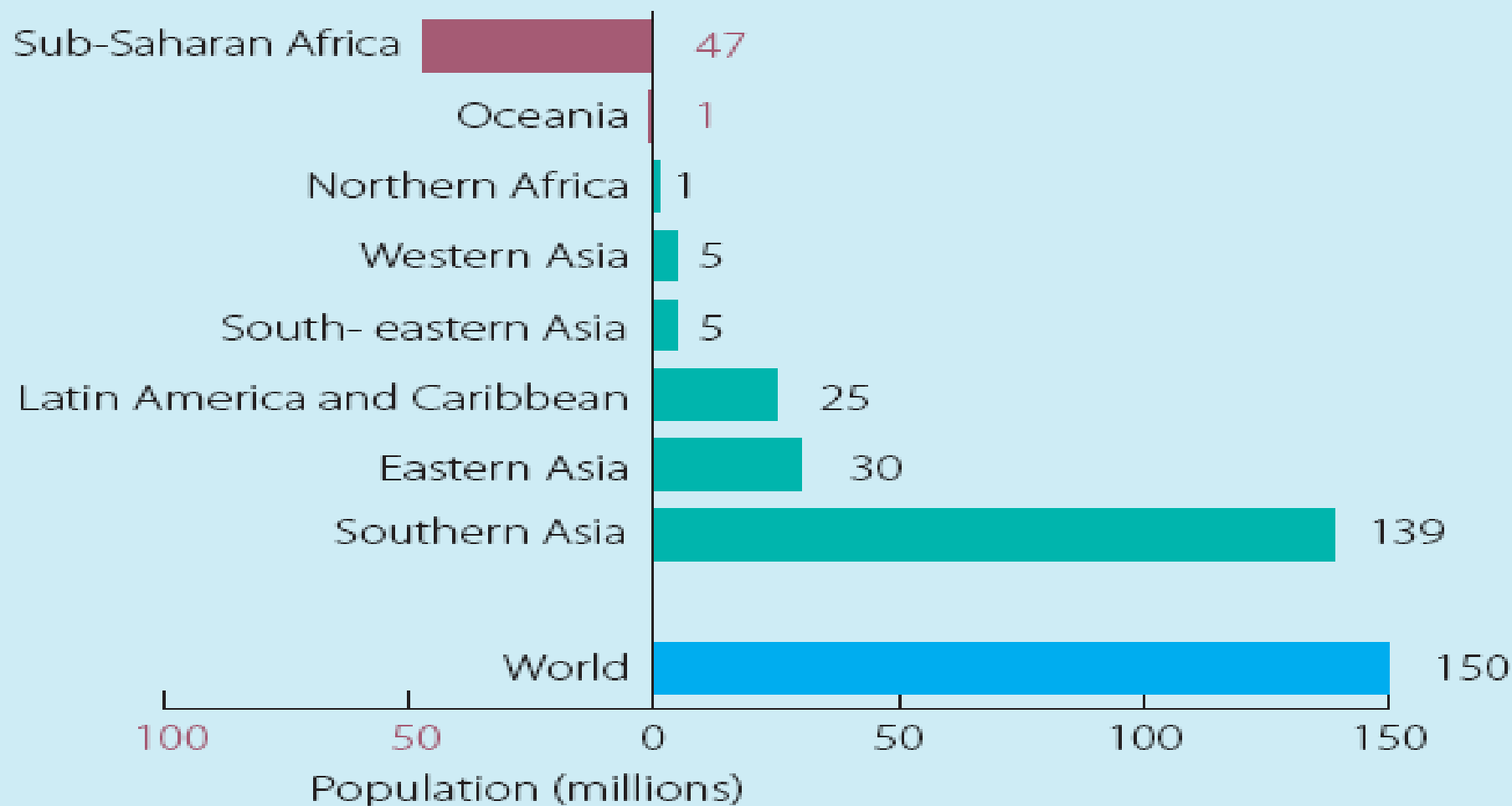
Progress for Children: A report card on water and sanitation, UNICEF, 2006; Data: WHO/UNICEF JMP, 2006



Growth in Asian coverage - water

Increase in unserved population 2005-2015

Decrease in unserved population 2005-2015

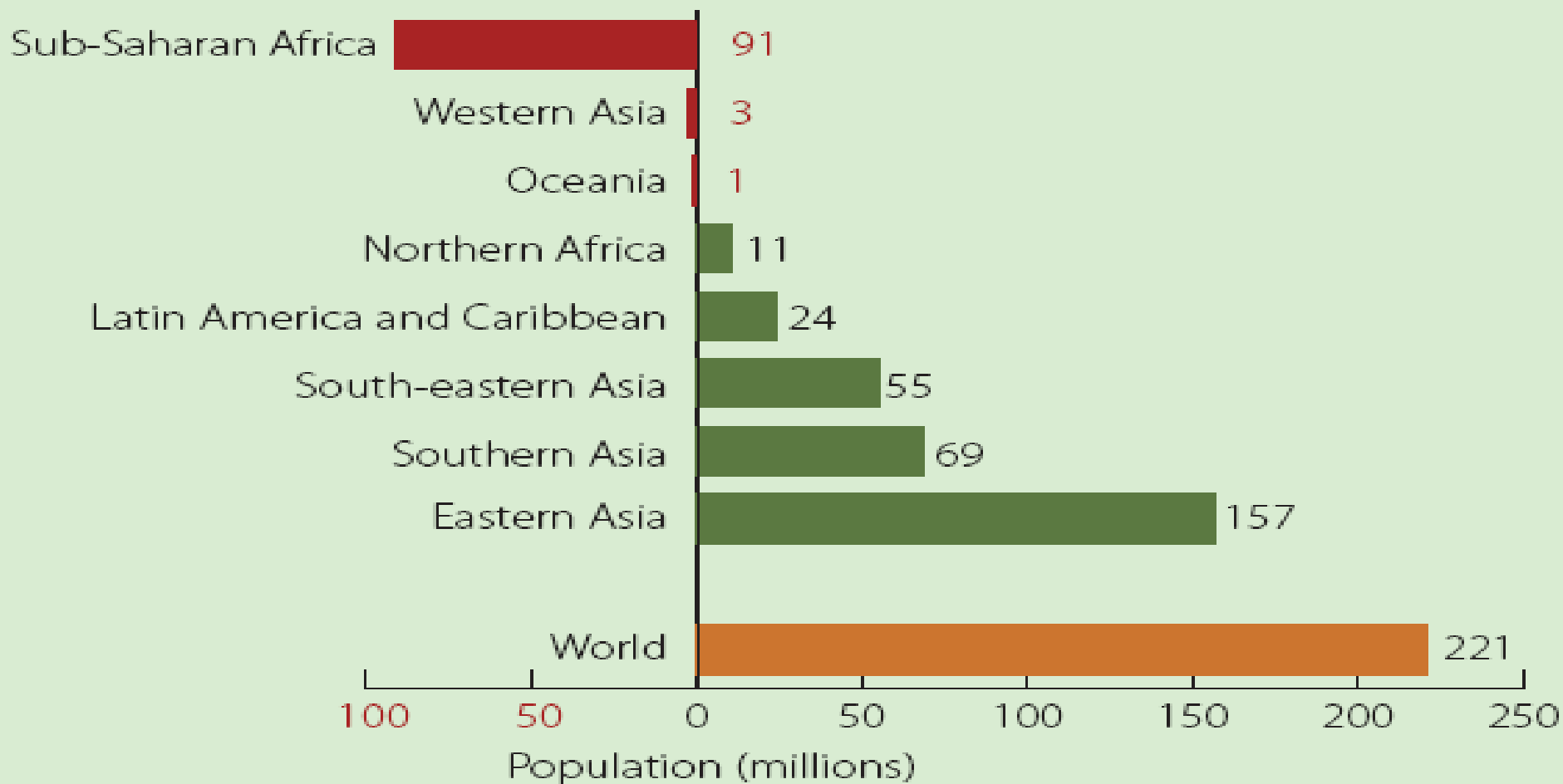




Growth in sanitation

Increase in unserved population 2005–2015

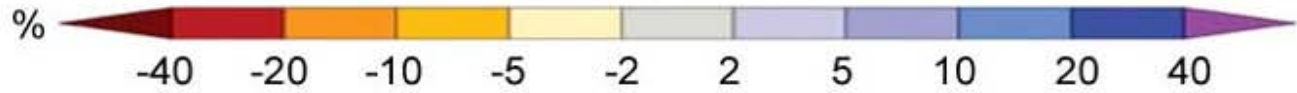
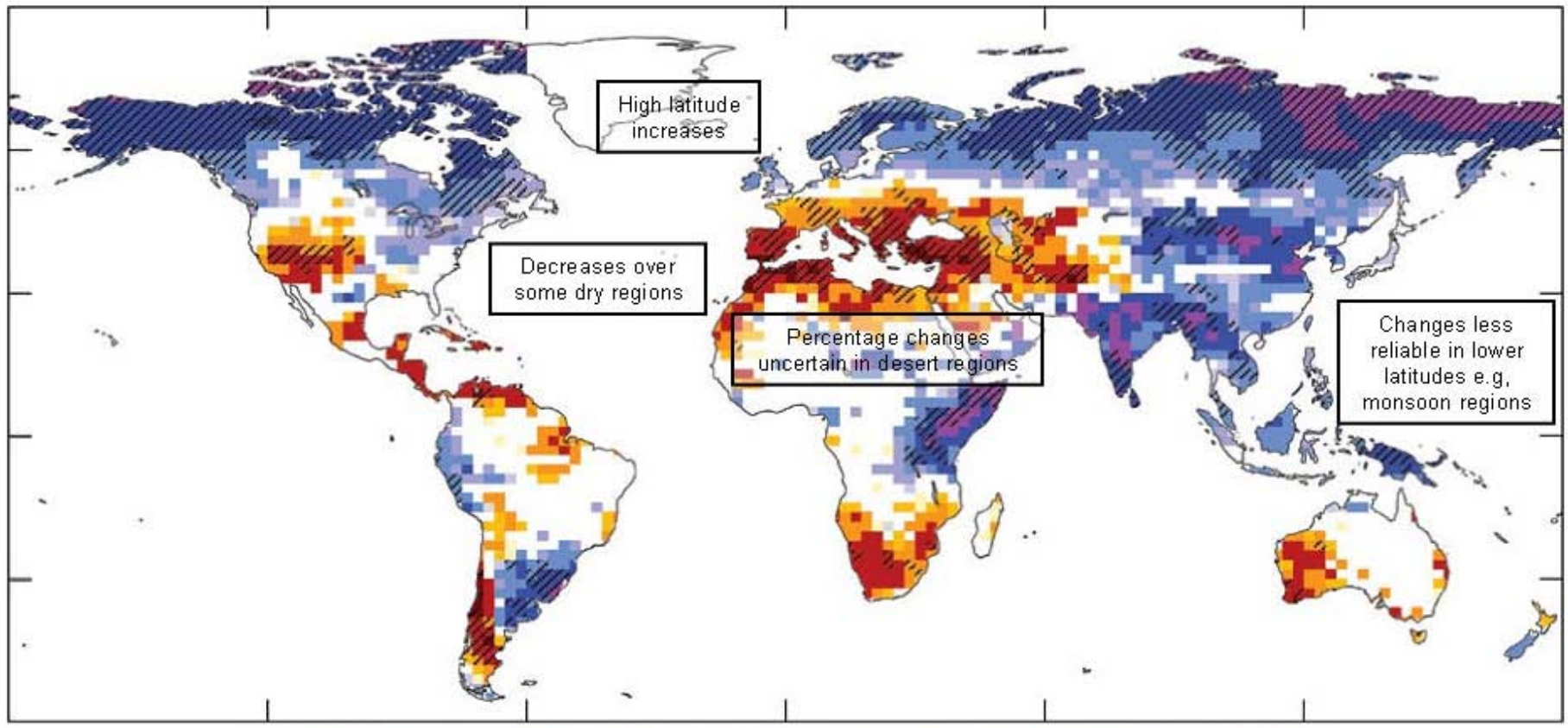
Decrease in unserved population 2005–2015





Climate change will impact on economies through water

Projections and model consistency of relative changes in runoff by the end of the 21st century



A TIMETABLE TO
REDUCE EMISSIONS?!
..NOT UNTIL THERE'S MORE
EVIDENCE OF GLOBAL
CLIMATE CHANGE!


johannesburg
world
summit



© 2001, P. JAMES
ZAPIN



African Water Vision 2025

- 
- Released at the 2nd World Water Forum at The Hague in 2000, the shared Vision is

- *“An Africa where there is an equitable and sustainable use and management of water resources for poverty alleviation, socio-economic development, regional cooperation, and the environment.”*



AWV2025 Finance Needs: composition



Investment Area	Annual (US\$ billion)
1. Water supply for basic needs	5.00
2. Sanitation and hygiene	7.00
3. Irrigation and water-productivity improvement	4.00
4. Water for industry, energy and transport	2.10
5. Flood and drought management	0.40
6. Policy/institutional reform and capacity building	0.35
7. Knowledge and information	0.45
8. Awareness and education	0.45
9. Research and development	0.25
Total	20.00





2. The status of MDGs in South Africa



- In 1994 SA faced the challenge of providing 14 mil people with access to water and 24 mil people with basic sanitation services. By 2001 the Water backlog was halved, **14 years ahead of MDG.**



- Integral to this achievement was a **coordinated, sustained collaboration between public, private and civil society and donor agencies.** As a result, the delivery of sanitation services quadrupled from 75 000 households p.a. in 2002 to over 300 000 in 2005, while the bucket system was eradicated in 7 of its 9 provinces by Dec 2007.
- SA is committed to providing potable water to all its people by 2008 and sanitation by 2010 (as amended). A critical factor to achieving these targets is the need to increase skills pool at local government level, increase investment and collaboration with public, private & civil society sectors, and donors



AFRICASAN 2008
2nd African Conference on
SANITATION & HYGIENE



2. The status of MDGs in South Africa

The enabling legislative environment for effective delegation for water and sanitation financing including:

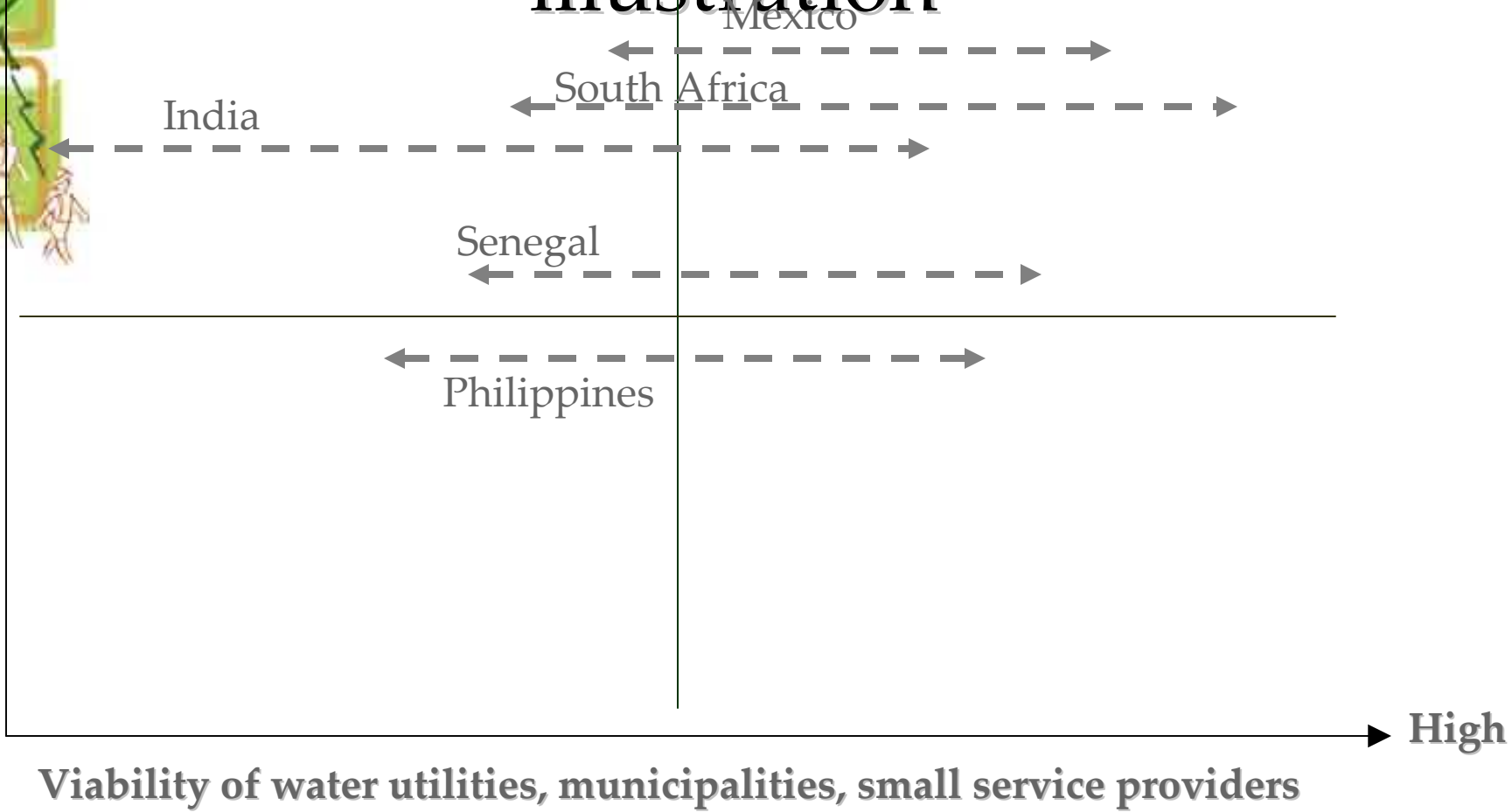
- Water Services Act, 108 of 1997
- Public Finance Management Act 1 of 1999
- Division of Revenue Act (DORA) –each finance year
- Municipal Structures Act, 117 of 1998
- Municipal Systems Act, 32 of 2000
- Disaster Management Act, 57 of 2002
- Municipal Finance Management Act, 2003
- Employment Equity Act, 55 of 1998
- Preferential Procurement Framework Act, 22 of 2000
- White Paper on Municipal Services Partnerships, Notice 1689 of 2000

Assessing country potential – An illustration



Macro, financial sector development

High



(Note: country positions on chart are illustrative only)



What is being done:

- National Government has introduced the Project Consolidate Programme, driven at the highest political level to support municipalities in need of:
 - Capacity building (i.e. technical, engineering & project management)
 - MIG & FBS delivery
 - An effective monitoring, evaluation and reporting system which is an essential tool for sustainable development
- There is an urgent need to encourage and support municipalities to engage with the Private Sector & Civil Society to establish effective partnership in the infrastructure planning & roll-out
- DWAFA as sector leader to play a major role in supporting municipalities in achieving sustainable water services

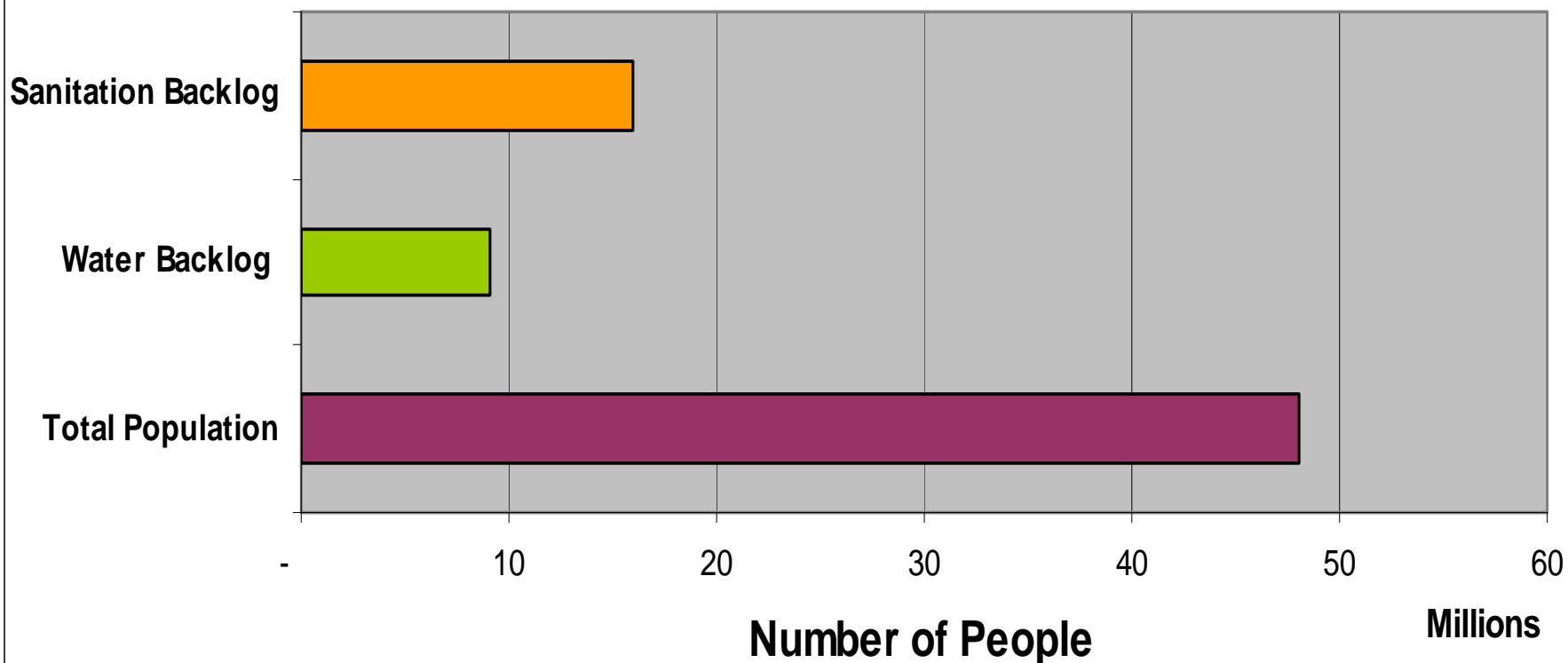




BACKLOGS & INTEGRATED PLANNING

- 2005 Water backlogs estimated at 9m people (4m no basic services + 5m below RDP)
- 2005 Sanitation backlogs estimated at 17m people

Water and Sanitation Backlogs vs Total Population



The sun sets on central Jo'burg – capital moves to flashy Sandton





3. Financing MDGs for WSS

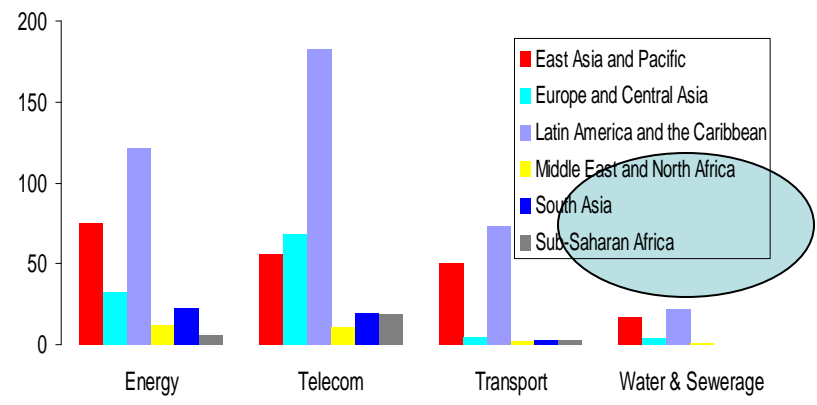
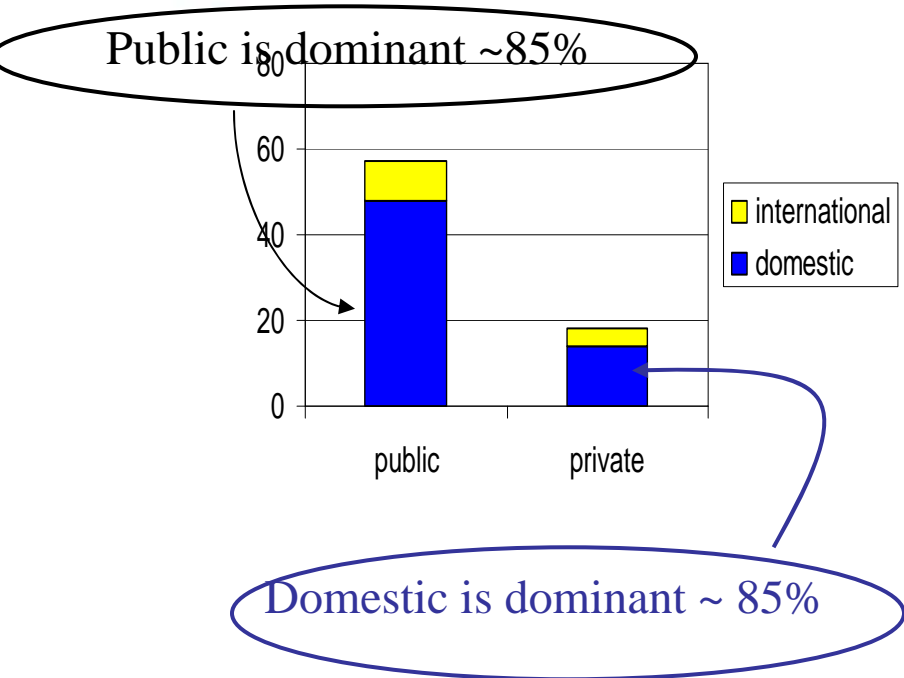
The Hope in 1990s...

Worldwide interest in cross border private sector infrastructure investments... *So... the private sector will "fill the gaps"...*

And the Realities...

Financing flows into water in 2000

Total (international) private investment in infrastructure in 1990-2002 - sector and region



Source: Adapted from Ginneken M. 2003: Presentation at Pan African water Conference



Finance Requirements and Gaps



- To meet the MDGs...
 - Varying estimates depending in assumptions related to status, service standards and existing financial flows
 - Rigorous estimates and scenarios lacking for urban water supply and sanitation

In general, many stakeholders argue the need to
“double the aid flows”



FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENT

- Primary source of financing for local government remains local taxes and other revenues levied and collected by municipalities themselves, including property taxes, levies and user charges.
- Grants from nationally raised revenue, known as the equitable share, are transferred to local governments to supplement their revenues.
 - MIG (Municipal Infrastructure Grant) for basic services for the poor (+-US\$1,0 billion pa) (R7bn)
 - Equitable Share to address the O&M costs of basic services to the indigents (US\$2,0 billion pa) (R15bn)
 - Capacity Building Grants (US\$100 million pa) (R700m)
- MIG targets the poorest municipalities, who have a limited local tax base, and the highest number of poor households.
- Government is committed through the Strategic Framework for Water Services, to increase the Public Sector to 0.75 % of GDP +/- US\$2 billion p/a
- Current shortfall less than US\$0.75 billion
- Donor support about 2 – 3 % of the budget





Water and sanitation expenditure by category of municipality, 2001/02 to 2005/06

R million	2001/02	2002/03	2003/04	2004/05	2005/06
Operating	2 948	3 401	3 034	3 874	4 043
Category A (Metros)	1 185	1 309	1 178	1 629	1 724
Category B (Locals)	33	50	112	289	206
Category C (Districts)					
Subtotal	4 165	4 760	4 323	5 793	5 973
Capital	684	708	820	1 146	1 350
Category A (Metros)	683	1 024	905	1 027	1 357
Category B (Locals)	302	247	801	542	1 157
Category C (Districts)					
Subtotal	1 669	1 979	2 525	2 715	3 864
Total	3 631	4 109	3 853	5 020	5 393
Category A (Metros)	1 867	2 333	2 082	2 656	3 081
Category B (Locals)	335	297	913	831	1 363
Category C (Districts)					
Subtotal	5 834	6 739	6 849	8 508	9 837
%		15.5%	1.6%	24.2%	15.6%

Summary of the budgets for the 15 existing water boards for the 2002/03 to 2004/05 period.

R Thousand	Revenue 2003/04 Actual	Revenue 2004/05 Estimated Actual	Capital Expenditure 2003/04 Actual	Capital Expenditure 2004/05 Estimated actual	Operating expenditure 2003/04 Actual	Operating expenditure 2004/05 Estimated actual
Albany Coast	2 493	2 584	-	-	1 665	1 884
Amatola	72 978	80 071	12 728	17 800	38 317	84 271
Bloem	133 110	157 478	15 300	17 800	76 359	104 074
Botshelo	93 000	93 301	-	597	89 000	66 774
Bushbuckridge	15 677	37 716	3 360	3 357	37 575	47 514
Ikangala	1 298	1 715	-	-	5 413	2 999
Lepelle	151 088	159 761	3 290	3 855	87 473	82 658
Magalies	101 441	189 486	40 961	41 260	67 156	95 519
Mhlathuze	146 900	143 710	42 210	46 400	128 600	99 460
Namakwa	8 496	7 484	-	-	7 306	8 615
Overberg	17 479	14 123	6 310	6 941	12 862	15 352
Pelladrift	5 414	5 664	-	-	5 413	5 456
Rand Water	3 056 800	3 460 000	345 100	459 000	1 223 100	1 407 972
Sedibeng	297 523	274 896	10 200	14 200	153 899	163 332
Umgeni	822 387	1 000 123	31 000	46 896	415 606	508 768
Total	4 926 084	5 628 112	510 279	653 287	2 349 744	2 694 648

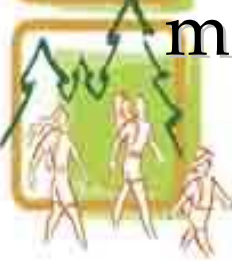


4. Challenges in financing water and sanitation

In the new millennium – 2000s:

A Plea for Aid Resources, and risk mitigation...

- **Camdessus and Gurria Panel Reports**
 - *“There is widespread agreement that the flow of funds for water infrastructure has to roughly double...”*
 - *Also places emphasis on risk mitigation measures for private sector investments*
- **Sachs Report - UN Millennium Project**
 - *“The report says the MDGs can be achieved if total annual development assistance is doubled to \$135 billion—or 0.44 percent of donors’ GNP—in 2006, and rises to 0.54 percent of donors’ GNP by 2015. “(The Economist)”*



But, the MDGs are not simply about “providing more WSS infrastructure”...but about “ensuring good services”...

- Services that are **reliable**
- Services that well **targeted** and are **actually used**
- Services that are **sustainable** – institutionally, financially and environmentally



What then is the financing challenge ?

Not only “investments for more infrastructure”

But, also “financing improved WSS services” ...

Not only “increased coverage”

But, also “increased / affordable access for the poor” ...



And, to meet this challenge

- **Stability and predictability** in financing are essential for this...and can be achieved by
 - **Improving effectiveness** in the use of public (and aid) resources through improved water and sanitation sector governance
 - **Leveraging additional local resources** – for urban utilities and small community-managed water service providers – linked to improved and sustainable water and sanitation service delivery



SWAp and PRSC in Uganda

- **Poverty Reduction Strategy Credit** used to fund the RWSS sector in Uganda through budget support
- Under SWAp Rural Water Supply uses demand responsive approach (DRA) with decentralized implementation through district governments
- PRSC with **decentralization and DRA** has enabled:
 - Increased participation in planning at lower levels of government
 - More cost effective technologies being selected (protected wells)
 - Increasing levels of district level disbursements



Using SWIFT to Improve Sectoral Allocations

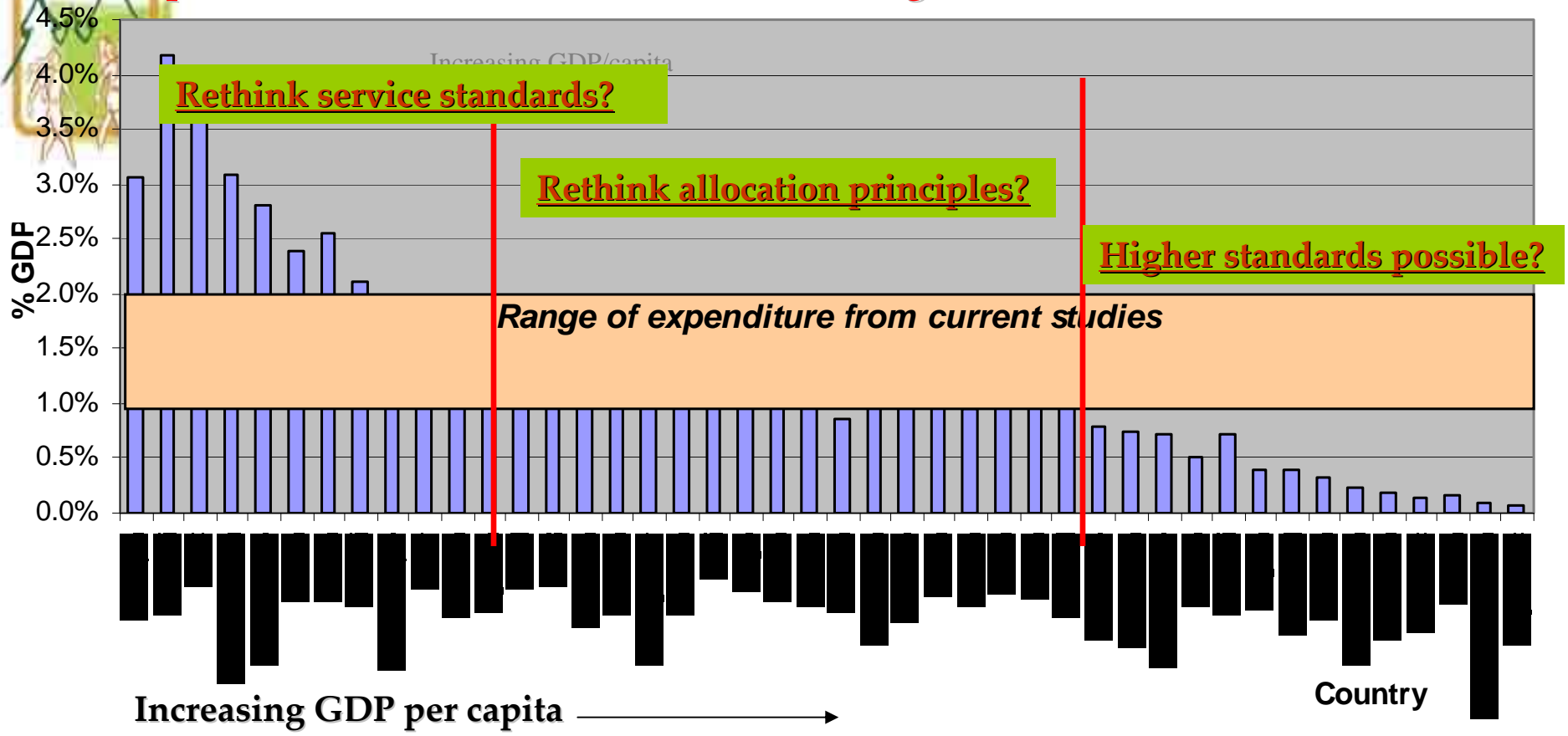


- **Sector wide Investment and Financing Tool (SWIFT)** has been developed by WSP-Wf to assist countries to assess policy options for ‘**sector financial viability**’
 - Sector development costs
 - New investments
 - Rehabilitation/ replacement of assets
 - Operations and Maintenance
- Develop **formula based allocations** for rural water supply finance in Zambia and support analysis of SWAp in Mozambique
- Development of **allocations mechanisms** under emerging sector decentralization reforms in Kenya



But, there may be considerable country level variation

Expenditure to meet the MDG water target as a share of GDP – 2002



From Mehta, Fugelsnes and Virjee: *Financing the MDGs on water and sanitation: what will it take?* WSP-AF, 2004.




Potential Leveraging Opportunities



- To tap the **domestic finance markets** for additonality and improved effectiveness of investments
 - Continued emphasis on **cost recovery** in the water supply sector makes this possible
 - **Market rigour** helps increase sustainability
- Ensure that these approaches also contribute to **further development of the financial sector** itself
 - For example, **new business lines in water projects** for micro-finance and domestic finance institutions



Two Market Segments

- 
- **Small water (and sanitation) service providers** – community managed and small private local providers – funded through ‘micro-finance’ by developing a business line in small water projects
 - **Medium to large utilities** – urban centers and small towns – possibility of funding through intermediation (domestic financing institutions) and direct market access (bonds or equity)



Micro-finance and OBA Pilot Project in Kenya

- **Community-Managed Piped Water Projects (CWPs) in rural/peri-urban areas**
 - Rehabilitation/augmentation of existing projects
 - New/greenfield projects
- **Key Innovations**
 - Use of **market based microfinance** to pre-finance community-managed infrastructure
 - **Risk sharing** by Community Water Projects and CWP employed Project Engineer
 - Planned **scaling up** in Kenya and other countries



Water in the townships: world-famous site of struggle





Water Backlogs - April 2006

Province	Population	Households	Water Backlogs DWAf April 2006	% Below RDP Water Hh	Amount to Eradicate Backlogs (based on R6000 unit cost)
EC	6,388,295	1,581,092	369,781	23.4%	R 2,218,686,000.00
FS	2,771,534	787,996	59,540	7.6%	R 357,240,000.00
GP	10,593,023	3,319,098	683,026	20.6%	R 4,098,156,000.00
KZN	10,444,074	2,422,169	553,606	22.9%	R 3,321,636,000.00
LIMPOPO	5,291,458	1,242,909	346,114	27.8%	R 2,076,684,000.00
MP	3,616,138	886,876	171,586	19.3%	R 1,029,516,000.00
NC	1,006,468	260,875	29,259	11.2%	R 175,554,000.00
NW	3,410,280	916,584	160,410	17.5%	R 962,460,000.00
WC	5,083,373	1,384,824	59,086	4.3%	R 354,516,000.00
NATIONAL	48,604,643	12,802,423	2,432,408	19.0%	R 14,594,448,000.00

Source: Department of Water Affairs and Forestry, April 2006
 *Unit cost data is derived from Service Levels Policy Document



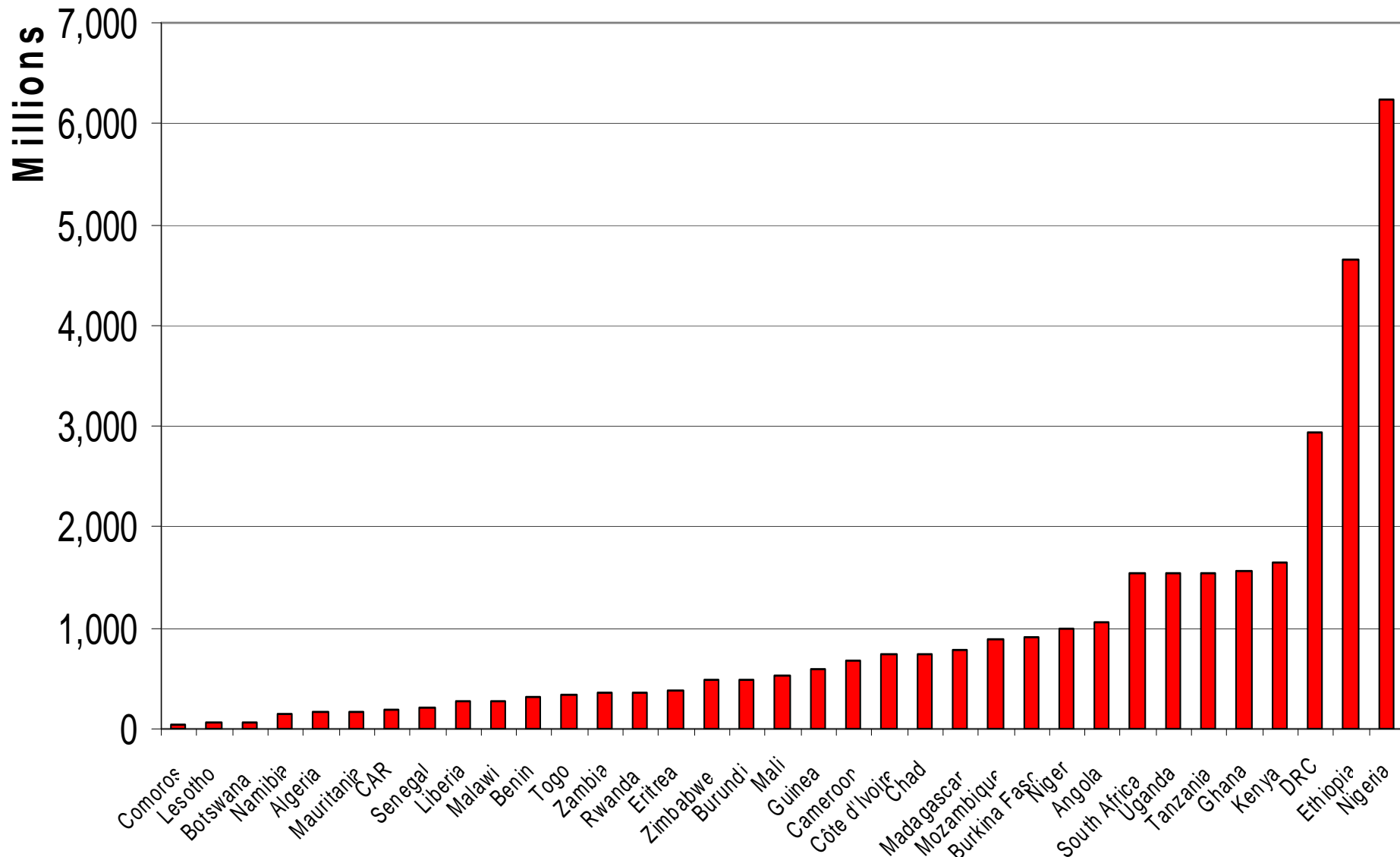
Sanitation Backlogs –April 2006

Province	Population	Households	Sanitation DWAf April 2006	% Below RDP Sanitation Hh	Amount to Eradicate Backlogs (based on R3000 unit cost*)
EC	6,388,295	1,581,092	629,385	39.8%	R 1,888,155,000.00
FS	2,771,534	787,996	281,242	35.7%	R 843,726,000.00
GP	10,593,023	3,319,098	1,424,034	42.9%	R 4,272,102,000.00
KZN	10,444,074	2,422,169	732,046	30.2%	R 2,196,138,000.00
LIMPOPO	5,291,458	1,242,909	757,369	60.9%	R 2,272,107,000.00
MP	3,616,138	886,876	385,256	43.4%	R 1,155,768,000.00
NC	1,006,468	260,875	64,472	24.7%	R 193,416,000.00
NW	3,410,280	916,584	363,673	39.7%	R 1,091,019,000.00
WC	5,083,373	1,384,824	98,530	7.1%	R 295,590,000.00
NATIONAL	48,604,643	12,802,423	4,736,007	37.0%	R 14,208,021,000.00

Source: Department of Water Affairs and Forestry, April 2006

*Unit cost data is derived from Service Levels Policy Document

Costs to achieve MDG



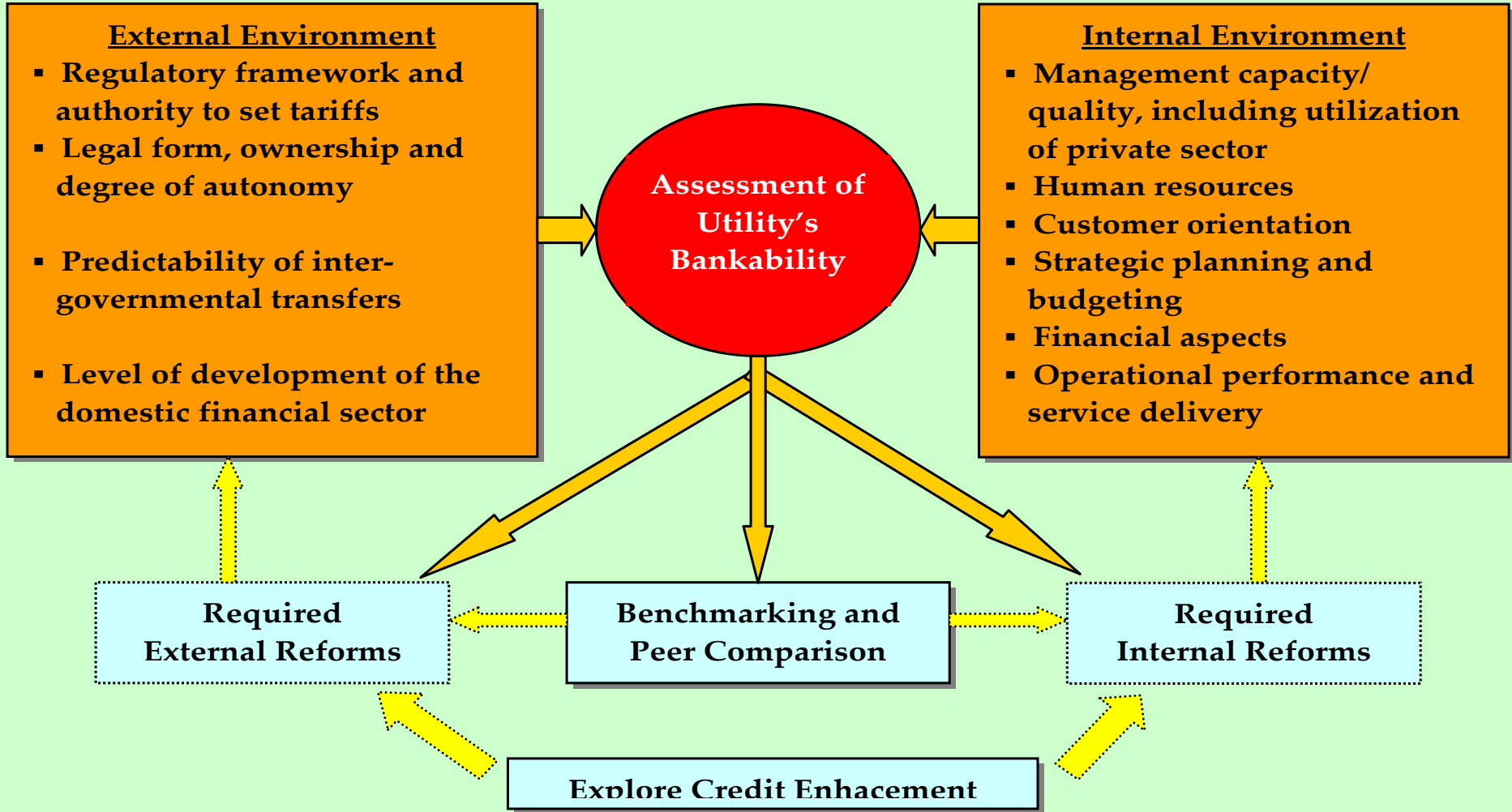


What is needed to leverage local resources?

- Facilitating **domestic market borrowing**
 - improving **utility creditworthiness** through improving internal management and external policy
 - **benchmarking** utility performance and credit rating
 - **Credit enhancement** mechanisms for risk mitigation
 - Greater interaction and **common vocabulary** among players in the water and financial sectors – commonly understood **credit assessment tools**
 - By addressing **supply side constraints** (development of bankable opportunities)



Linking Utility Creditworthiness with Reforms





5. Conclusion



There is increasing evidence of WSS backlog in South Africa. Some of the reasons for this stalemate include:

- Weak governance;
- Disconnect between national budgets and requirements for water and sanitation financing;
- Lack of finance to meet investment requirements as a result of fragile municipalities,
- Inappropriate financing and pricing arrangements;
- Weak monitoring and evaluation; and,
- Slow pace of decentralization, particularly in relation to empowering local governments financially, in implementing water and sanitation interventions.



Common issues with sanitation financing

- **Institutional fragmentation of the sector** means it is difficult to track how much is spent and even more difficult to budget for increased funding
- **Sanitation tends to be lumped with water** (the two services are usually managed together, when in fact, there are few economies of scale or scope in managing them jointly)
- **Financing goes through the water utility**, which often does not prioritize sanitation (water takes the lion share)
- **Sanitation finance is often project-driven and focused on inappropriate investments** (such as large scale wastewater treatment plants as opposed to household investment)
- **Rapid increase in capital expenditure is needed in order to meet SA's targets to eradicate backlogs by 2008 for water & 2010 for sanitation (As amended to 2014)**

The WSS challenge – beyond the numbers

Official statistics use proxy indicators – proximity to *hardware*...
.....far fewer countries *on track* for:

Health benefits?



Girl's school enrolment?



Environmental sustainability?



Sustainable access to *safe* drinking water and *adequate* sanitation key to **improved** health, education, and environmental outcomes



**Life , Wealth and future - Sustainability is for us all.
Financing WSS is an obligation to sustaining nature
and its people.**

**FINANCING WSS IS A JOURNEY
NOT A DESTINATION**

THANK YOU

**Water is life !
Sanitation is dignity !.**

