

# MSB III Mid-Term Review

O&M Annexure

**4**

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## 1.0 Introduction

One of the broad key recommendations that came out of the final evaluation of MSBII (Aug 2007) was that there were critical weaknesses in outcome-related areas – and that above all else, this applied to O&M. Thus O&M was identified as requiring critical attention in MSBIII.

While noting that the delivery targets of water services and sanitation for all were not realistic, it was also noted in the final MSBII evaluation that a real danger was that many of those that had already been served would be joining the backlog queue (and in fact 51% of WSA managers interviewed at that time said it was already happening). It was also noted that while DWAF itself was not responsible for O&M, it needed to make an impact in this area by focusing more energy and resources on its core role as regulator of the water sector (including quality assurance and on-going monitoring) to ensure that WSAs and WSPs perform to expectations.

Further O&M related recommendations from the final MSBII evaluation included the following:

- Mentoring at WSAs required;
- The development of guidelines on the O&M of basic sanitation solutions as well as Appropriate Technology solutions for basic or emergency water required;
- Poverty and the impact of debt on O&M needed to be considered;
- Transferred assets required O&M support and accurate listing (at the time the larger transferred schemes were well documented but large numbers of stand-alone schemes were not);
- While it was found that most WSAs had robust FBW policies in place – it was noted that improved community participation was required for future sustainability;
- Improved skills transfer between consultants and WSAs and WSPs (requiring the development of mechanisms or guidelines to ensure more effective management of consultants), required.

Various KPIs from the EU Financing Agreement are considered from the perspective of operations and maintenance in this annexure as part of the mid-term review on MSB III. These consist of the following:

- KPI 7: Enhanced WSP Capacity
  - 7.1 Development of approved WSP business plans;
  - 7.2 Development and dissemination of consumer charter;
  - 7.3 Implementation of tariff policy and consumer friendly billing;
  - 7.4 Development of asset management systems.
- KPI 9.2: Water conservation and demand management strategies (Under: 9.0 Implementation of Integrated Water Resource Management in priority areas).
- KPI 12.1: % of WSA's reporting on DWQ management (Under: 12.0 DWAF Sector Reporting)

As will be shown, O&M continues to be a real challenge in the sector. However, important foundations have now been laid for providing much needed support to water service providers. This is critical for the future sustainable operation and maintenance of water supply schemes.

## **2.0 Assessment of O&M-Related KPI's**

### **2.1 Enhanced WSP Capacity**

This section deals with the KPIs that have been drawn out from the following outcome on enhanced WSP capacity specified in Masibambane III Outcomes: As per the EU/SA Financing Agreement (2007):

Water service providers are operating in an effective and efficient manner, meeting norms and standards: Municipalities are ultimately responsible for the delivery of physical services according to local authority requirements. They will need to engage with service providers to meet these obligations and will thus need to manage contracts so that the financial execution of service delivery accords to national targets, the terms of contract and business plans.

Masibambane would support both municipalities and water service providers in this regard and importantly, the Programme could assist with the incorporation of cross cutting issues in business plans and practices (gender mainstreaming; HIV/AIDS, environment, appropriate technology, employment creation, health and hygiene) in-line with Government strategies and programmes.

(Masibambane III Outcomes: As per the EU/SA Financing Agreement, (2007); Outcome No. 7)

These outcomes are in line with the Strategic Framework for Water Services (SFWS), which sets out a Monitoring and Support Framework. In this, various mechanisms for providing support are noted:

- 1) **Capacity Building Grant.** Direct support for the establishment, co-ordination and sustainability of local government, of which water services is a key component.
- 2) **Knowledge networks.** Peer to peer networks are managed and facilitated.
- 3) **Advisory service.** Expertise is made available.
- 4) **Guidelines and tools.** Practical tools and guidelines are developed.
- 5) **Strategic support initiatives.** Direct technical assistance is provided strategically.
- 6) **Skills development.** Education, training and capacity building is provided.

The MSBIII financing agreement stipulates that DWAF was to develop reporting systems and performance indicators for the programme. DWAF thus developed

indicators against which the Sector's performance is measured. The following KPIs related to enhanced WSP capacity were thus developed as part of this process:

- 7.1 Development of approved WSP business plans
- 7.2 Development and dissemination of consumer charters
- 7.3 Implementation of tariff policy and consumer friendly billing
- 7.4 Development of asset management systems

While there is a direct link between these KPIs and the SFWS (e.g. WSP business plans and consumer charters are specifically mentioned), activities under MSBIII to date have not taken much consideration of WSP business plans, consumer charters, or consumer-friendly billing. However, the implementation of tariff policy -- in so far as putting in place free basic water (FBW) -- has been a significant focus. Specific, but limited, attention has also been paid towards the development of asset management systems under MSBIII. Because the content of the Masibambane KPIs with regards WSPs has largely been overlooked by DWAF up to this point, progress with regards to these KPIs is largely not on target. DWAF is now advocating for changing the substance of several of these KPIs. However, while WSP business plans, consumer charters, tariff policies and billing, and asset management systems do need to be addressed with WSPs, the lack of progress with regards these KPIs does not give the full picture. Promising work has been done with regards WSP support and this needs to preface the specific discussion of these KPIs.

Developing WSP capacity is a serious challenge with which the sector is now actively engaging. This is being led by the Directorate WSSD as part of the implementation of the National Joint Water Services Sector Support Strategy through the WSP Support Project Execution Plan (PEP). The WSP PEP is focused at the operational level of WSPs and is intended to take *policy to practice*. A pilot programme at four sites has been completed and the lessons learned are feeding into the final WSP Support Implementation Plan. This plan is to be operationalised at the 4 pilot sites in the financial year 2009/10 and then mainstreamed and rolled out at a national level from 2010/11.

The KPIs for Enhanced WSP Capacity under the MSBIII agreement (viz. WSP business plans; consumer charters; asset management systems; tariff policies and consumer-friendly billing) still need to be specifically incorporated into this plan in some cases. Importantly, bearing in mind the national crisis around drinking water quality (DWQ), DWQ has been identified as one of top 3 KPAs in the WSP Support Implementation Plan. The roll-out of this plan is critical for various areas. If effectively implemented, it could be instrumental in improving the management of drinking water quality, as well as in improving operations and maintenance overall.

Coordination of this WSP support across the sector players can be expected to be a key challenge. Even more critical will be the allocation of substantial funds to support the implementation of this programme at WSP level as the PEP has been designed to have no funds for this.

The remainder of this section considers each of the above-mentioned MSB KPIs within the context of assessing the relevance, effectiveness, and efficiency of the MSB programme towards achieving its objectives.

### ***KPI 7.1 Development of approved WSP business plans***

#### ***Relevance<sup>1</sup>***

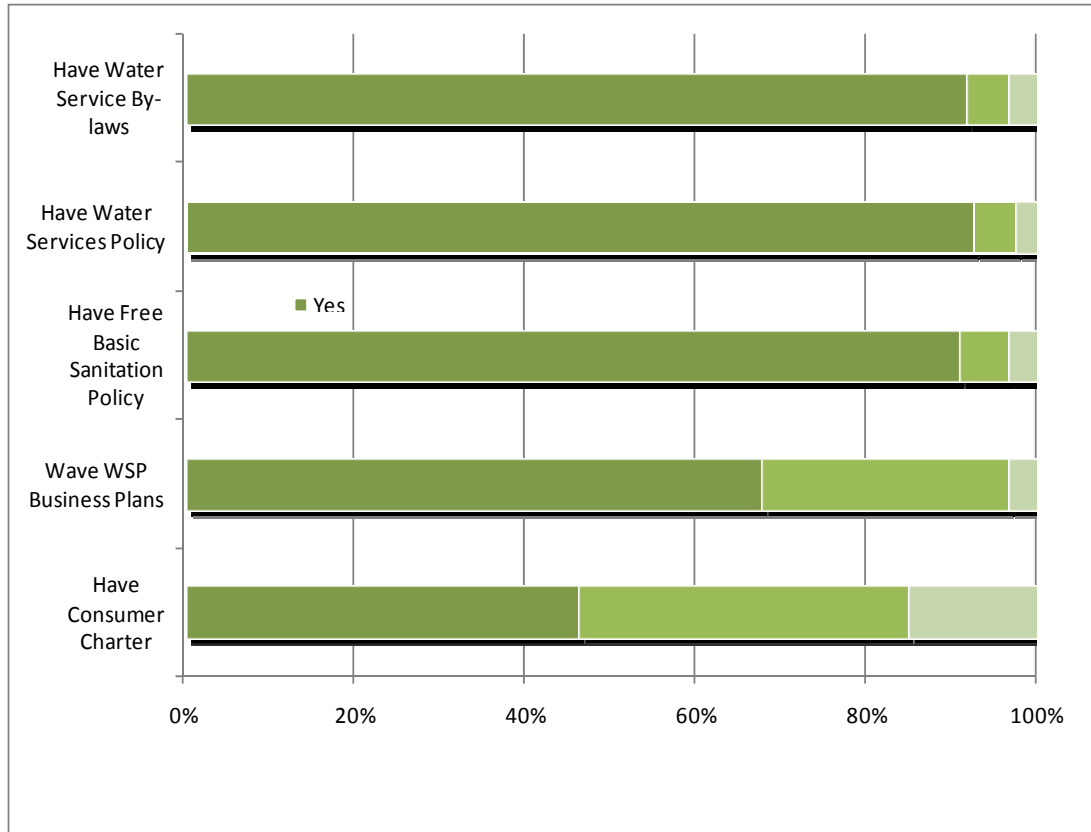
##### *Main Findings:*

According to DWAF's MSB III Assessment Report (Aug 2008), it was not possible to measure the development of approved WSP business plans until the Water Services Information division had compiled a database of all WSPs (i.e. the foundation for measuring this KPI is not in place -- the identity of all WSPs is not known). While some WSPs have developed and approved BPs, this has also not been tracked and documented by DWAF. DWAF's own recommendation on this is that the targets for this KPI be changed to tracking the development of the reporting systems that would measure this (instead of actually measuring the percentage of WSP BPs in place).

The WSA survey conducted as part of this mid-term report (121 WSA Managers in 121/159 WSAs were interviewed) indicate that 68% have WSP Business Plans in place; 29% do not have WSP Business Plans; and 3% did not know. The following graph gives an overview of the related findings from the WSA survey:

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<sup>1</sup> The extent to which the objectives of MSB III are consistent with beneficiaries' requirements, country needs, institutional priorities. It also entails an assessment of project coherence in achieving its objectives. i.e. how relevant is what MSB III doing in this area to SA's needs? And how relevant are the activities being performed in this area to what was intended under MSB III?

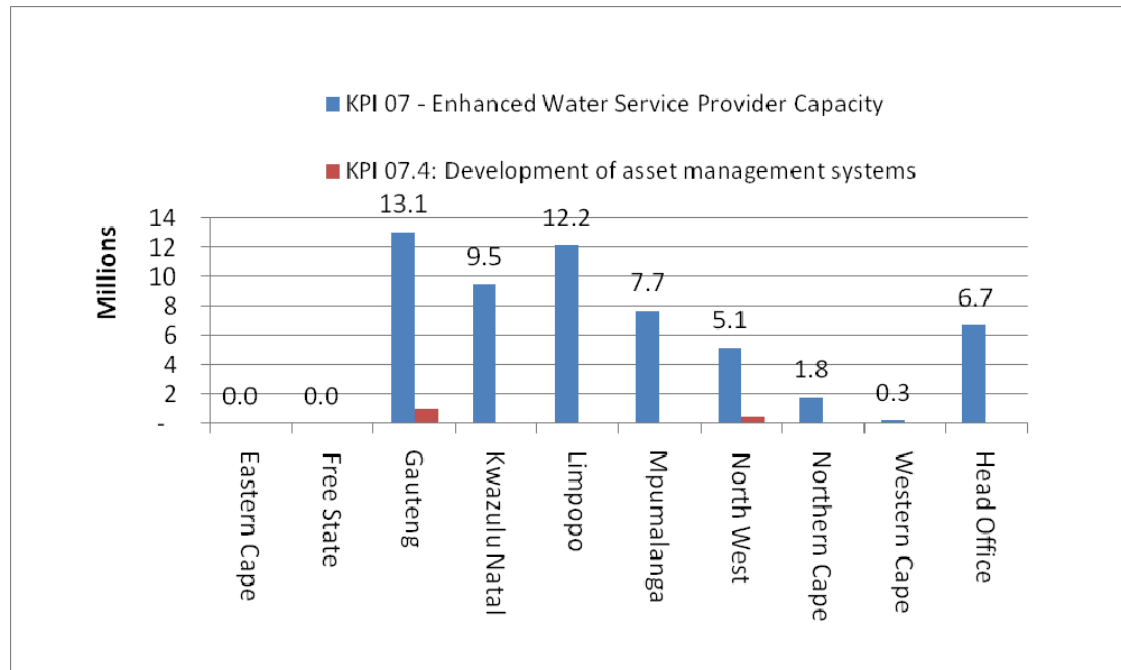


However, more in-depth sample telephonic interviews with WSAs suggested that the percentage of WSPs that have formal WSP BPs in place may be less than indicated above. The following examples illustrate this:

- The best-case example found from telephone interviews was Uthukela DM (KZN) (a DM with “Blue Drop” status, which represents excellence in managing drinking water quality). Uthukela reported that they have a draft WSP BP.
- In other areas for example, Chris Hani DM (Eastern Cape) noted that their eastern areas have a “sort of” BP in the form of Amatola Water’s tender to be the WSP for that area (i.e. AW put forward a proposal for operating and maintaining those schemes).
- Capricorn DM (Limpopo) reported that they have recently appointed WSPs and have a “general agreement” with them but WSP BPs have yet to be drafted.
- Amatola DM (Eastern Cape) reported that while they didn’t have a general WSP BP, plans and work descriptions are in place for the contracts with Amatola Water and WSSA.
- Alfred Nzo DM (Eastern Cape) reported that they had an annual budget but no WSP BP in place.

- Mopani DM (Limpopo) described the long road to finally reaching agreement that LMs would be the WSPs in their area – the transfer process is still ongoing and WSP BPs are not yet in place.
- In the case of the 4 pilot project areas for the WSP Support Programme, one WSA (Ugu DM) had a WSP BP in process; two WSAs (Blue Crane and UMgungundlovu) had identified the development of WSP BPs as urgent tasks; and one WSA (Mogalakwena) was discontinued as a pilot project site.

Within this discussion on relevancy, it should be noted that there has been no expenditure under MSBIII that has been specifically assigned to KPI 7.1 Development of Approved WSP Business Plans. Instead, there has been expenditure assigned generally to developing WSP capacity. (See the relevant table under the “Efficiency” discussion for this KPI for more details). However, as illustrated in the graph below, the provincial distribution of these funds has been erratic e.g. the Eastern Cape, a province with large capacity challenges has used no funding at all for developing WSP capacity.



Despite the fact that DWAF is failing to meet this KPI does not negate the relevancy of the KPI itself. Instead, it raises concern about whether or not the sector is taking appropriate and relevant steps towards addressing its past failures to adequately deal with O&M. Recent developments suggest that the prospect of improved O&M may soon become a reality. A key development is that a more enabling environment for adequate O&M will be in place from the start of the 2009 financial year based on the ring-fencing of the equitable share for operation and maintenance of water services as set out by the Division of Revenue Act. DWAF advocated for this and the change to the DoRA has been a significant achievement. Additionally, as described in the introduction to this section, a very relevant programme to deal with developing WSP capacity was recently implemented -- the WSP Capacity Building Pilot Project

(4 sites), which resulted in the development of a WSP Implementation Plan intended for broader roll-out.

#### *Key Recommendations:*

- The lack of a comprehensive database of WSPs is in itself a fundamental problem and one that DWAF has correctly identified as the starting point required for assessing WSP capacity. (This challenge is exacerbated by the fact that not all WSAs even know what infrastructure they have within their boundaries). While this is the limit to what DWAF is proposing, this report does not recommend cutting back the scope of a critical deliverable simply because it is not being achieved.
- The need for WSPs to have BPs in place is a pressing one and should be a priority issue. WSP BPs are critical to ensuring sustainable on-the-ground delivery to beneficiaries and thus extremely relevant to the country's needs as well as its institutional priorities.
- In order for WSP BPs to be developed on a broader scale, the development of WSP BPs needs to be highlighted in the WSP Support Implementation Plan, which in turn needs to be rolled out with a focus on provinces with least capacity.
- The roll-out of the WSP Support Implementation Plan will require substantial funding. The funding for the actual implementation of support activities at WSP level has not yet been identified. This should be a priority consideration for the remaining MSBIII funding.

#### *Effectiveness<sup>2</sup>*

##### *Main Findings:*

The key challenge that WSAs identified to developing WSP BPs was a lack of capacity to develop these plans and/or to manage the development of these plans. This lack of capacity encompasses both a lack of skills and a lack of adequate numbers of skilled people to take on these types of tasks.

Funding for developing WSP capacity has been relatively significant, but it has not yet resulted in effective interventions that have been able to turn around the failure of O&M at scheme level that have thus far plagued the sector.

EU Result Area	Sum Total Expenditure (April 07 to Sept 08)		Sum of Total 3 year Budget 07/08/09/10	
KPI 7	56,361,863	8.9%	245,218,548	10.3%
KPI 7.1	-	0.0%	-	0.0%
KPI 7.2	-	0.0%	-	0.0%
KPI 7.3	-	0.0%	-	0.0%
KPI 7.4	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%

<sup>2</sup> The extent to which MSB III's objectives were achieved, or are expected to be achieved, taking into account their relative importance. Basically is MSB III delivering?

**Key Recommendations:**

Once the basic database and reporting system is in place (recommended above), MSB III should be making the following (or concurrent where applicable) interventions:

- Support to WSPs to develop BPs is essential – and will best be done through a broader roll-out of the WSP Support programme. According to the recent WSP Support Implementation Plan (Feb 2008), “WSP support has been identified as one of the most important areas of support required if efficient and effective water services are to be achieved.” Further to this, one of the key competency areas identified in the WSP Support Implementation Plan is business planning.
- The pilot projects for WSP support yielded promising implementation plans (in all but one site). Follow-up support to these sites through the WSP support programme is now required in order to assist with and monitor the implementation of these plans. This should be done as a matter of urgency in order to apply lessons learned to the broader roll-out of the programme. (Note that this is already DWAF’s plan).
- Mentoring support that will enable WSAs and WSPs to manage these BPs in the long term is also required. WSAs seem to be both interested and open to appropriate and genuine mentorship – but they are not interested in another external consultant coming in and operating parallel to the local government structures. There has been some discontent with the way recent ‘mentoring’ inputs have been conducted at some local municipalities.
- More broadly, awareness of the importance of this KPI needs to be communicated better to WSAs and WSPs. DWAF in its primary role as regulator must promote awareness and compliance for WSPs to develop WSP BPs.

**Efficiency<sup>3</sup>****Main Findings:**

Despite the fact that DWAF itself developed this KPI, there is little evidence of direct support that has assisted or promoted the development of WSP BPs except through the recent piloting of the WSP Support programme. As indicated by the previous tables, 9.1% of MSBIII spending has been assigned under developing WSP capacity according to the project financial database in the last reporting period (April 07 – Sept 08), which is a total of R57,891,553 on 49 projects. This is both a significant percentage and a significant sum for little in the way of tangible results at WSP level. However, when you look more closely at the projects funded under this budget, there are virtually none that focus on WSPs (instead the bulk of projects are on WSA capacity building and “supporting provincial directors in capacity building”. It is thus very difficult to assess the efficiency of MSBIII with regards this KPI.

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<sup>3</sup> A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. Issues to look at might include, for example, what are the costs of the outputs; is the cost ratio of inputs to outputs acceptable; what are the administrative costs per output; what factors account for the efficiency/inefficiency of MSB III.

While it does not appear that significant resources (funds, expertise, time) have been allocated to achieving this KPI, funding does not seem to be the key constraint to WSPs developing their BPs. For example, Alfred Nzo DM stated explicitly that they have a budget to do a WSP BP but no capacity; others emphasised a lack of capacity in terms of skills and time).

**Key Recommendations:**

- A key finding from the MSB II final evaluation was that in order for targets to be effective, they needed to be realistic. O&M is a challenging area. MSB III must take up the challenge and focus clearer and specific attention on O&M as part of its interventions.
- The focus of these inputs must now be at WSP level, and the appropriate vehicle for this is the broader roll-out of the WSP Support programme.
- WSPs must be assisted to ensure the development of WSP BPs through MSB III interventions that are based on expertise and time inputs (which of course has cost implications). Again, the new WSP Support programme seems the most appropriate vehicle for these interventions.

**KPI 7.2 Development and dissemination of consumer charter**

**Relevance<sup>4</sup>**

**Main Findings:**

The Strategic Framework for Water Services (2003) set out the responsibility of water services providers to provide retail services to consumers in terms of a consumer charter and consumer contracts (noting that a consumer charter can take the place of individual consumer contracts). DWAF's *Development of a Consumer Rights and Obligations Pack* (Dec 2005), includes detailed and user-friendly information related to consumer charters, including the definition of a consumer charter; the process of developing consumer charters; and examples. This document is easily accessible from DWAF's website. According to this information pack, a consumer charter is a document that sets out both the municipality's and the consumers' obligations when it comes to water services. The charter should at least fulfill the requirements of the Water Services Act; provide a system for dealing with consumer complaints; and set out the consumer's rights to redress. It is also stipulated that consumers should have a say in the drafting of the charter. A consumer charter should be a user-friendly document. For example, Cape Town's charter is shown as a one-page illustrated type poster available in 3 different languages.

According to DWAF's MSB III Assessment Report (Aug 2008), it was not possible to measure *KPI 7.2 Development and Dissemination of a Consumer Charter* because this indicator is not tracked by the sector. (The fact that not all WSPs are even known must also be a factor). Again, DWAF's own recommendation on this is that

<sup>4</sup> The extent to which the objectives of MSB III are consistent with beneficiaries' requirements, country needs, institutional priorities. It also entails an assessment of project coherence in achieving its objectives. i.e. how relevant is what MSB III doing in this area to SA's needs? And how relevant are the activities being performed in this area to what was intended under MSB III?

the targets for this KPI be changed to tracking the development of the reporting systems that would measure this (instead of actually measuring the % of WSPs with consumer charters in place).

Information gathered last year by DWAF and contained in “A Table of Contracts Between Municipalities and Water Boards and Related Information,” suggests that of the 15 water boards listed, none reported having consumer charters. The WSA survey conducted as part of this mid-term report (121 WSA Managers in 121/159 WSAs were interviewed) indicate that 46% have consumer charters; 39% do not have consumer charters; and 15% did not know. More in-depth sample telephonic interviews with WSAs on this question drew mixed responses. While none reported that consumer charters were in place, some stated that consumer charters were in the process of being drafted. However, it appears that there is some confusion about what a ‘consumer charter’ is. While most WSAs were clear that they had customer care regulations and by-laws in place, several asked for clarification on what a consumer charter was.

The MSB II evaluation (August 2007) identified communication between service providers and beneficiaries as problematic. It also identified missed opportunities for the sector to work with and/or encourage the participation of civil society organisations (CSOs) in water projects. These points are noted here as they help identify potential weakness with regards consumer charters. Firstly, public participation in the process of developing consumer charters needs to be ensured, and as part of this the participation of CSOs should be considered. Secondly, the *dissemination* of the content of consumer charters to beneficiaries (once they are in place) may be even more challenging than their development. Again, incorporating CSOs in this process offers much potential added value.

The development and dissemination of consumer charters is considered relevant to beneficiaries, country needs, and institutional priorities. DWAF’s *Development of a Consumer Rights and Obligations Pack (Dec 2005)* provides an accessible, comprehensive and user-friendly guide for developing consumer charters.

**Key Recommendations:**

- Good work has been done on developing the foundations for putting consumer charters in place but a strategy for getting this message and information to WSP level is required. Again, the WSP Support programme is the most appropriate vehicle for doing this.

**Effectiveness<sup>5</sup>**

**Main Findings:**

As has been described, DWAF is not able to measure the delivery of this KPI. However, limited progress in terms of the development of consumer charters (or at least the development of consumer care strategies / regulations / by-laws) appears to be underway in a number of areas.

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<sup>5</sup> The extent to which MSB III’s objectives were achieved, or are expected to be achieved, taking into account their relative importance. Basically is MSB III delivering?

Despite the solid foundation at national level on consumer charters, a key challenge is that there is not a great deal of awareness about consumer charters within the broader sector. Furthermore, the development of consumer charters does not seem to be seen by the sector as a pressing enough issue in relation to other tasks and responsibilities within the limitations of capacity.

The gaps are thus the following:

- The relevant information about consumer charters is not adequately reaching WSA/WSP level;
- WSPs often lack the capacity to implement the development of consumer charters, especially in terms of time and resources;
- DWAF and WSAs are not pushing the agenda of consumer charters despite that fact that they are incorporated into the guiding framework for the sector, the SFWS (2003).

While the development of consumer charters appears to be a relatively low profile process, there are signs of progress.

*Key Recommendations:*

- Broader awareness within the sector about what consumer charters actually are needs to be developed. This will consist primarily on differentiating consumer charters from consumer regulations and by-laws;
- DWAF in its primary role as regulator must promote compliance for WSPs to develop consumer charters. DWAF should ensure that WSAs and WSPs are held accountable for developing consumer charters and that there is an understanding of incorporating public participation in this process;
- The development and the dissemination of the consumer charters should be identified as an opportunity to encourage CSO involvement;
- Awareness about this MSBIII KPI needs to be communicated better to WSAs and WSPs. The WSP Support programme should be used to build awareness and provide support to WSPs in developing consumer charters;
- Reporting on this KPI needs to be incorporated into WSA reporting requirements as soon as possible in order to track existing progress. This is seen as a realistic and achievable task i.e. DWAFs recommendation to *not* measure the development and dissemination of consumer charters at this time is viewed as inadequate.

## **Efficiency<sup>6</sup>**

*Main Findings:*

The only work that seems to have directly addressed consumer charters under MSBIII to date is the pilot project conducted under the WSP Support programme.

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<sup>6</sup> A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. Issues to look at might include, for example, what are the costs of the outputs; is the cost ratio of inputs to outputs acceptable; what are the administrative costs per output; what factors account for the efficiency/inefficiency of MSB III.

**Key Recommendations:**

- A fundamental gap related to this KPI is the lack of systematized reporting on consumer charters and thus a lack of data on an indicator that seems to be, at least partially, taking place. This should not require excessive resources to remedy.
- Again, promoting awareness and clarity regarding consumer charters is also required. As per promoting the development of WSP BPs, the most appropriate way to do this will be through the WSP Support programme. The plan for doing this is already in place in the form of the WSP Support Implementation Plan. In order to make an impact, this programme needs to be rolled-out on a much broader scale as a matter of urgency. The incorporation of consumer charters into this (planned) comprehensive programme is deemed an efficient approach.

**KPI 7.3 Implementation of tariff policy and consumer friendly billing****Relevance<sup>7</sup>****Main Findings:**

According to DWAF's MSBIII Assessment Report (Aug 2008), the targeted 80% of WSAs implementing tariff policies and providing consumer friendly billing under this MSBIII KPI was exceeded – because 82.2% of WSAs provided FBW.

The Water Services Strategic Framework (2003) set out the goal of promoting access to an appropriate, acceptable, safe and affordable basic water supply and sanitation service through the implementation of a “free basic water policy in all water services authorities.” The free basic water concept was initiated in 2007 with the objective of accelerating the implementation of Free Basic Water in 36 targeted municipalities and to share the benefits, good practice and lessons learnt from the programme with all municipalities. The FBW Strategy and Infrastructure Plan (SIP) was an inter-governmental programme and was part of the IGRFA agreement between sector departments and municipalities.

Achievements in the provision of free basic water can be summarized as follows:

- From a national perspective, 85.62% of households in South Africa receive FBW. 85.87% of the targeted poor households receive free basic water (see table 1 below);
- Information received from the interviews indicate that this quarter recorded an increase of 0.15% in the total number of households receiving FBW (85.62% of total households), with some changes recorded in number of people served

<sup>7</sup> The extent to which the objectives of MSB III are consistent with beneficiaries' requirements, country needs, institutional priorities. It also entails an assessment of project coherence in achieving its objectives. i.e. how relevant is what MSB III doing in this area to SA's needs? And how relevant are the activities being performed in this area to what was intended under MSB III?

in the EC, KZN, NC and NW, which sum up to an increase of 19 482 households. (See table 2 below);

- A total increase of 10.92% in the total number of poor households receiving FBW was recorded this quarter (85.87% total poor households served);
- The latest report on free basic water indicates that only four (4) WSAs, out of a national total of 169, are still not serving free basic water to any of its population.

**Table 1: National overview of FBW**

National FBW Overview Household Perspective		
Households	Total	Poor
Total	13,028,214	5,790,922
Served	11,155,207	4,972,599
Percentage served	85.62%	85.87%

Source: DWA FBS website, 31 March 2009

**Table 2: Total households served with FBW**

Total Household served by Free Basic Water										
Prov.	Total Population served									
	Jun 2008	%	Sept 2008	%	December 2008	%	March 2009	%	Number Served	% Served
EC	1,124,968	71.67%	1,179,670	73.67%	1,179,670	73.67%	1,179,973	73.69%	303	0.02%
FS	738,220	92.75%	738,181	92.75%	738,181	92.75%	738,181	92.75%	0	0%
GP	2,977,318	88.54%	2,988,083	88.17%	2,988,083	88.17%	2,988,084	88.17%	0	0%
KZN	1,972,514	82.39%	2,017,793	82.20%	2,017,793	82.20%	2,020,682	82.32%	2,889	0.12%
LP	1,018,703	80.83%	1,018,076	80.82%	1,018,076	80.82%	1,018,076	80.82%	0	0%
MP	821,552	90.88%	821,878	90.88%	821,878	90.88%	821,875	90.88%	-3	0%
NC	244,452	92.26%	244,747	92.23%	244,747	92.23%	251,104	94.63%	6,357	2.4%
NW	768,578	82.11%	759,547	82.03%	761,567	82.25%	771,503	83.33%	9,936	1.08%
WC	1,366,017	95.36%	1,365,730	95.36%	1,365,730	95.36%	1,365,730	95.36%	0	0%
Total	11,032,322	85.39%	11,133,705	85.46%	11,135,725	85.47%	11,155,207	85.62%	19,482	0.15%

Source: DWA FBS website, 31 March 2009

These statistics indicate that substantial success has been achieved nationally in terms of providing free basic water services to households in poor communities. However, a few questions must be raised in relation to this information:

- What data capture and reporting systems are being used as a basis for these results?
- Do these results take into consideration those people who are rejoining the backlog queue (i.e. those people officially served, but for whom water services have failed in the operation and maintenance phase)?

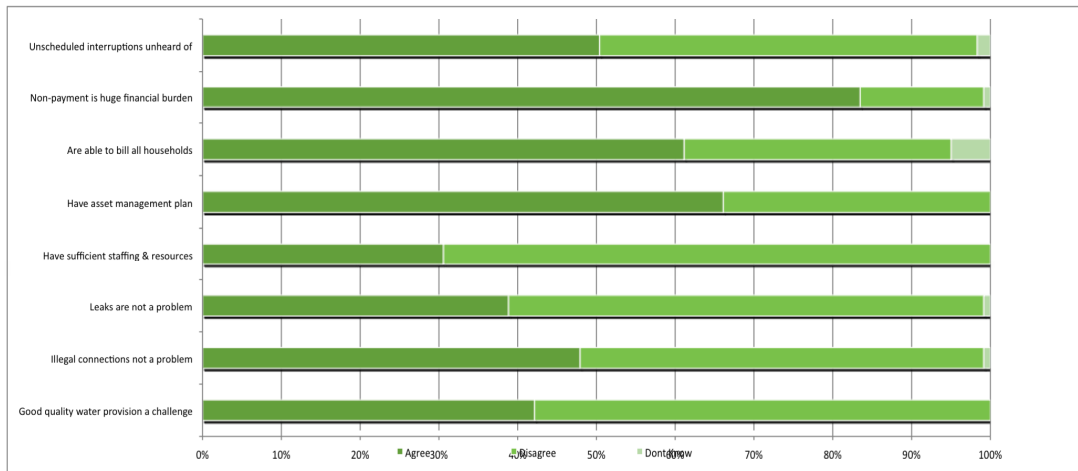
Returning more specifically to *KPI 7.3 Implementing tariff policy and consumer-friendly billing*, DWA's successful reporting on this KPI is somewhat misleading in

terms of the overall situation of tariffs and billing for water services. The WSA survey conducted as part of this mid-term review (121 WSA Managers in 121/159 WSAs were interviewed) found that 61% of respondents indicated their WSPs are able to bill all households, but 83.5% agreed that “non-payment is a huge financial burden.” The more in-depth sample telephonic interviews revealed that while tariff policies appear to be largely in place, billing systems (and cost recovery!) seem far more problematic.

Examples include the following:

- Amatola DM (Eastern Cape) has tariff policies in place but reported difficulties in billing because not all their customers are serviced by a post office (they have 102,000 customers/connections; 22,000 meters; and 60,000 indigent consumers who are sent bills but are rebated).
- Alfred Nzo DM (Eastern Cape) stated they had no billing system at all but that in Matatiele the billing clerk had taken the initiative to develop her own s-sheet based invoices (based on the meter readings which have been continued).
- Chris Hani DM (Eastern Cape) noted that the LMs appointed as WSPs do their own billing and cost recovery but do not report adequately to the DM. CHDM also stated that most of the former homeland towns are not generally metering or billing customers.
- Mopani DM (Limpopo) stated that they have tariff policies in place, but no collection takes place by the DM in its role as WSP for some areas. Some of the LMs collect tariffs, but do this more so in the township areas than in the rural areas. Some of these LMs do hand-delivered billing because of the lack of household postal addresses. Challenges include not always finding someone at home and dogs on premises.
- Capricorn DM (Limpopo) stated that their tariff policy is in place. Their challenge in this regard was to synergize a tariff policy between the 4 LMs that were working independently and which are very different. While some billing takes place in the townships, it is not very effective. In the rural areas, a flat rate is charged (with energy costs subsidized through free basic water). Where cost recovery is being implemented they have a high rate of payment (80 – 85%).
- Uthukela DM (KZN) reported that they had both tariff policies and billing systems in place. However 60% of bills are unpaid.
- The PSU interviewee from the Eastern Cape noted that cost recovery was an issue – the bigger municipalities tended to have better cost recovery and the smaller LM's poorer e.g. big BCM - 80%; medium Luhanji - 60%; small LMs – 30%. It was also noted that debt was growing every month in all places e.g. Lukhanji debt is growing by R1m a month! He also noted user-friendly pay points are not universally operational.

The following bar chart gives an overview picture of the way managers at WSAs view billing and cost recovery as well as related O&M issues.



(Source: WSA Survey conducted as part of mid-term review: (121 WSA Managers in 121/159 WSAs interviewed)

While the success of FBW is a significant part of the picture, putting in place customer-friendly billing systems and effective cost recovery are difficult but critical requirements for WSPs, and certainly relevant to the broader objective of achieving efficient and effective water services. The recent WSP Support Implementation Plan (Feb 2008) has identified various key competency areas that include those relevant to implementing tariff policies and consumer-friendly billing: customer relationship management; revenue management; and business planning.

#### Key Recommendations:

- As the FBW process was an inter-governmental initiative, the roles of different government departments should be clearly defined to facilitate a coordinated reporting process/system;
- In order to ensure the accuracy of the information captured on FBW, the reporting systems should be based on regularly updated information that confirms whether or not free basic water is currently being supplied to consumers;
- The WSP Support programme appears to be the most appropriate vehicle for mobilizing support to WSPs in implementing tariff policies (particularly those for services above FBW) and customer-friendly billing systems.
- Cost recovery is an area that is increasingly coming to the foreground in the sector. As it has a major impact on future sustainability, the sector will need to develop strategies to address the cost recovery issue.

## **Effectiveness<sup>8</sup>**

### *Main Findings:*

The FBW roll-out to date has been largely successful. Developing tariff policies and consumer-friendly billing systems for services beyond FBW has been more difficult. Achieving cost recovery from these systems is proving to be very challenging. On the positive side, the recent development of the WSP Support Intervention Plan shows potential for improving WSP performance in these more challenging areas.

Consumer relations and consumer awareness are critical elements in achieving successful billing systems. For example, Mopani DM gave the example of one of their LMs that implemented an awareness campaign around payment for water services. The amount this LM has collected in a month has ranged between R200,000 and R1.5 million. The higher income months correlate to the active period of the awareness campaign. Communication is thus an important component of a WSP's activities.

### *Key Recommendations:*

- Again, successful roll-out of the WSP Support programme is key to ensuring improvement in this area of WSP functioning as well;
- Communication should be incorporated into the customer relationship management KCA identified in the WSP Support Implementation Plan;
- The development of a consumer culture of payment for services will be achieved more effectively if civil society organizations are involved.

## **Efficiency<sup>9</sup>**

### *Main Findings:*

While the Free Basic Water policy has been rolled out successfully (in so far as it links to consumers that are actually being served), a re-focusing is now required on developing a culture of payment for water services above and beyond the basic level of service. Without this there is little meaning in implementing tariff policies and consumer-friendly billing. There is little evidence of inputs having been made towards this end.

One example that has been noted in this regard is the double-spread DWAF advertorial placed in the South African Airways in-flight magazine, *Indwe* (April 2009). In this, DWAF tries to raise awareness of the complexities and costs of water and sanitation services; the value of these services to individuals and business; and the

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<sup>8</sup> The extent to which MSB III's objectives were achieved, or are expected to be achieved, taking into account their relative importance. Basically is MSB III delivering?

<sup>9</sup> A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. Issues to look at might include, for example, what are the costs of the outputs; is the cost ratio of inputs to outputs acceptable; what are the administrative costs per output; what factors account for the efficiency/inefficiency of MSB III.

responsibilities of users (both individual and business). (Note: there is no indication that this is a MSB-funded initiative).

*Key Recommendations:*

- On a broader level (i.e. not just through the support provided to individual WSPs through the WSP Support Programme), DWAF needs to consider how to start building a culture of payment for water services on a national level.

### ***KPI 7.4 Development of asset management systems***

#### ***Relevance***<sup>10</sup>

*Main Findings:*

An asset management plan is critical for effective and efficient operations and maintenance. Briefly, asset management is maintaining a desired level of service for what you want your assets to provide at the lowest life cycle cost. Lowest life cycle cost refers to the best appropriate cost for rehabilitating, repairing or replacing an asset. Asset management is implemented through an asset management program and typically includes a written asset management plan (*Asset Management: A Best Practices Guide*, EPA, online).

According to DWAF's MSBIII Assessment Report (Aug 2008), DWAF is in the process of developing the WSA/WSP asset management strategy and it was to be implemented in the 2008/09 financial year. The existing DWAF asset management system tracks the scheme transfers programme from DWAF to WSAs where 1,701 schemes were transferred with an asset value of R5,956 billion.

DWAF's own recommendation on this MSBIII *KPI 7.4 Development of asset management systems* is that since the asset management strategy is in the developmental phase, the targets for this KPI be changed to tracking the development of this reporting system.

The WSA survey conducted as part of this mid-term report (121 WSA Managers in 121/159 WSAs were interviewed) indicates that 66% have asset management plans in place and 34% do not (see bar chart in previous section). More in-depth sample telephonic interviews with WSAs suggest that the percentage of WSPs that have genuine asset management plans in place is less than this – all of the interviewees reported that they did **not** have a comprehensive asset management plan. While there was general awareness about asset management plans, there were also indications in some cases that there was a lack of thorough understanding of what constitutes an asset management plan. Some WSAs are simply trying to make lists of assets – but even this has only been partially achieved by many WSAs, some of

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<sup>10</sup> The extent to which the objectives of MSB III are consistent with beneficiaries' requirements, country needs, institutional priorities. It also entails an assessment of project coherence in achieving its objectives. i.e. how relevant is what MSB III doing in this area to SA's needs? And how relevant are the activities being performed in this area to what was intended under MSB III?

whom are still not completely clear on the infrastructure that exists within their jurisdiction. There also seemed to be some confusion as to where responsibility for the asset management plan lies – with engineering or with finance – and there were indications that there can be a lack of cooperation and/or communication between engineering and finance within local government structures on this issue.

Examples include the following:

- Amatola DM noted that Africon has been tasked to develop a plan to create an asset management plan. Some of this responsibility was noted as falling with the finance department. The ADM is unsure of the number of schemes for which they are responsible;
- Alfred Nzo DM reported that there was no asset management system in the engineering department and that the finance department drives the asset management function. GIS consultants are currently surveying the assets of the ANDM using high-tech methods. Basic asset information cannot be / is not extracted from O&M activities;
- Chris Hani DM reported that no asset management plan or strategy is in place but that that LM WSPs have implemented preventative maintenance programmes (however these are reportedly inadequate);
- The PSU interviewee (Eastern Cape) noted that very few, if any, DM WSPs had asset management plans and that most were still struggling to create lists of assets. The development of asset management plans had, however, been identified as a required intervention. He also noted that very little preventative maintenance was taking place;
- Capricorn reported that no asset management plan was in place but that they had developed an O&M plan (still to be fully implemented);
- Mopani DM reported that they had inherited an asset management system for assets that were historically DWAF's, but that the projects inherited from DWAF were not yet on the DM's list (and this list sits with the finance department). Once their transfer process is complete, they will engage with finance and then with the LMs on this. They are also planning to ring-fence this function. They are in a state of transition, with inadequate funds, and little O&M is taking place;
- Uthukela DM reported that they had just received money to develop an asset management system. They reported that adequate O&M activities are taking place. (Note: this DM has blue drop status);
- The Blue Crane report on the WSP Support pilot project noted that their current tariff structure does not allow for the required O&M functions to be conducted, which is resulting in asset stripping. It also noted lack of funds, tools and equipment, planning, and staff to perform adequate operation and maintenance, repairs, and upgrading existing infrastructure.

Within this context, there are some disturbing findings that have been reported on recently within the water and sanitation sector.

The “**Spot Check Assessments of Rural Water and Sanitation Services for the Water Sector 2007/08**” (Oct 2008) reported the following on MIG-funded projects:

- Bulk water projects: Partially non-compliant

- Completed projects: generally partially non-compliant due to lack of water quality monitoring; 1 in 10 rural bulk projects with electrical pumps not operational while some have unsafe electrical connectitons or no electricity supply, the lack of maintenance of inlets, the poor state of reservoirs and pipes, and a fifth of projects that do not have bulk water meters or have broken bulk water meters and are thus unable to measure water consumption levels or unaccounted-for water. Negative impact for sustainability.
- Incomplete projects: generally partially non-compliant due to problems with trenches, pumps, pipes and reservoirs. Concerning is that 29% already require restoration and rehabilitation as these projects may not be functional for most of the time, even before commissioning.
- Household water projects: Non-compliant to partially compliant
  - Completed projects: Projects assessed were generally non-compliant. A number of problem areas should be addressed to ensure higher compliance levels with technical design standards. These include water metering, leakages, the non-existence of tap mechanisms, poor piping, poor tap stands, and the many households that have not received any training in good water use or in the operation and maintenance of their taps. An encouraging finding is the lack of vandalism, though rather worrisome is the number of illegal connections that have been identified.
  - Incomplete projects: Projects assessed were generally partially noncompliant mainly due to problems with tanks, water meters and taps. Illegal connections are prevalent at 7% of projects even before the project has been completed and commissioned.

The **SAICE Report Card** (2006) also presented disturbing results. In this 'report card,' SAICE investigated and rated nine of the built infrastructure environment structures, including the water sector (water resources and water supply) and sanitation and wastewater. (Note that the next report card is soon to be published but not yet available). The overall grade given for built infrastructure as a whole, D+ ("D" is 'poor') specified "extensive maintenance and refurbishment backlogs" as the key shortcoming running throughout all of the infrastructure sectors. The reasons identified for these backlogs were attributed to "funding and skills shortages."

The specific ratings for the water and sanitation sectors consist of the following:

- Water for DWAF infrastructure (D+): Well maintained but ageing bulk infrastructure reaching end of useful life, and requires refurbishment or replacement. 43% of dams have safety problems and require urgent refurbishing. Serious concerns about funding.
- Water for major urban areas (C+): South Africa is one of few nations where in most urban areas water can be drunk directly from the tap. Major, and ongoing, strides in provision of water and sanitation since 1994. However, erratic compliance with water quality requirements in most municipalities. Water wastage (leakage) is much too high. Shortage of skilled personnel.

- Water for all other areas (D-): Comments as above.
- Sanitation (including wastewater) for major urban areas (C-): Serious problems with management of many wastewater (sewage) treatment works. Wastewater leakage and spillage much too high, and frequent problems with onsite sanitation. Inadequate O&M capacity, and shortage of skilled personnel. Major urban areas grade is pulled down by Cape Town and Sebokeng.
- Sanitation (including wastewater) for all other areas (E (very poor)): Comments as above.

In terms of the “serious skills shortage,” the SAICE Report Card also noted that one of their surveys found that 79 of 231 LMs had no civil engineers, technologists or technicians. It also found similar shortages in provincial and central government and most state-owned enterprises.

Related to this key challenge of the skills shortage, the book *Numbers and Needs: in local government* (2007) notes that in mid-2007, the number of civil engineering staff in local government was estimated to be between 1,300 and 1,400, indicating a net loss of 70 to 80 per annum since the late eighties. This means that there is now an average of fewer than 3 civil engineering staff per 100,000 (compared to 21+ in the previous dispensation). This is a very dramatic disparity when compared to centres in English-speaking and Scandinavian countries.

In DWAF’s Water Services Regulatory Management System (WSRMS) KPI 10 is on strategic asset management. While on a national level this is scored as compliant, in most of the poorer provinces there is either no data (Eastern Cape, KZN, Mpumalanga) or it is non-compliant (Northern Cape). (Limpopo scored as compliant on this KPI). Related to this is KPI 6 (out of 11) on wastewater quality. This KPI is one of three KPIs that is non-compliant at national level. In poorer provinces such as the Eastern Cape, KwaZulu Natal, Limpopo, Northern Cape and Mpumalanga – all are found to be non-compliant in this area.

DWAF’s recent *An Immediate Response to the Challenges Facing the Water Sector* (June 2008) responded to the ASGISA IMC’s concerns about a potential water crisis in the country. The key issues raised by the IMC related to:

- Water infrastructure and universal access, including providing water for electricity generation;
- Compliance and enforcement;
- Water quality (raw water and drinking water);
- Water conservation and demand management; and
- Skills and human resources

Relevant to the MSB KPI on the development of asset management plans was DWAF’s response to “water services infrastructure related issues.” Under this, DWAF committed to finalizing and implementing the National Infrastructure Asset Management Strategy that has been developed with DPLG, National Treasury and other stakeholders. Also contained under this response were other interventions critical to O&M, including those directly linked to enabling asset management to take place at project level. These include the following:

- DWAF to investigate, with National Treasury, the funding for bulk water services infrastructure and refurbishment of existing water services infrastructure to catch up on the backlog of O&M and refurbishment. The total additional requirement is estimated at around R3.7-billion per year. *(Note: The Regional Bulk Infrastructure Grant is now in place).*
- DWAF to investigate, with dplg and National Treasury, measures or incentives to ensure that O&M is planned and budgeted for in all new and existing services, and that WSPs are incentivized to commit a minimum percentage of value of infrastructure to annual O&M. *(Note: See the section in this review on Alternative Finance that suggests a means of implementing incentives in this regard).*
- DWAF to review, with DPLG and National Treasury, the efficacy of current funding arrangements for free basic services through the Equitable Share including exploring the feasibility of ring-fencing a portion of the Equitable Share to support sustainable water services. *(Note: This has been put in place from the 2009/10 financial year through changes to the Division of Revenue Act).*

Another response, to issues of raw water quality, addressed the widespread challenge raised previously in this section of non-compliant wastewater quality. As part of this, DWAF committed to ensuring Infrastructure and Asset Management plans would be developed for all waste water treatment works and other municipal water services infrastructure.

Lastly, the **WSP Implementation Plan** (Feb 2008) specifies asset management as one of the 12 key competency areas that a WSP should have. (Operations and maintenance is identified as another KCA).

In summary, the development of asset management plans is fundamental to developing sustainable water and sanitation services across South Africa. Planning and budgeting for the ongoing and future operation and maintenance, repair, and rehabilitation of infrastructure has been identified as a critical gap by many within the sector. While growing awareness and concern for O&M has been building for years within the sector (signaled for example in “Towards a Framework for WSP Support” (Aug 2005)), there are clear signs that these issues are now moving from policy and strategy towards implementation.

*Key Recommendations:*

- DWAF must follow through with delivery and implementation of their recent WSP Implementation Plan (i.e. broader roll-out) and their recent Immediate Response to the Challenges Facing the Water Sector, which are both very relevant.

## **Effectiveness<sup>11</sup>**

### **Main Findings:**

As set out in the previous section, there has been good progress in the development of asset management policies and strategies, but these have yet to yield adequate results in the form of asset management plans being in place at WSPs.

A lack of adequate allocation to WSP activities with regards O&M is a long-running theme. A critical breakthrough in this regard is the recent ring-fencing of the Equitable Share for water and sanitation as recommended in DWAF's "Immediate Response" document referred to in this section. This has been done in the current 2009/2010 Division of Revenue Act (DoRA). This means that the total ES allocation is listed by water and sanitation separately for each municipality. In general, this will equate to a larger budget than previous years being dedicated to the O&M of watsan services, especially in municipalities providing services to significant numbers of poor households.

### **Key Recommendations:**

- As a recurrent theme when it comes to O&M-related issues -- it is time to move from *strategy to implementation* (this is most appropriately a key theme of the WSP Support Implementation Plan). It must be noted that an asset management plan is the culmination of getting a great deal of foundation work in place. In this regard, WSPs largely seem to be moving in the direction of getting these foundations in place (e.g. developing asset lists).
- The ability to manage assets must be underpinned with the required budget to do so. The ring-fencing of the ES is a very important development and will be critical to developing an enabling environment in which there is the potential for WSPs to manage their assets.
- The most critical gap remaining, and which should be better and further addressed through MSB III, is thus the lack of capacity at WSPs with regards skilled human resources. Interventions through the WSP Support programme should address this. It is very important that MSB III build on the momentum achieved in this area and that it should begin to show results on the ground in terms of O&M, including asset management.

## **Efficiency<sup>12</sup>**

### **Main Findings:**

The expenditure on asset management plans throughout MSB III to date stands at 3% of total spent. This is a relatively small percentage of the budget, which suggests that assisting WSPs to develop asset management plans has not received enough focus under MSB III. Only the foundation for developing asset management plans has largely been put in place (not necessarily through MSB III-funded projects).

<sup>11</sup> The extent to which MSB III's objectives were achieved, or are expected to be achieved, taking into account their relative importance. Basically is MSB III delivering?

<sup>12</sup> A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted into results. Issues to look at might include, for example, what are the costs of the outputs; is the cost ratio of inputs to outputs acceptable; what are the administrative costs per output; what factors account for the efficiency/inefficiency of MSB III.

*Key Recommendations:*

- A greater percentage of MSBIII expenditure is required to move the results related to this KPI from strategy to implementation. MSBIII can make a critical contribution by getting asset management planning set up at WSP level.
- Again, the most appropriate vehicle for making these inputs will in most cases be through a broad roll-out of the WSP Support programme.