

# Financing Strategies in the Context of WSS and Public Financial Management Reform in Africa

Some emerging points for consideration

Thomas Fugelsnes and Kameel Virjee

OECD Task Team Meeting on Sustainable Financing of WSS

Paris, France, Oct 23, 2007

# Overview of Presentation

- ❖ Emerging approach to PFM work with clients
  - Where are financing strategies coming from?
- ❖ The role of water sector financing strategies
- ❖ Some illustrative results from Mozambique and Zambia
- ❖ Some emerging constraints and points for moving forward in the African water sector

# Emerging approach to public finance work with clients

From studies and tools to supporting strategy development and setting up systems for decision-making and implementation

Regional good practice, Uganda, Benin, Senegal

**Sector Information/Monitoring**

Kenya, Benin

**Budget Process/Organization Support**

Improved planning, implementation

Kenya, Mozambique, Uganda, Zambia

**Support to Financing Strategy/ Prog**

Improved budget planning, Contribution to SWAp

Kenya, West-AF

**Unit Cost and strategic fin. modeling**

Policy analysis / scenarios & Realistic strategies

Most focus countries, Guidelines

**Resource Flows Assessment/ PERs**

Improved asst of Requirements, value for money

Inst./ Financial mapping – flow of funds



# The role of Financing Strategies in the Water Sector

- ❖ Emphasis on realism and affordability: “**finance gap analysis**” – scenarios to determine how these gaps could be closed – cost effective solutions, mobilizing add. Finance/ cost recovery policies, adjusting level of the targets, extending the time period for achieving the targets
  
- ❖ Improve **financial planning and budgeting** in the sector
  - Financial plans to Minister of Water, Ministry of Finance, Joint Sector Review, underpin PRSP, MTEF/ budget
  - Sector development plans of local governments

# The role of Financing Strategies in the Water Sector

- ❖ Improve guidance to **decentralized** water sector actors
  - Estimate cost of running the sector appropriately to achieve impact
  - Appropriate intergovernmental grants (block and conditional) to meet equity, affordability in meeting targets
  
- ❖ Increase financial **accountability and** support **output monitoring** in the sector
  - By allowing the measurement of achievements against financial allocations
  - Enabling the measurement of outputs at each level and across different actors

## ❖ Objectives:

- Build a consolidated sector 'strategy' for the rural water sub-sector
- Understand the cost implications of reaching sector targets
- Steer implementation in context of emerging decentralization

## ❖ Key sector reform issues:

- Increasing decentralization to the district level
- Demand for the National Directorate for Water to increase its policy formulation and monitoring role
- The need to better coordinate fragmented donor projects, increase the certainty of funding to the sector and improve utilization of funds

## ❖ Financing Strategy Process:

- Duration: ~ 2-3 years
- Significant demand for a strategy but:
  - Uncertainty of what it would do...
  - Changing expectations of the product
  - Increasing need for a resource mobilization tool...
- Anchored in National Directorate of Water – Planning Department
  - Original ‘staff of one’
  - Staff changes

## ❖ Available Finance

➤ Assuming current and recent historic levels persist

<i>usd ,000</i>	<b>2006</b>	<b>% of total</b>		<b>2015</b>	<b>% of total</b>		<b>Total</b>	<b>% of total</b>
Before utilization								
Infrastructure subsidy	10,496	56.1%		24,122	56.2%		164,526	55.9%
Recurrent subsidy	4,943	26.4%		11,293	26.3%		77,189	26.2%
Subtotal donor and GOM subsidies	15,439	82.5%		35,415	82.5%		241,715	82.2%
Connection fees (1)	195	1.0%		368	0.9%		2,913	1.0%
Tariff revenues (2)	3,085	16.5%		7,153	16.7%		49,444	16.8%
Subtotal community contribution	3,280	17.5%		7,521	17.5%		52,357	17.8%
<b>Total</b>	<b>18,719</b>	<b>100.0%</b>		<b>42,936</b>	<b>100.0%</b>		<b>294,072</b>	<b>100.0%</b>

- ❖ MDG Roadmap used as basis for SWIFT analysis
  - Difference is explicit inclusion of operations and maintenance costs in SWIFT

<i>USD ,000</i>			
	<b>PESA-ASR</b>	<b>SWIFT</b>	<b>% diff</b>
Increased coverage		145,646	
Rehabilitation		68,065	
Capital costs subtotal (1)	198,060	213,711	7.9%
Operation and maintenance (2)	0	245,967	
Sector Management (3)	39,620	40,089	1.2%
Recurrent costs subtotal	39,620	286,055	
<b>Total Costs</b>	<b>237,680</b>	<b>499,766</b>	<b>110.3%</b>

(1) PESA-ASR construction costs include new and rehabilitation

(2) Operation and maintenance costs for rural water points are not estimated in PESA-ASR in total

(3) Sector Management in SWIFT includes institutional costs and project management costs of PESA-ASR