Financing Water and Sanitation
Some Realities and Constraints from SSA

Meera Mehta, Sr. Financial Specialist, WSP - Africa
Water Week February 2004
Outline

- Why do country and micro-studies of WSS sector finance?
- What type of studies are being done?
- Some key emerging findings and implications for moving forward?
Why country and local studies of finance?

- Global estimates suggest that
  - Domestic public finance is an important source
  - Major finance gaps only in sanitation
- To assess what these mean at the local level
Domestic Public is Dominant Source for WSS!

Financing flows into water in 2000

Public is dominant ~85%

Domestic is dominant ~ 85%

Estimates from “GWP Framework for Action”

Source: Ginneken M. 2003: Presentation at Pan African water Conference
Finance Gaps in Sanitation – Not Water!!

Estimates from “GWP Framework for Action”
And some evidence from our work in Africa...

- **Studies of WSS component in PRSPs in SSA**
  - Poor incorporation of WSS in PRSPs
  - Lack of understanding of finance is a key constraint

- **Micro-studies suggested...**
  - Anecdotal evidence of user and off-budget NGO financing
What are we doing at WSP-Africa?

❖ Three strands of work…
  ➢ WSS Resource Flows studies
  ➢ Learning partnership with WaterAid and Overseas Development Institute (ODI)
  ➢ Some micro-studies
Resource Flows Studies

❖ Country level...
  ➢ Exploratory studies in Kenya, South Africa, Ethiopia, Zambia, Yemen (planned) using institutional and financial mapping for countrywide assessments
  ➢ Uganda – application to sanitation financing
  ➢ Kenya – contribution to assist Government of Kenya for WSS financial and investment planning

❖ Regional level...
  ➢ Comparisons of sector governance and financing
  ➢ Comparative sector finance assessment…
ODI-WaterAid Learning Partnership

- Studies and government support in Malawi, Tanzania, Uganda and Zambia
  - Particularly work focusing on sector information and monitoring, allocation principles –
- Some micro-studies…
  - leading to action research exploring credit for community level water and sanitation
Selected Emerging Findings...

- Relative expenditure on water appears to be low, but...

- Non-public resources appear to be important, but...

- Issues in sector governance being addressed, but...
WSS public spending appears low... ...except in South Africa?

WSS expenditure as share of public expenditure

WSS expenditure as share of GDP
WSS Relative to Other Sectors, in Kenya

In GoK budget.. % of rec. & dev. Expenditure - 2001

- Total health sector expend. – 70.1 billion Ksh. versus WSS sector expend. – 7.6 billion Ksh.

Source: Mehta and Ondari 2003. WSS Resource Flows Assessment in Kenya
Low Level of Expenditure – but…

1. Do we really know what needs to be spent?
   - Considerable variations in perceptions, e.g. Zambia/Malawi – no RWSS additionality required, versus Uganda, Ethiopia, Kenya and Tanzania – all emphasize more finance. Uganda is hitting the ‘MTEF ceiling’ and needs more
   - Limited assessments related to technology and institutional options – Ethiopia and Tanzania analysis shows dramatic implications
   - More rigorous assessments required at country level - to guide planning and allocation of resources and to assess tradeoffs
Low Level of Expenditure – but…

2. Are we spending resources well?
   - Generally utilization levels are low... Especially for development expenditure…
   - Kenya: Lack of ‘local autonomy’ and centralized approval processes have affected adversely
   - Limited assessments of what are we achieving
   - Uganda leads the way with value for money studies and expenditure tracking.. But results suggest considerable room for improvement
3. Difficult to capture user financing properly...

- Need to identify and develop methods to capture these resources better
- And, also ways to leverage more user resources
- Action research to explore credit links with MFIs, cooperative sector

- And, some special efforts are needed for sanitation - as disaggregated information is difficult
Importance of Non-Public Sources

- **At least three sources seem to be important**
  - User finance through charges – seems to be mostly through public budgets or utilities… (share in total finance in Kenya at 39%)
  - Off-budget donors/NGO resources – seems to be high, probably around 10 to 20% (Kenya and Ethiopia, Malawi?)
  - User finance for self or paid to small providers, difficult to measure – anecdotal evidence suggests high expenditure
Non-public sources – but...

1. **Realizing the potential of user charges requires institutional reforms**
   - For GOK Ministry – local collections travel up to the central treasury – complete lack of local incentives...
   - For local authorities in Kenya – surplus on operational account fails to generate much needed development expenditure...
Non-public sources – but…

2. A lack of coordination framework for off-budget donor and NGO resources.

- Makes it difficult to assess equity implications across regions and to coordinate activities at district level
- Innovative mapping and water-point density analysis by WaterAid in Malawi illustrates the resultant inefficiencies and continuing inequity in new investments
Non-public sources – but…

3. Are we crowding out non-public resources?
Comparing expenditure as a % of GDP - health versus WSS

Sector Reforms Everywhere, but

- All countries being studied show some attempts at introducing institutional reforms
- But,
  - Pace is slow and transition is difficult
  - Capacities in new entities and with local governments is limited
- Need to
  - Use WSS to build LA capacities (South Africa/ Ethiopia?)
  - Plan and fund transition to increase political acceptability
To conclude…

- **Opportunities do exist ...to leverage**
- Public resources – national, local
- User charges – more and better used
- Better use of NGO and off-budget resources (SWAp?)
- User /community resources for self –financing
- Sanitation – for promotion??
Leveraging Resources...

Realizing this potential requires ...

- An emphasis on better use of existing resources
- Incentives for user charges through improved institutional framework
- Enhancing hh/community affordability through sustainable access to credit
- Advocacy and promotion – sanitation, local governments
- ....
Some Directions…WSP Africa

- Improving our understanding of sanitation finance
  - Ongoing work in Uganda – aligned with SWAp. Assess sanitation resource flows and contribute to design of budget mechanisms
  - Sanitation Financing – paper for CSD12
- Regional comparative analysis on sector finance / country resource flows studies / tools for investment and financial planning
- Explore credit links through action research
Thank You