

MSB III Mid-Term Review

Financial **16**

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Introduction

The financial analysis included in the mid term review looks specifically at the expenditure over a 18 month period from April 2007 to September 2008 and is based on the information contained in the database of Masibambane projects supplied by DWAF. While the database contains much information and allows for summarising project expenditure by many different criteria, there are a few relatively minor shortcomings that if addressed could provide an even more powerful project management tool.

- The contract information in the database is not comprehensive and as a result it has not been possible to extract the expenditure allocations that have been utilised by DWAF operational expenditure and projects implemented utilising different sector partners, CSO's, consultants etc.
- Noting the above, the database does describe the contractual commitment of each project as Business Plan, Tender or Contractual Commitment. This seems to indicate that all the funds are used to contract NGO's, sector partners and consultants for project implementation.
- The database records of expenditure are not based on a regular time interval which makes cash flow analysis not possible.

Regional distribution of expenditure

Just over half of the expenditure was incurred by the provinces (53%) while the remaining 47% was incurred by DWAF head office. Of the expenditure allocated to head office, a significant portion is spent on regional support and where this is recorded in the database it equates to 26% of the head office expenditure. Consequently one can conclude that approximately 65% of expenditure is spent regionally compared with 35% at the DWAF national head office.

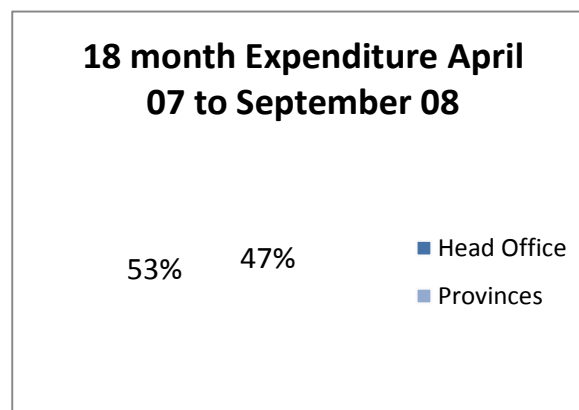


Figure 1: Expenditure division between head office and regional projects

The regional distribution of expenditure indicates that significant expenditure was achieved in the priority provinces of Limpopo (R70m) and the Eastern Cape(R52m). Significant

funds were also expended in the Northern Cape(R51m), North West(R46m) and Mpumalanga(R33m) while the very low expenditure (and Budget) for KwaZulu Natal (R20M) appears to be disproportionate to the needs of the provinces.

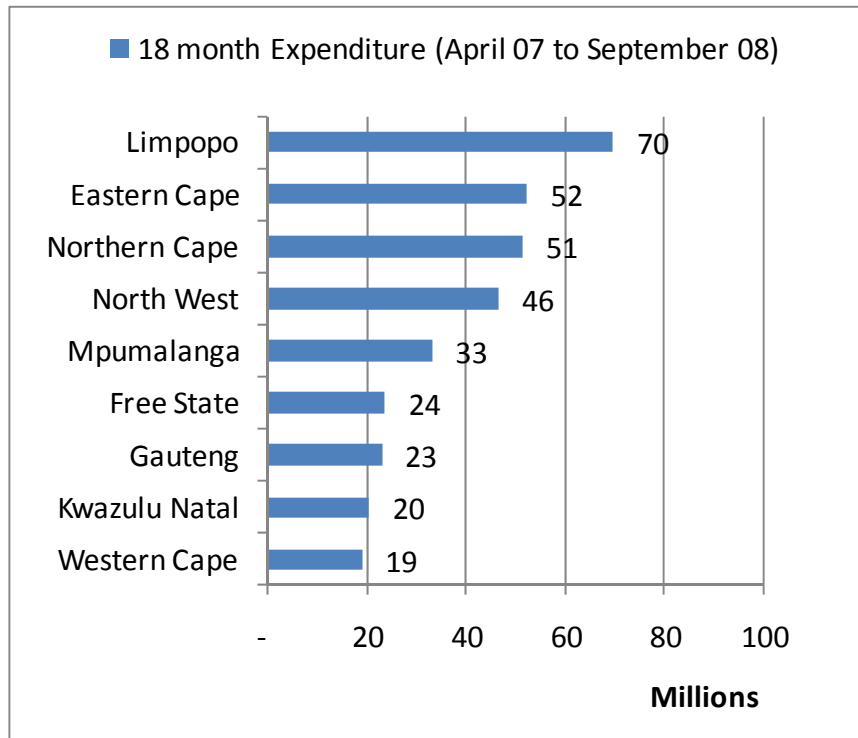


Figure 2: Expenditure by province

Source of funds

The EU funds accounted for approximately 61% of the expenditure while the remainder of the funds were sourced from the Irish, Flemish and Swiss donors as well as the DWAF funds for National Treasury in the proportions shown in the following table and figure.

Table 1: Source of funds

| Funding Source | Expenditure (April 07 to Sept 08) | Proportion of total expenditure |
|----------------|-----------------------------------|---------------------------------|
| EU | 386,592,938 | 60.9% |
| Irish | 61,213,059 | 9.7% |
| Flemish | 8,066,574 | 1.3% |
| Swiss | 3,500,000 | 0.6% |
| DWAF MTEF | 174,915,136 | 27.6% |
| TOTAL | 634,287,707 | 100.0% |

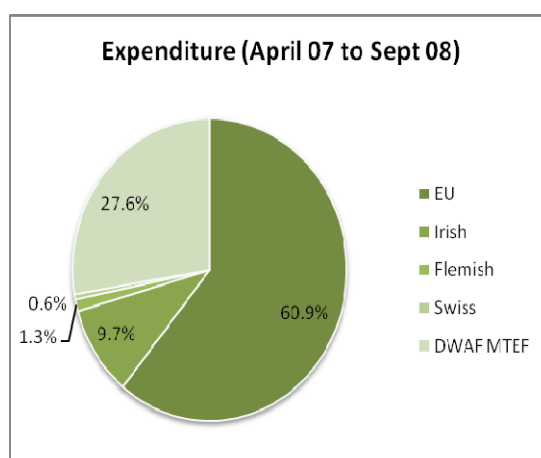


Figure 3: Sources of funding

Expenditure

Progress with expenditure is lagging with only 27% of expenditure registered by the end of the first 18 month period. There are a number of contributing factors including:

- Slow initial start up of the programme
- Time consuming procurement processes
- The inevitable time lag between work being completed, invoiced, paid and recorded on the system
- The planned programme expenditure is greater in the second and third years

Table 2: Expenditure Progress by Province

| Province | Total 3 year Budget 07/08/09/10 | Sum Total Expenditure (April 07 to Sept 08) | Expenditure Progress against Budget (%) |
|--------------------|------------------------------------|--|--|
| Eastern Cape | 171,285,124 | 52,274,550 | 31% |
| Free State | 90,900,000 | 23,639,783 | 26% |
| Gauteng | 92,100,000 | 22,886,667 | 25% |
| Kwazulu Natal | 60,450,000 | 20,404,142 | 34% |
| Limpopo | 252,189,834 | 69,622,636 | 28% |
| Mpumalanga | 111,700,000 | 33,060,167 | 30% |
| North West | 89,628,532 | 46,463,230 | 52% |
| Northern Cape | 181,049,258 | 51,336,295 | 28% |
| Western Cape | 179,011,924 | 18,962,523 | 11% |
| Head Office | 1,151,115,430 | 295,637,713 | 26% |
| Grand Total | 2,379,430,102 | 634,287,707 | 27% |

Most provinces have expended between a quarter and a third of their 3 year budgets, except North West which has already expended half and the Western Cape where on 11% of the budget has been spent.

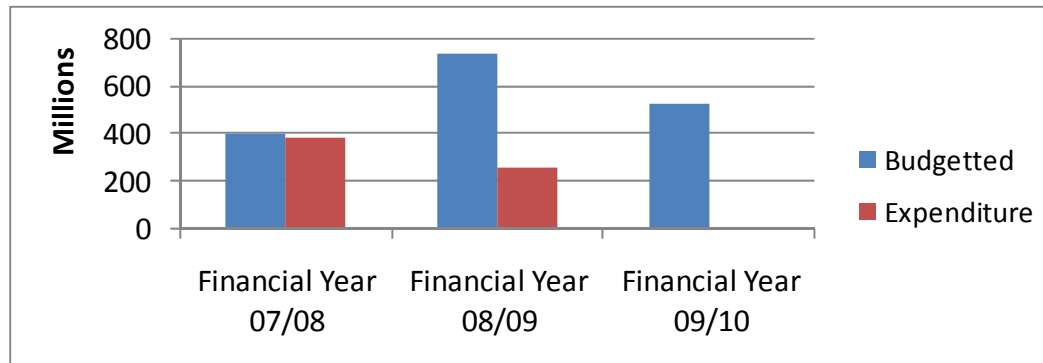


Figure 4: Expenditure against annual budget

Expenditure against the EU result area KPI's

The expenditure per KPI against budget and the expenditure per KPI per province is presented in the sections on each KPI and summarised in the figure below. Sector strengthening accounts for the largest proportion of expenditure at 37% while KPI 10, enhancing the role of CSO's, accounted for 1.8% of the expenditure.

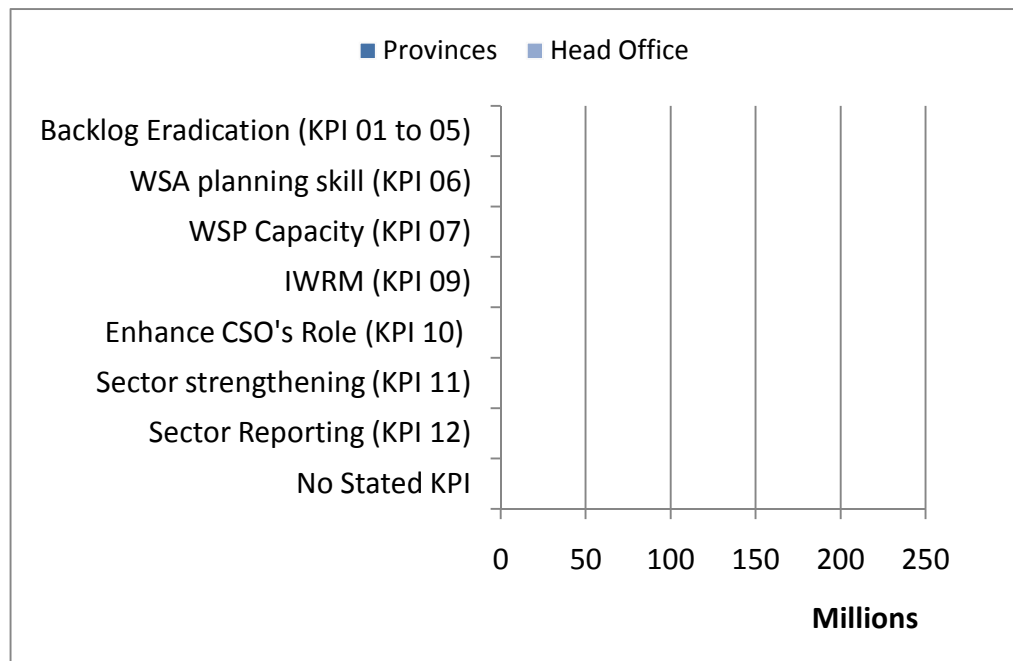


Figure 5: Expenditure per key performance indicator (KPI)

While the summarised expenditure gives the impression of a reasonable spread of expenditure on all KPI's when one looks at the sub sections per KPI the following KPI's have no expenditure allocated to them. While this could be due to incorrect allocation of KPI's to projects, some of the areas of little and no expenditure do correlate with lack of progress.

| KPI's with zero expenditure as at September 2008 |
|--|
| KPI 06.1 % of total number of WSA's reporting annually on progress against their WSDPs |
| KPI 07.1: Development of approved WSP business plans |
| KPI 07.2: Development and dissemination of consumer charter |
| KPI 07.3: Implementation of tariff policy and consumer friendly billing |
| KPI 08 - Establishment and Development of CMA's |
| KPI 08.1: Number of CMAs published in the Government Gazette |
| KPI 08.2: Number of CMA Governing Boards appointed |
| KPI 08.3: % of established CMA's with Business Plan and strategies in place |
| KPI 09 Implementation of Integrated Water Resource Management in priority areas |
| KPI 09.3: Compliance monitoring and enforcement strategy developed and implemented |
| KPI 09.4: % Irrigation Boards transformed to Water User Associations |
| KPI 09.5: Number of resource poor farmers established |
| KPI 10.1: Advocacy, lobbying and communication programme developed and rolled out. |
| KPI 10.2: CSO capacity building |
| KPI 10.3: Involving communities in water resources management |
| KPI 11 Strengthening collaborative structures and processes |
| KPI 11.3 National Water Sector Plan developed and reviewed annually |
| KPI 12.1 % of WSA's reporting on DWQ management |
| KPI 12.2 DWAF reports annually against all 19 target areas outlined in the Strategic Framework for Water Services. |

| EU Result Area | Eastern Cape | Free State | Gauteng | Kwazulu Natal | Limpopo | Mpumalanga | North West | Northern Cape | Western Cape | Head Office | Grand Total |
|--|--------------|--------------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|---------------|---------------|
| KPI 01- Decrease in population without access to a basic water supply facility | - | - | 0.89 | 3.20 | 14.45 | 1.01 | - | - | - | - | 19.55 |
| KPI 02 - Decrease in households without access to a basic sanitation facility | 2.52 | 0.75 | 1.10 | - | 10.90 | - | - | - | - | 12.09 | 27.36 |
| KPI 03 - Decrease in number of schools without access to a basic water and sanitation services | - | - | - | - | 2.84 | 0.20 | - | - | - | - | 3.03 |
| KPI 04 - Decrease in number of clinics without access to a basic water and sanitation services | - | - | 0.22 | - | - | - | - | - | - | 0.51 | 0.73 |
| KPI 05 – Eradication of bucket toilet system in formal established settlements | - | - | - | - | - | - | - | - | - | 27.62 | 27.62 |
| KPI 06 Institutional Management & Planning Skills of WSA's | - | 11.31 | 1.37 | - | - | - | - | 12.50 | - | 5.06 | 30.24 |
| KPI 06.1 % of total number of WSA's reporting annually on progress against their WSDPs | - | - | - | - | - | - | - | - | - | - | - |
| KPI 06.2: WSA's with Council approved supplier and provider arrangements in place where appropriate | - | - | - | - | - | - | 34.75 | 0.90 | 2.49 | 21.04 | 59.19 |
| KPI 07 - Enhanced Water Service Provider Capacity | - | - | 13.07 | 9.49 | 12.16 | 7.72 | 5.15 | 1.80 | 0.26 | 6.73 | 56.36 |
| KPI 07.1: Development of approved WSP business plans | - | - | - | - | - | - | - | - | - | - | - |
| KPI 07.2: Development and dissemination of consumer charter | - | - | - | - | - | - | - | - | - | - | - |
| KPI 07.3: Implementation of tariff policy and consumer friendly billing | - | - | - | - | - | - | - | - | - | - | - |
| KPI 07.4: Development of asset management systems | - | - | 1.02 | - | - | - | 0.51 | - | - | - | 1.53 |
| KPI 08 - Establishment and Development of CMA's | - | - | - | - | - | - | - | - | - | - | - |
| KPI 08.1: Number of CMA's published in the Government Gazette | - | - | - | - | - | - | - | - | - | - | - |
| KPI 08.2: Number of CMA Governing Boards appointed | - | - | - | - | - | - | - | - | - | - | - |
| KPI 08.3: % of established CMA's with Business Plan and strategies in place | - | - | - | - | - | - | - | - | - | - | - |
| KPI 09 Implementation of Integrated Water Resource Management in priority areas | - | - | - | - | - | - | - | - | - | - | - |
| KPI 09.1: Water Allocation Reform schedules finalised | 2.89 | - | - | - | - | - | - | - | - | - | 2.89 |
| KPI 09.2: Water conservation and demand management strategies | - | 7.19 | 0.90 | - | - | 5.55 | - | 5.74 | - | 52.42 | 71.79 |
| KPI 09.3: Compliance monitoring and enforcement strategy developed and implemented | - | - | - | - | - | - | - | - | - | - | - |
| KPI 09.4: % Irrigation Boards transformed to Water User Associations | - | - | - | - | - | - | - | - | - | - | - |
| KPI 09.5: Number of resource poor farmers established | - | - | - | - | - | - | - | - | - | - | - |
| KPI 10 Enhanced role of Civil Society Organisations | 0.07 | 0.27 | - | - | 2.40 | - | 0.95 | - | - | 7.52 | 11.22 |
| KPI 10.1: Advocacy, lobbying and communication programme developed and rolled out. | - | - | - | - | - | - | - | - | - | - | - |
| KPI 10.2: CSO capacity building | - | - | - | - | - | - | - | - | - | - | - |
| KPI 10.3: Involving communities in water resources management | - | - | - | - | - | - | - | - | - | - | - |
| KPI 11 Strengthening collaborative structures and processes | - | - | - | - | - | - | - | - | - | - | - |
| KPI 11.1 Sustainable collaborative structures in place at national level, in all 9 provinces and established CMA's | 39.59 | 1.14 | 4.35 | - | 23.37 | 15.18 | 5.10 | 29.38 | 15.82 | 98.57 | 232.50 |
| KPI 11.2 Provincial Water Sector Plans developed and reviewed annually | - | - | - | - | 2.23 | - | - | - | 0.02 | - | 2.25 |
| KPI 11.3 National Water Sector Plan developed and reviewed annually | - | - | - | - | - | - | - | - | - | - | - |
| KPI 11.4 Cooperation and integrated water resources management in Africa, reported annually | - | - | - | - | - | - | - | - | - | 4.71 | 4.71 |
| KPI 12 – DWAF Sector Reporting | 1.84 | 0.85 | - | - | - | - | - | - | - | 24.53 | 27.22 |
| KPI 12.1 % of WSA's reporting on DWQ management | - | - | - | - | - | - | - | - | - | - | - |
| KPI 12.2 DWAF reports annually against all 19 target areas outlined in the Strategic Framework for Water Services. | - | - | - | - | - | - | - | - | - | - | - |
| No KPI | 5.37 | 2.13 | -0.02 | 7.71 | 1.28 | 3.40 | - | 1.02 | 0.37 | 34.83 | 56.10 |
| Grand Total | 52.27 | 23.64 | 22.89 | 20.40 | 69.62 | 33.06 | 46.46 | 51.34 | 18.96 | 295.64 | 634.29 |

Figure 6: Expenditure per key performance indicator (KPI) per province in Millions of Rand with zero expenditure cell highlighted in light red.

Expenditure allocation to cross cutting themes

Within the financial database, project expenditure is allocated to both KPI's and to cross cutters where appropriate. Expenditure against cross cutting themes are shown in the figure below:

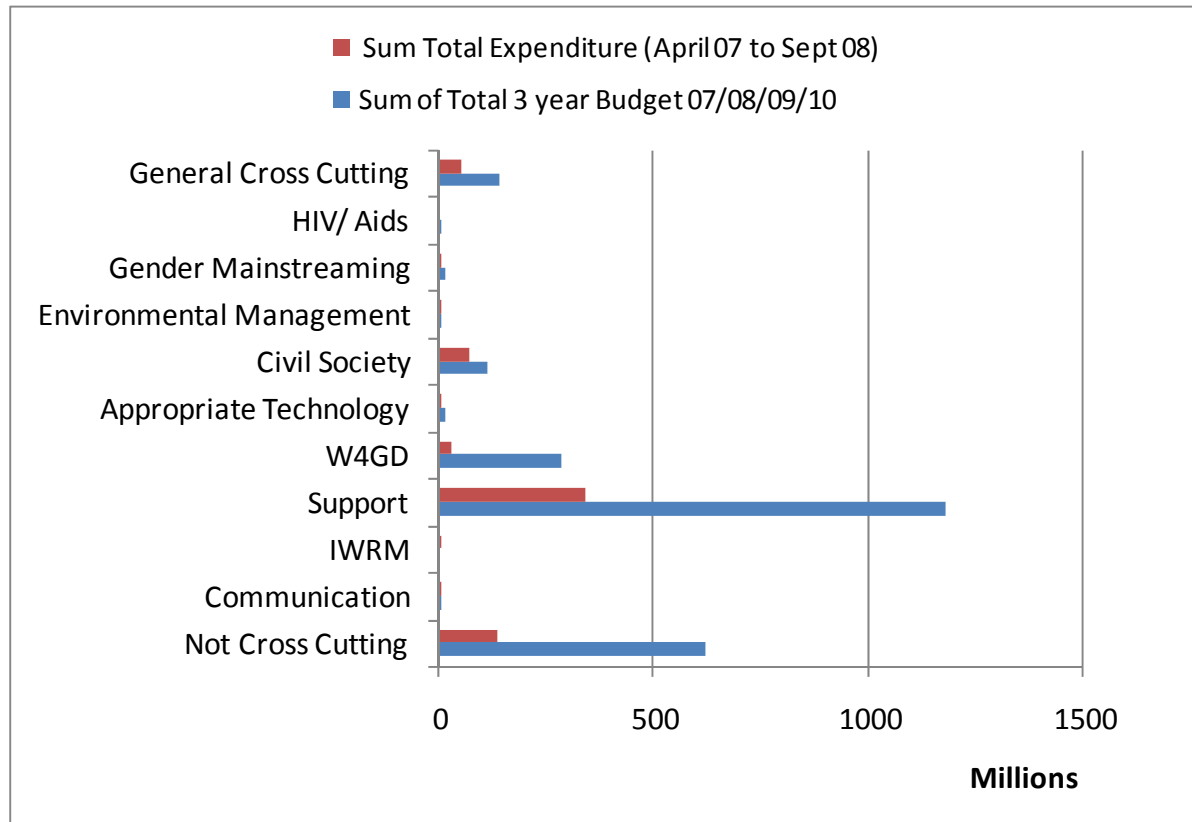


Figure 7: Expenditure per cross cutting theme

Discussion

Overall the expenditure targets the poorest provinces with the greatest need, except for KwaZulu Natal where relatively little expenditure has been planned or incurred.

There has been no expenditure on some KPI's (KPI 8 for example) and generally the low expenditure corresponds with lack of progress in implementing the KPI's. However, some of the lack of expenditure can be attributed to projects allocated to the wrong KPI and this should be addressed.

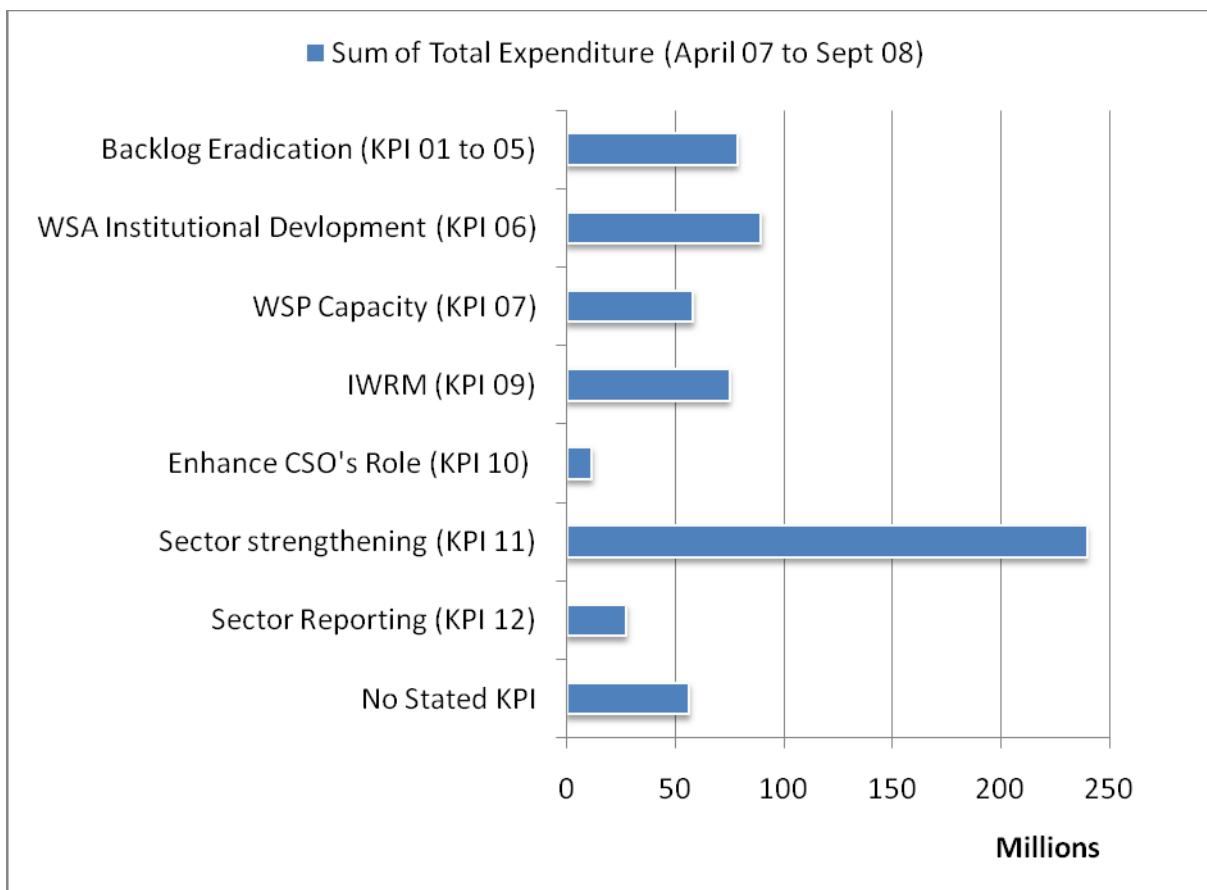
It would appear that a large proportion of the funds are expended on outside organisations and consultants providing support to DWAF and other sector partners (especially WSA's) and that the support ranges from specialist expertise to administrative and reporting

assistance. It is very important that the programme exit strategy ensures that all critical functions are adequately allocated budgets from other sources. Identification of the critical operational functions currently funded by MSBIII and securing treasury allocations for these is already in progress (pers comm.. Thabiso Toko)

A significant development for the water sector (and for WSA's in particular) has been the ring fencing of water and sanitation equitable share subsidies in the current 2009 division of revenue act (DORA). The implications of this are that municipalities will have to account separately for the water services allocations and this will equate to much larger allocations for the operation and maintenance of water services especially in areas serving a large proportion of poor people. This was identified in the Report to the ASGISA IMC in June 2008 and implemented in time for inclusion in the 2009 DORA of January 2009.

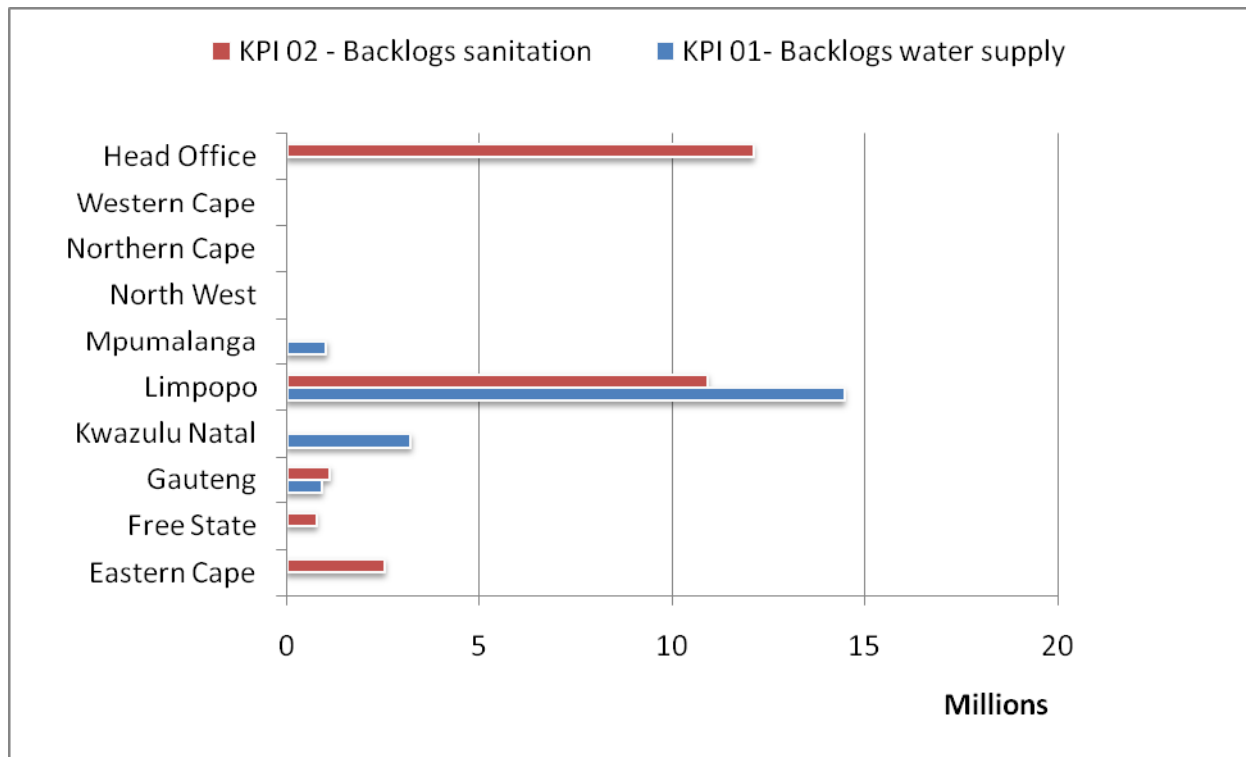
Expenditure Per KPI

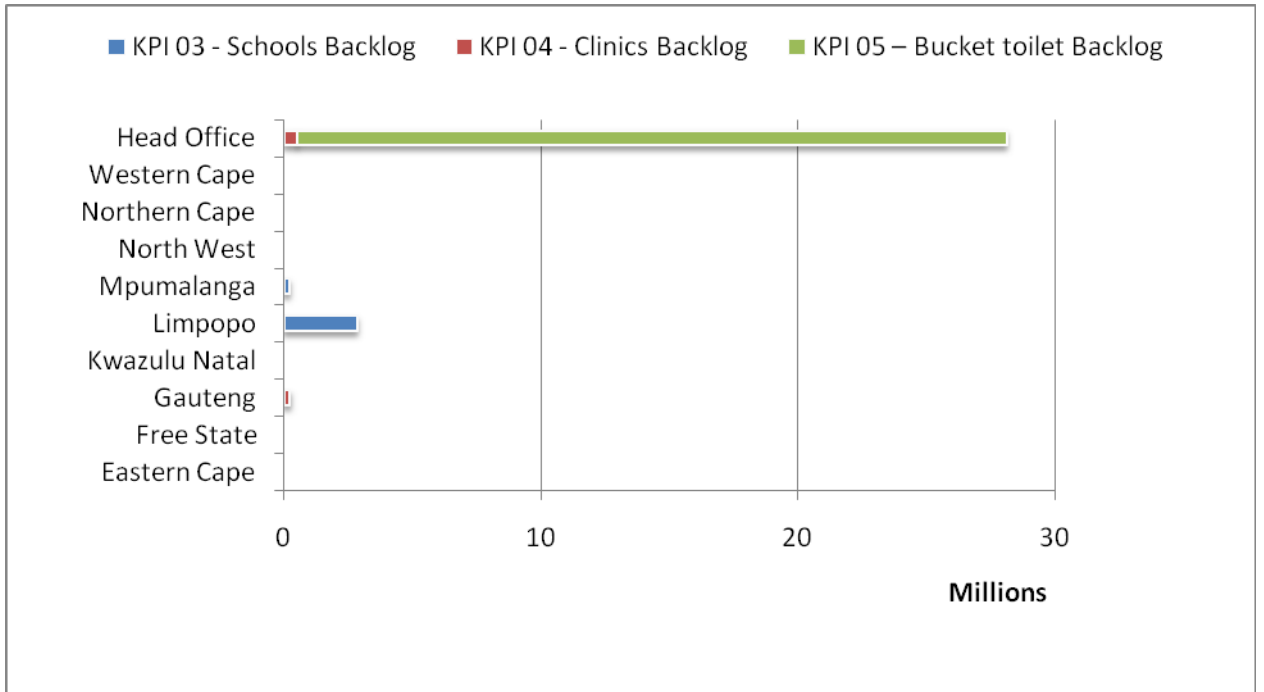
The following tables provide a summary of expenditure per KPI:



KPI 1 to 5

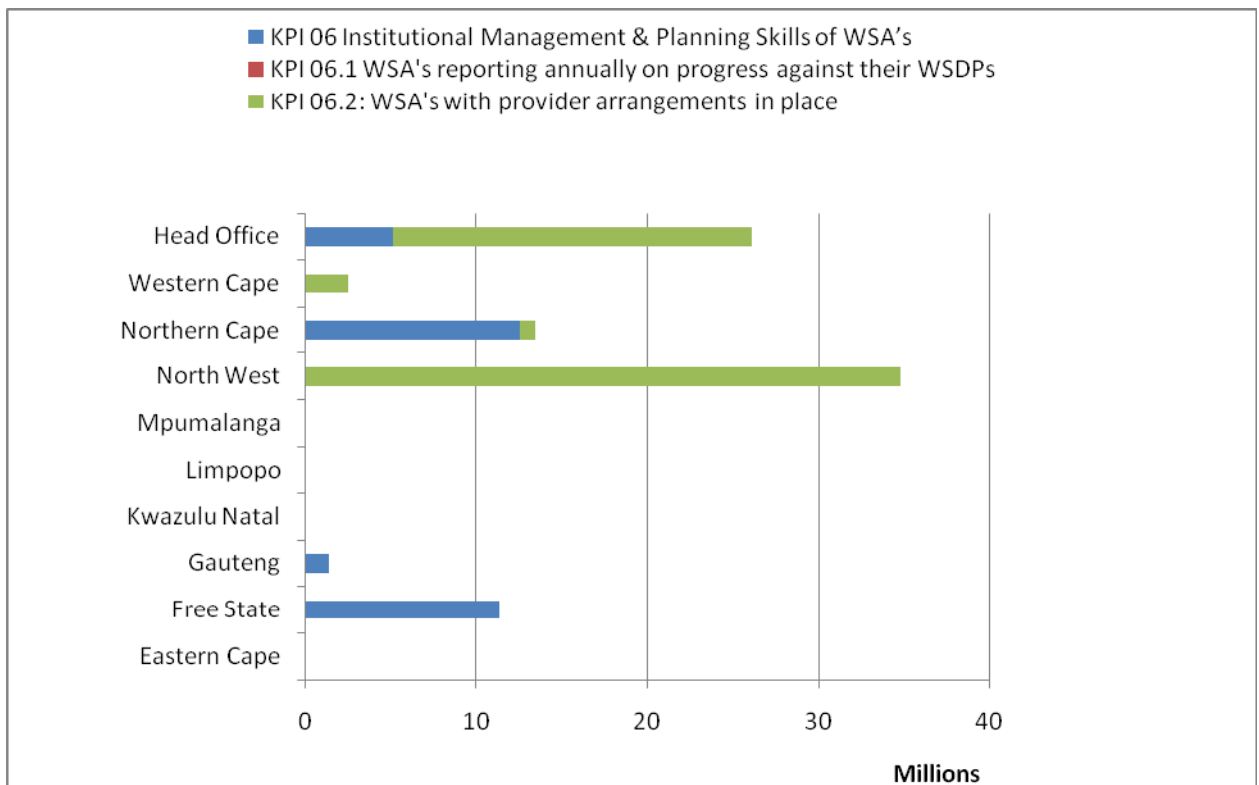
| EU Result Area | Sum of Sum Total Expenditure (April 07 to Sept 08) | | Sum of Total 3 year Budget 07/08/09/10 | |
|--|--|--------|--|--------|
| | | | | |
| KPI 01- Decrease in population without access to a basic water supply facility | 19,546,697 | 3.1% | 20,685,000 | 0.9% |
| KPI 02 - Decrease in households without access to a basic sanitation facility | 27,358,330 | 4.3% | 124,192,444 | 5.2% |
| KPI 03 - Decrease in number of schools without access to a basic water and sanitation services | 3,032,282 | 0.5% | 7,177,240 | 0.3% |
| KPI 04 - Decrease in number of clinics without access to a basic water and sanitation services | 727,794 | 0.1% | 11,900,000 | 0.5% |
| KPI 05 – Eradication of bucket toilet system in formal established settlements | 27,617,159 | 4.4% | 40,000,000 | 1.7% |
| Other MSB KPI's | 556,005,446 | 87.7% | 2,175,475,418 | 91.4% |
| Grand Total | 634,287,707 | 100.0% | 2,379,430,102 | 100.0% |





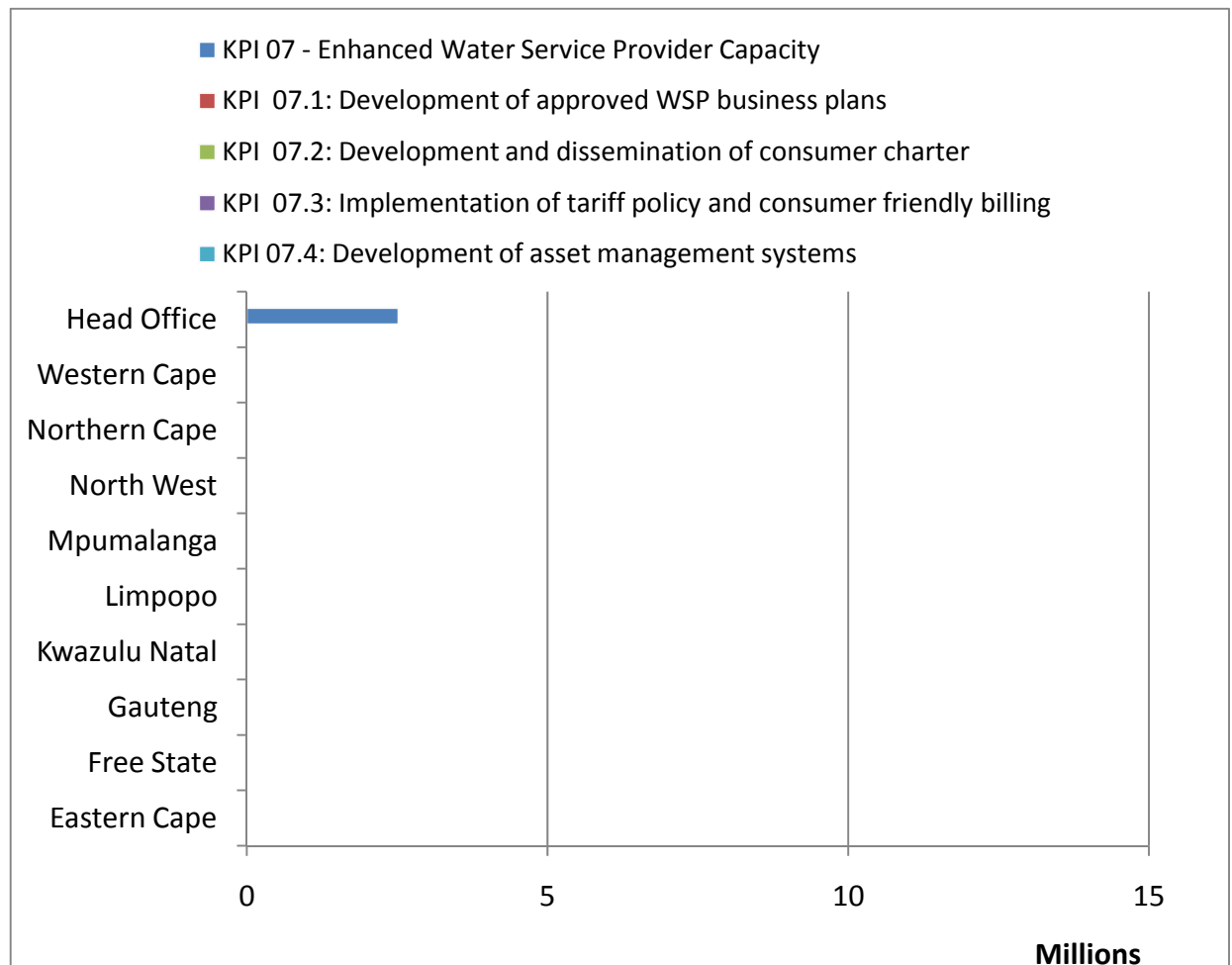
KPI6

| EU Result Area | Sum of Sum Total Expenditure (April 07 to Sept 08) | | Sum of Total 3 year Budget 07/08/09/10 | |
|---|--|--------|--|--------|
| | | | | |
| KPI 06 Institutional Management & Planning Skills of WSA's | 30,239,925 | 4.8% | 125,015,358 | 5.3% |
| KPI 06.1 % of total number of WSA's reporting annually on progress against their WSDPs | | 0.0% | | 0.0% |
| KPI 06.2: WSA's with Council approved supplier and provider arrangements in place where appropriate | 59,187,757 | 9.3% | 203,294,682 | 8.5% |
| Other MSB KPI's | 544,860,025 | 85.9% | 2,051,120,062 | 86.2% |
| Grand Total | 634,287,707 | 100.0% | 2,379,430,102 | 100.0% |



KPI 7

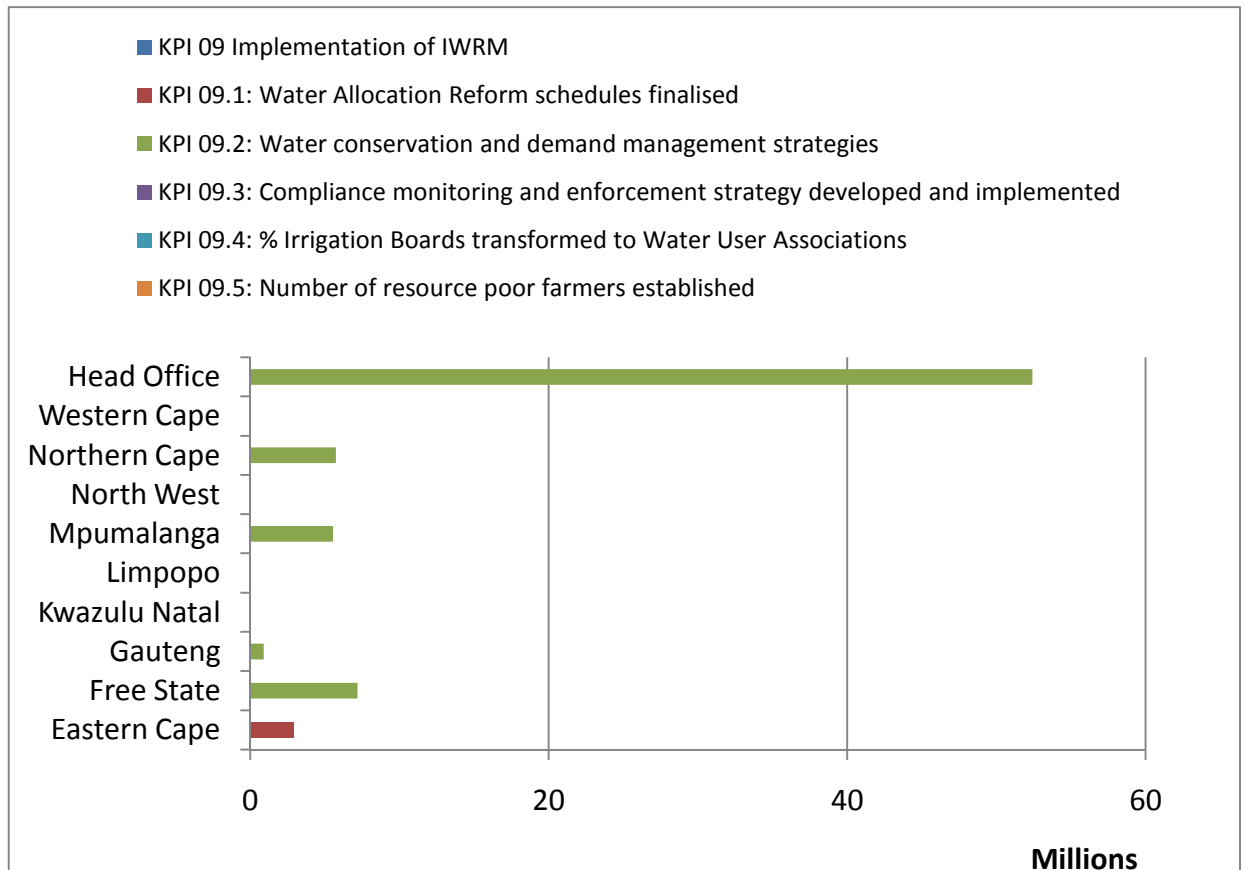
| EU Result Area | Sum Total Expenditure (April 07 to Sept 08) | | Sum of Total 3 year Budget 07/08/09/10 | |
|---|--|------------|---|------------|
| | Amount | Percentage | Amount | Percentage |
| KPI 07 - Enhanced Water Service Provider Capacity | 56,361,863 | 8.9% | 245,218,548 | 10.3% |
| KPI 07.1: Development of approved WSP business plans | - | 0.0% | - | 0.0% |
| KPI 07.2: Development and dissemination of consumer charter | - | 0.0% | - | 0.0% |
| KPI 07.3: Implementation of tariff policy and consumer friendly billing | - | 0.0% | - | 0.0% |
| KPI 07.4: Development of asset management systems | 1,529,690 | 0.2% | 22,450,000 | 0.9% |
| Other MSB3 KPI's | 576,396,153 | 90.9% | 2,111,761,554 | 88.8% |
| Total for all MSB3 projects | 634,287,707 | 100.0% | 2,379,430,102 | 100.0% |

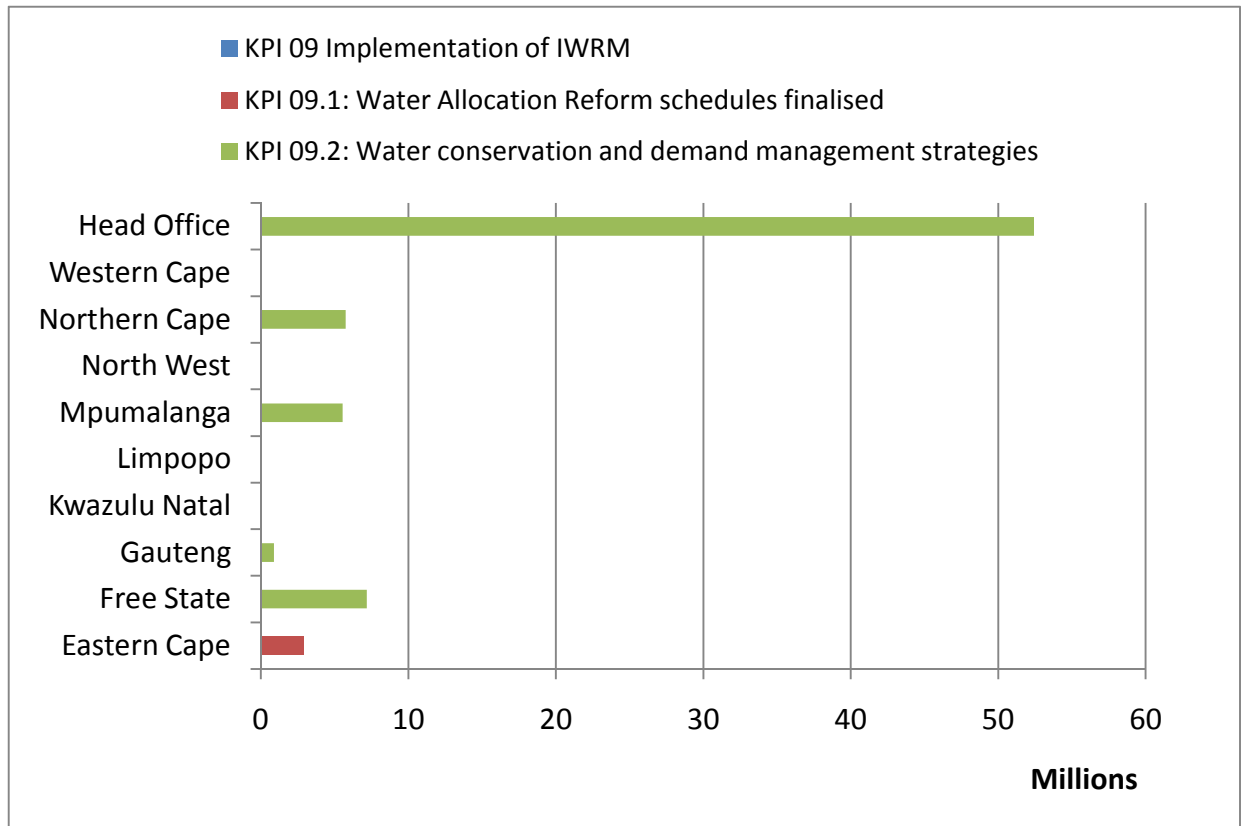
**KPI8**

No Expenditure

KPI9

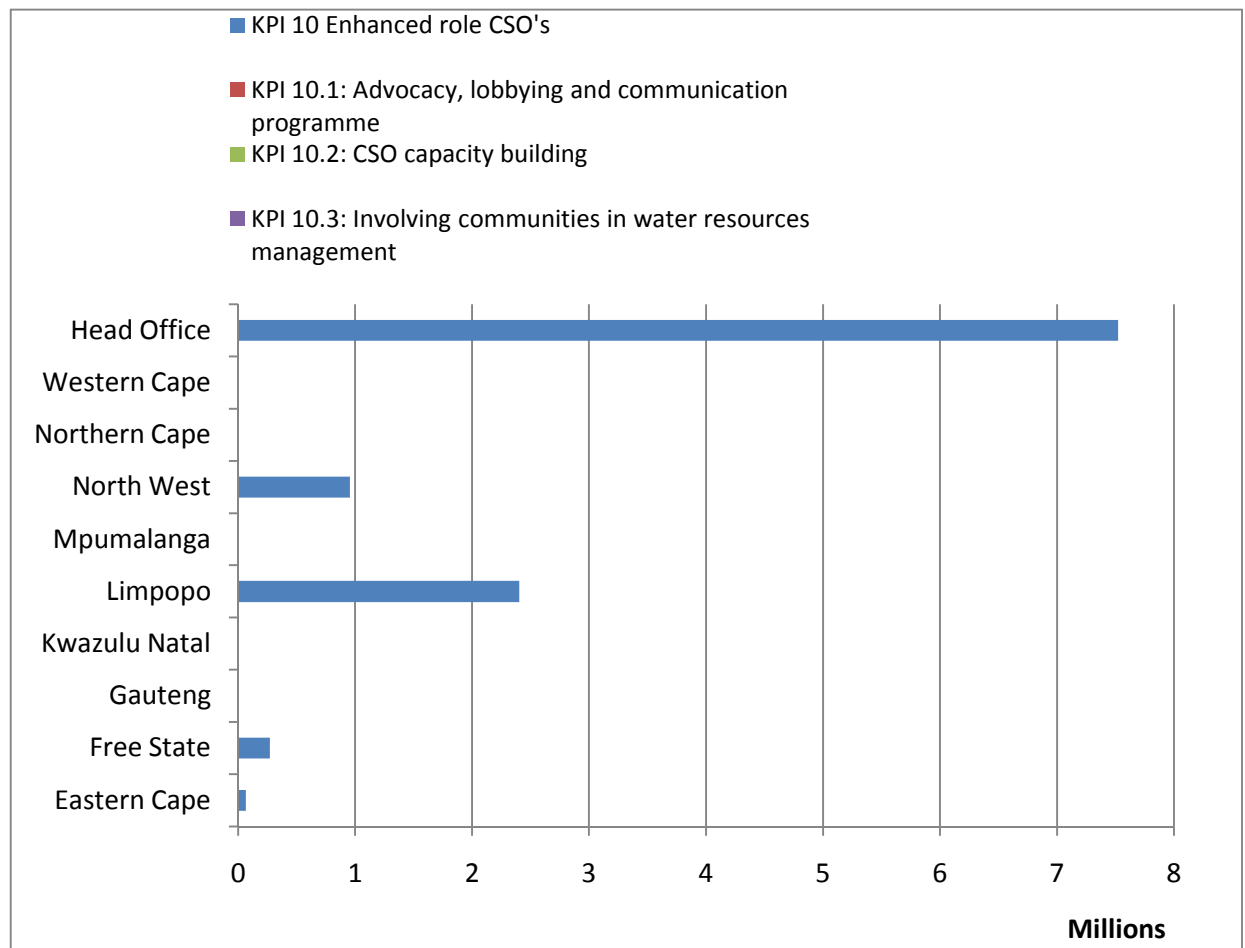
| EU Result Area | Sum of Sum Total Expenditure (April 07 to Sept 08) | | Sum of Total 3 year Budget 07/08/09/10 | |
|--|--|---------------|--|---------------|
| | Value | % | Value | % |
| KPI 09 Implementation of Integrated Water Resource Management in priority areas | - | 0.0% | - | 0.0% |
| KPI 09.1: Water Allocation Reform schedules finalised | 2,891,380 | 0.5% | 15,588,000 | 0.7% |
| KPI 09.2: Water conservation and demand management strategies | 71,791,835 | 11.3% | 437,652,445 | 18.4% |
| KPI 09.3: Compliance monitoring and enforcement strategy developed and implemented | | 0.0% | | 0.0% |
| KPI 09.4: % Irrigation Boards transformed to Water User Associations | | 0.0% | | 0.0% |
| KPI 09.5: Number of resource poor farmers established | | 0.0% | | 0.0% |
| Other MSB KPI's | 559,604,492 | 88.2% | 1,926,189,657 | 81.0% |
| Grand Total | 634,287,707 | 100.0% | 2,379,430,102 | 100.0% |





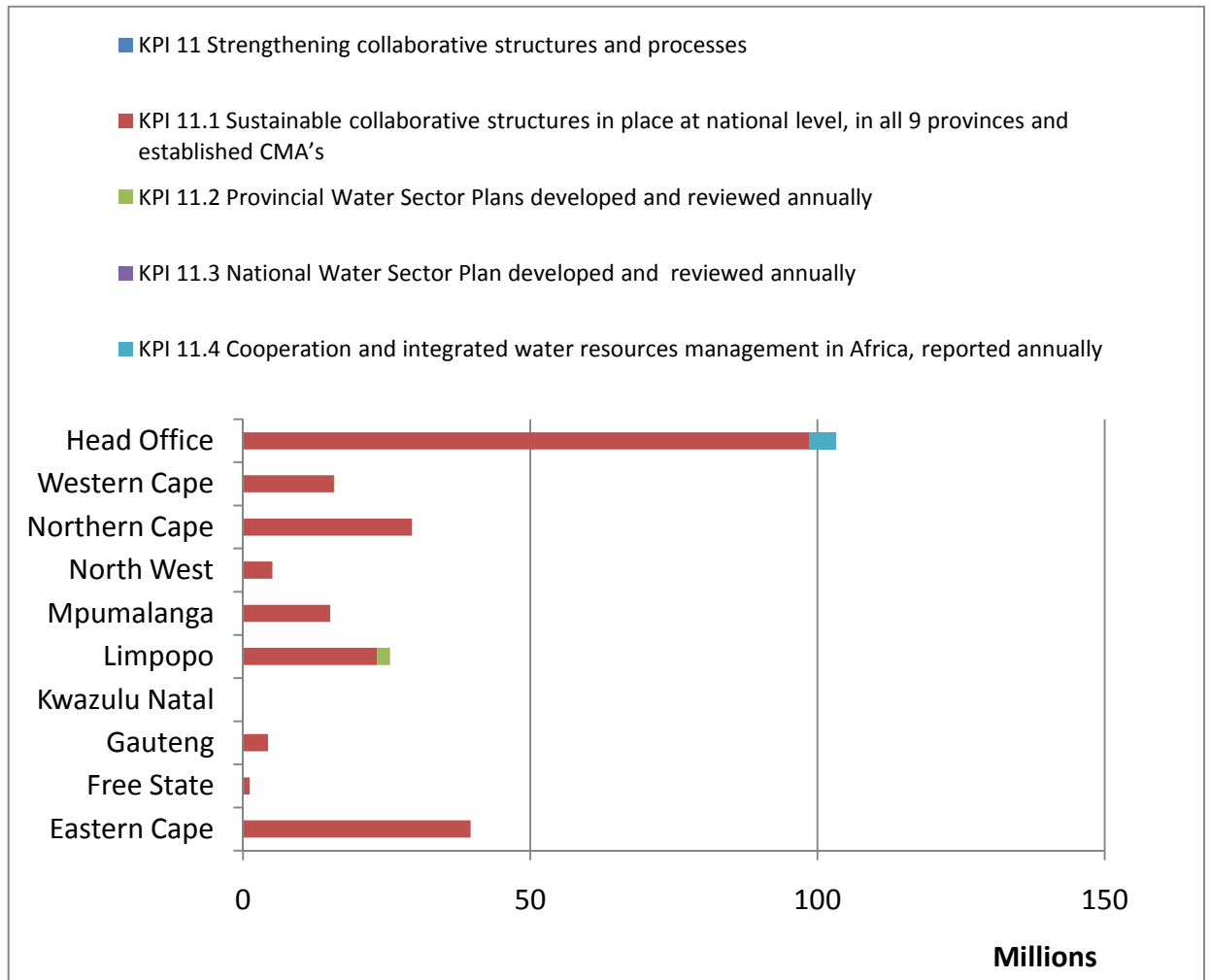
KPI10

| EU Result Area | Sum of Sum Total Expenditure (April 07 to Sept 08) | | Sum of Total 3 year Budget 07/08/09/10 | |
|--|--|--------|--|--------|
| | | | | |
| KPI 10 Enhanced role of Civil Society Organisations | 11,215,641 | 1.8% | 66,630,944 | 2.8% |
| KPI 10.1: Advocacy, lobbying and communication programme developed and rolled out. | 0 | 0.0% | 0 | 0.0% |
| KPI 10.2: CSO capacity building | 0 | 0.0% | 0 | 0.0% |
| KPI 10.3: Involving communities in water resources management | 0 | 0.0% | 0 | 0.0% |
| Other MSB KPI's | 623,072,066 | 98.2% | 2,312,799,158 | 97.2% |
| Grand Total | 634,287,707 | 100.0% | 2,379,430,102 | 100.0% |



KPI 11

| EU Result Area | Sum of Sum Total Expenditure (April 07 to Sept 08) | | Sum of Total 3 year Budget 07/08/09/10 | |
|--|--|---------------|--|---------------|
| | | | | |
| KPI 11 Strengthening collaborative structures and processes | - | 0.0% | - | 0.0% |
| KPI 11.1 Sustainable collaborative structures in place at national level, in all 9 provinces and established CMA's | 232,498,688 | 36.7% | 728,205,441 | 30.6% |
| KPI 11.2 Provincial Water Sector Plans developed and reviewed annually | 2,253,581 | 0.4% | 17,100,000 | 0.7% |
| KPI 11.3 National Water Sector Plan developed and reviewed annually | | 0.0% | | 0.0% |
| KPI 11.4 Cooperation and integrated water resources management in Africa, reported annually | 4,713,963 | 0.7% | 28,400,000 | 1.2% |
| Other MSB KPI's | 394,821,475 | 62.2% | 1,605,724,661 | 67.5% |
| Grand Total | 634,287,707 | 100.0% | 2,379,430,102 | 100.0% |



KPI12

| EU Result Area | Sum of Sum Total Expenditure (April 07 to Sept 08) | | Sum of Total 3 year Budget 07/08/09/10 | |
|--|--|--------|--|--------|
| KPI 12 – DWAF Sector Reporting | 27,217,851 | 4.3% | 154,400,000 | 6.5% |
| KPI 12.1 % of WSA’s reporting on DWQ management | | 0.0% | | 0.0% |
| KPI 12.2 DWAF reports annually against all 19 target areas outlined in the Strategic Framework for Water Services. | - | 0.0% | 70,500,000 | 3.0% |
| Other MSB KPI's | 607,069,856 | 95.7% | 2,154,530,102 | 90.5% |
| Grand Total | 634,287,707 | 100.0% | 2,379,430,102 | 100.0% |

