FINANCING COMMUNITY WATER SUPPLY AND SANITATION

Department of Water Affairs and Forestry

Water and Sanitation Program

An international partnership to help the poor gain sustained access to improved water supply and sanitation services

THE MVULA TRUST

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* the mobilization of local resources including credit from rural financial institutions;
- recognize community responsibilities in project implementation; and
- support the build up of O&M capacity.

Social Funds

Social Funds are mechanisms designed to mobilize and channel resources to support projects that respond directly to the priority needs of the poor. Poverty eradication is the main reason for initiating Social Funds and this has made them important lending instruments in the World Bank's efforts to reach the poor.

In the East and South Africa Region, there are operating Social Funds in Eritrea, Ethiopia, Malawi, Zambia and Zimbabwe. Tanzania and Rwanda are currently designing their own, while Zambia is in the process of appraising a second Social Fund. All the operating Social Funds have substantial WSS components.

Setting up of Social Funds has been found appropriate where:
- governments wish to change the way public services are delivered from a top-down to a demand driven approach,
- there is need for a quick reconstruction involving communities,
- existing government institutions are not able to reach out to poor communities and other vulnerable groups, and
- governments wish to pilot reforms towards community based approaches.

Their major strengths include:
- Involvement of the poor in the choice, design, implementation, and financing of projects that respond to their needs,
- great potential in mobilizing funds from the poor,
- efficiency, effectiveness and flexibility in disbursing funds in small quantities commensurate with community capacity for implementation,
- success in job creation and development of social and economic infrastructure,
- focus on the community as their main client,
- introduction and practice of innovative partnerships between the public and private sector and strengthening the capacity of local governments to deliver services in partnership with the communities, and
- strengthening links between the state and communities and introducing a culture of contractual commitment, transparency and accountability.

Social Funds have been efficient in mobilizing and channelling funds to the poor. However, they have been inadequate in supporting the planning and development of the capacity of communities and other local organizations to sustain projects after implementation. This lack of sustainability of service is also a feature of many water and sanitation programs.

* **Social Investment Funds** have emerged as a major source of financing for community WSS in several ESA countries. A framework for their **collaboration with sector agencies** and for incorporation of sector policies in their operational guidelines needs to be agreed focusing in particular on
  - methods and processes for communities mobilization
  - project access rules
  - project planning and appraisal, and
  - capacity building for O&M which would be critical to improve sustainability.

3. Mobilizing additional resources

* To make CWSS schemes capable of attracting private sector financing they need to be seen as "going concerns" i.e. **businesses selling desired solutions at an affordable price.** Success factors include
  - well established and transparent management systems
  - clear accountability of management and operators
  - secure tenure of assets and of access to resources
  - *strong links to community* resources and the creation of wealth.
  - access to technical assistance

* The primary objective should be to provide an **enabling environment** to foster initiatives by communities and independent providers; dealing with:
  - legal and regulatory constraints
  - community access to finance especially through micro-finance institutions
  - capacity building and training.

* Investment in **social capital and technical assistance** is essential to support community and household initiatives, in particular to
  - facilitate the formation of local partnerships,
  - expose communities to innovation and good practice and link them with networks,
  - provide information on, and access to, formal subsidies and support programs, and
  - ensure necessary linkages with trunk systems and negotiate support from local authorities and sector agencies.

* ESA countries should, on the basis of regional and global experience, develop **strategies and programs for community-based infrastructure development** in low-income informal urban settlements including:
  - partnerships between CBO, community finance institutions, NGO's, and municipal agencies,
  - incentives for savings by low-income groups,
  - institutional and financing strategies to leverage public funds with community resource and to facilitate coordination/linkages with trunks systems, and
  - widespread and systematic information and communication.

1. Value for money in the use of funds by sector agencies

* Communities should be fully responsible for operations and maintenance (O&M) of their WSS systems. **Subsidies for O&M outlays should be phased out** and be re-directed to capital expenditures especially for rehabilitation. In any case, existing subsidies should be kept limited to level of services affordable by government and consumers.

* While the financial principles incorporated in sector policies are generally sound, they are rarely carried into **implementation strategies. Guidelines** applicable to all actors are needed to define access criteria and rules for the channelling of funds (e.g. through CWSS program implementation manuals).

* The **budget framework** of central sector agencies needs to be **aligned with their new (and more focused) role** (e.g. policies and guidelines, program development and monitoring, oversight of local authorities as well as technical support and capacity building). Staff overloads resulting from the transfer of responsibilities and devolution of functions have to be dealt with. Likewise, resources/assets held by central sector agencies should follow the transfer of functions to local authorities and to communities.

* Sector agencies should pursue **improvements in management systems and budget controls**, and undertake regular audits to enhance their efficiency and accountability. Efforts to reduce waste and to drive out corruption should apply to the sector.

* **Financing of sanitation** should be based on the following principles:
    - use of public funds for the promotion and hygiene marketing, training, community mobili zation and demonstration;
    - prioritization of hygiene and sanitation in schools;
    - phase-out of subsidies for household latrines;
    - innovative marketing of sanitation solutions for households and communities; and
    - enforcement of Public Health by-laws.

* Community water and sanitation should be given priority in strategies to reduce poverty. Sector agencies in collaboration with the Finance Ministries should develop the **framework to plan and monitor expenditure for water and sanitation** under social programs supported by the outflow from debt reduction agreements.

2. Financing mechanisms and incentives

* As a rule, funds should be channelled to districts or to lower levels at which implementation takes place. Capital **grants** for community projects should follow the **most direct route** from the source **to the communities.**

* **DRA relies on financing mechanisms** that
    - ensure community participation at all stages of the project cycle,
    - require a contribution from the community,
    - lead to informed choices by communities,
    - provide incentives for,
        * the choice of affordable options,
        * the efficient implementation of community projects; and

Key Lessons for Environmental Sanitation

- Activities should be planned based on and guided by demand and supply, cost of the production and marketing of the product.
- Promote a *decentralized* initiative that encourages *private entrepreneurship* to mobilize funds and capital on its own. The government plays a regulatory and promotional role.
- Sanitation facilities should be marketed as products; sanitation promotion as the marketing of that product while hygiene education for behavioral change would create demand and the environment for the poor to "buy" the products.
- An effective marketing for sanitation should offer a few products with the following characteristics:
    * field tested brand names like the VIP
    * good quality even if it is low cost,
    * wide range and choice for selection
    * continuous feedback mechanism through contact for change or improvement of the products
    * clear message on how to use and maintain the product through well-tested tools such as the Participatory Hygiene and Sanitation Transformation (PHAST).

- Experience and case studies have overwhelmingly shown that direct subsidy negate sanitation and hygiene promotion. Indirect subsidy, however, is crucial and should be provided by government.
- Alternative sources of financing should be developed. This could include micro-credit, community and co-operative financing that are easy and quick to access.
- The private sector should handle waste management linked with other economic activities.
- Communication should precede any hardware selection, installation and use; the best communicators are not the government, but NGOs and CBOs.
- The first nucleus of a sanitation promotion should start in schools.

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Meeting Infrastructure needs of the Informal Sector through Microfinance in Urban India

The Mahila Housing SEWA Trust was formed in 1994 in response to a growing need from poor self-employed women and the inadequacy of conventional approaches to meet the rapidly growing demand for services from slum communities. The Self Employed Women's Association (SEWA), SEWA Bank and Friends of Women's World Banking and the Foundation for Public Interest promoted the Trust.

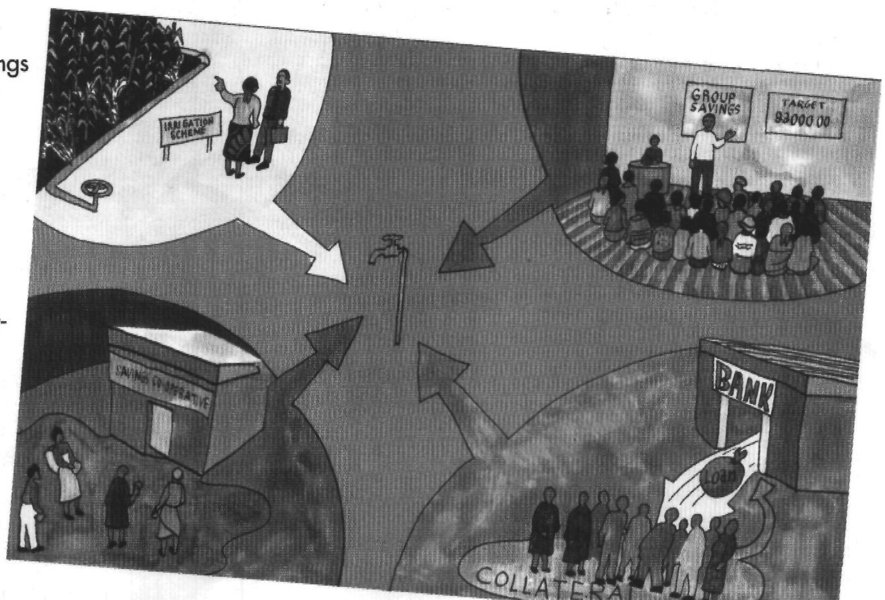
The major objectives of the Trust are to:
- improve the housing and infrastructure conditions of poor, self-employed women,
- create improved access to shelter-related services including credit, legal and technical advice, and
- influence policy in order to improve living conditions of self-employed women.

One of the successful experiences of the Trust has been its work with poor communities in Ahmedabad, a large city in India, in a partnership to access improved services. The partnership involves community members, the Ahmedabad Municipal Corporation, SEWA Bank and the Mahila Housing SEWA Trust. This experience demonstrates that:
- Microfinance is an effective, demand responsive facilitation mechanism which can increase infrastructure coverage within the informal workforce, thereby improving both living conditions and productivity, and
- Increasingly, poor urban communities have shown a high priority for better services and a willingness to pay for them.

Key lessons include:
- Microfinance is an enabling tool for provision of improved water and sanitation services;
- Access to technical advisory support is vital for the success of infrastructure credit provision;
- The majority of the urban poor lack legal land tenure and ownership documents to enable them provide the traditional collateral; microfinance institutions have to use other mechanisms to ensure loan repayments;
- Community and municipal partnerships is the key to sustainability;
- Regular savings and effective field workers are vital for financial sustainability, and
- Microcredit initiatives need to have a variety of delivery and implementation mechanisms.

A 15-minute video entitled ***"Credit Connections: Meeting the Infrastructure Needs of the Informal Sector Through Microfinance in Urban India"*** examines the mechanisms and positive effects of improved infrastructure facilitated by microfinance.

Way Forward



The workshop resolved that the above findings and recommendations provide **useful guidance to strengthen financial policies and funding strategies for community WSS.**

The workshop mandated the organizing agencies to convey its findings and recommendations to the Water and Sanitation Africa Initiative (WASAI) Secretariat, to Southern Africa Technical Advisory Committee (SATAC) and to the Southern Africa Development Community (SADC) Sector Unit for **dissemination to all sector actors.**

The workshop mandated the organizing partners to consider its findings as well as the common issues arising from the country reports, in identifying **follow-up activities**. These should be linked with other regional initiatives.

The **next CLC workshop** should take stock of progress at the country level against the findings and recommendations of previous CLC workshops and would focus on institutional issues in particular those arising from decentralization. The next workshop should be planned for 2001; Addis Ababa and Lusaka will be considered as possible venues.

Reference:

Proceedings of the Regional Workshop on Financing Community Water Supply and Sanitation, White River, Mpumalanga, November 26 - December 3, 1999.

This note was prepared by Wambui Gichuri, edited by Brazille Musumba and reviewed by Minnie Venter-Hildebrand. The Mpumalanga Statement was drafted by a subcommittee and adapted by the workshop participants.

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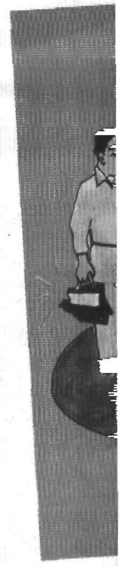
between government, local authorities, civil society (NGO's, CBO's, associations etc.), private sector and external development agencies. Sector policies and strategies should outline the roles of the various partners and their relationships taking into account their inherent assets and strength. Information, communication and exchanges among all actors engaged in CWSS need to be developed.

* Many ESA countries are seeking to improve services and facilitate financing of WSS by involving the private sector in service provision. In order to measure up to their potential, **public-private sector partnerships (PPP)** need to be developed under a framework that ensures accountability, protects the interests of the public, and supports improvement of services to the poor. The latter would have to recognize the role of the "other private sector" made up of small-scale independent providers (SSiPs).

* **Decentralization** will bring government closer to rural communities and is a positive factor for better services and for the use of local capacity. However, a phased transition is needed to address several issues: (i) local authorities generally lack capacity and resources; (ii) they tend to take over community management; (iii) the relationships between sector agencies and local authorities need to be clarified.

* **Capacity building and institutional changes** should be given priority and should set the pace for program implementation. Institutional autonomy and flexibility are necessary to coordinate rural WSS programs and to intermediate effectively with local authorities and communities.



Kabuku Water Project, KENYA

Kabuku was initially developed between 1969 and 1977 through community initiatives supported by the government, with the main objective of providing members with good quality drinking water. This rural scheme operated up to 1989 when it collapsed due to a combination of poor design and construction, lack of financial management systems, accountability and transparency. The scheme was rehabilitated between 1991-1992 in a partnership with the Swedish International Development Authority (Sida) and a local consultancy firm. Building on the lessons of the earlier failure, the rehabilitation program included rebuilding of some physical facilities. More importantly, it included specialized support in the development and installation of systems and guidelines for; (i) operating and maintaining the infrastructure, (ii) setting up and running the community organization; and (iii) transparency and accountability in the management of funds. The rehabilitated scheme was commissioned in 1992 and has since been very successfully managed by the community with no external financial support.

The bulk of the water produced is used for income generating activities like watering livestock especially poultry, kitchen gardening and other forms of agricultural production, by about 60% of the member households. Most of them own and work on small pieces of land measuring 100X50 feet. These small enterprises critically depend on the survival of the water supply. This dependence on regular and adequate water supply coupled with the shortage of land facing many of the members has led to a lot of innovativeness and created great interest in generating the funds needed to keep the scheme running and expanding. A meter-based rising block tariff covering O&M costs and a small amount for replacement regulates consumption.

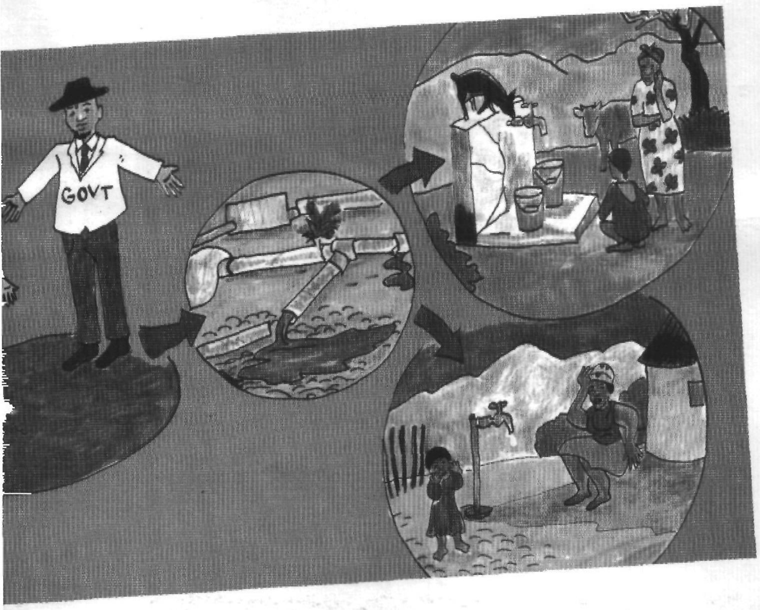
The project supports its operations and system expansion entirely from revenues. Revenue collection is rigorously enforced resulting in 95% or more of the revenue being paid within 14 days of billing. Kabuku Water Project boasts what is perhaps the best financial performance among rural schemes in the country.

Key lessons

- Focus on satisfying user demand
- enhancement of members' economic activities and creation of wealth
- Adoption of a business approach to service provision and placing the responsibility for continuous service provision on payment by users
- Community ownership and control through legal establishment of the community organization and enforcement of by-laws.
- Clearly defined roles and responsibilities that separate ownership, governance and operations.
- Well established management systems that communities have confidence in and that ensure transparency and accountability.
- Broad customer base achieved through friendly financing policies, e.g. access to credit to finance installation of connections.
- Private sector support and access to technical assistance

Kabuku's experience demonstrates that a combination of demand responsive strategies, consistent capacity building, innovative financing and transparent financial management can stimulate economic activities and lead to sustainable services.

A 19-minute video entitled "***Sustainability: Productive Use of Water***" documents the project and the activities of its members.



* The legal and institutional framework establishing the rights and duties of communities as owners and custodians of their WSS systems needs to be strengthened, covering in particular: (i) access, use and protection of water resources; (ii) ownership and management of facilities; and, (iii) status and by-laws for water users associations.

The Financing Challenge

In a nutshell:

A. Stretching and Targeting Government Finance

In all African countries, the public finance available for CWSS service development is insufficient, even to provide basic services for the poor at current standards. More efficient and effective mechanisms for financing community services are needed. How funds are channelled and for what, matters just as much as how much is spent.

B. Mobilizing Community Resources

Poor communities can, and do pay for services that they trust and value. Communities, householders (in particular women) and small independent operators save, borrow and invest for better services. Sector policies should provide an enabling environment to foster their initiatives.

Workshop Recommendations

The recommendations are organized along three lines of action.

- First, more effective use of funds spent by public agencies and donors.
- Second, better incentives for efficiency, sustainability and mobilization of local resources
- Third, facilitating the mobilization of additional non-public resources.

Community Mobilization of Funds: Village banks (Financial Services Co-operative) in South Africa

Village banking in South Africa is based on simplified banking systems at low cost, rooted inside rural villages and in areas beyond reach of commercial banks. Of the approximate 18 million rural dwellers in South Africa, 41% are without access to formal banking services.

The Village Bank is managed by community members and is accountable to their elected members. The community, through their tribal or local authority, provides the bank building and it forms part of their contribution to establish the bank.

Village banking focuses on two basic elements: (a) community ownership, and (b) formal linkages with commercial banks. It is not in competition with the formal sector and does not substitute any community structure. All services are channelled through a formal link bank of the community's choice.

Whilst the South African Banking Act restricts non-formal finance institutions from accepting savings, the Village Bank (FSC) has obtained recognition as a Self Regulatory Body and is exempt from these restrictions. Micro-credit organizations are all still labouring under the prohibitions.

This type of bank:

- Encourages the natural inclination of poor people to save for their own benefit;
- Establishes a community capital base to access funds individually or collectively;
- Is a conduit to manage state subsidies;
- Is a way to ensure that financial resources are delivered effectively into the community with due accountability at the point of delivery;
- Is infrastructurally as basic as roads, clinics, schools.

The village bank is directed towards provision of effective financial services in support of sustainable economic development through:

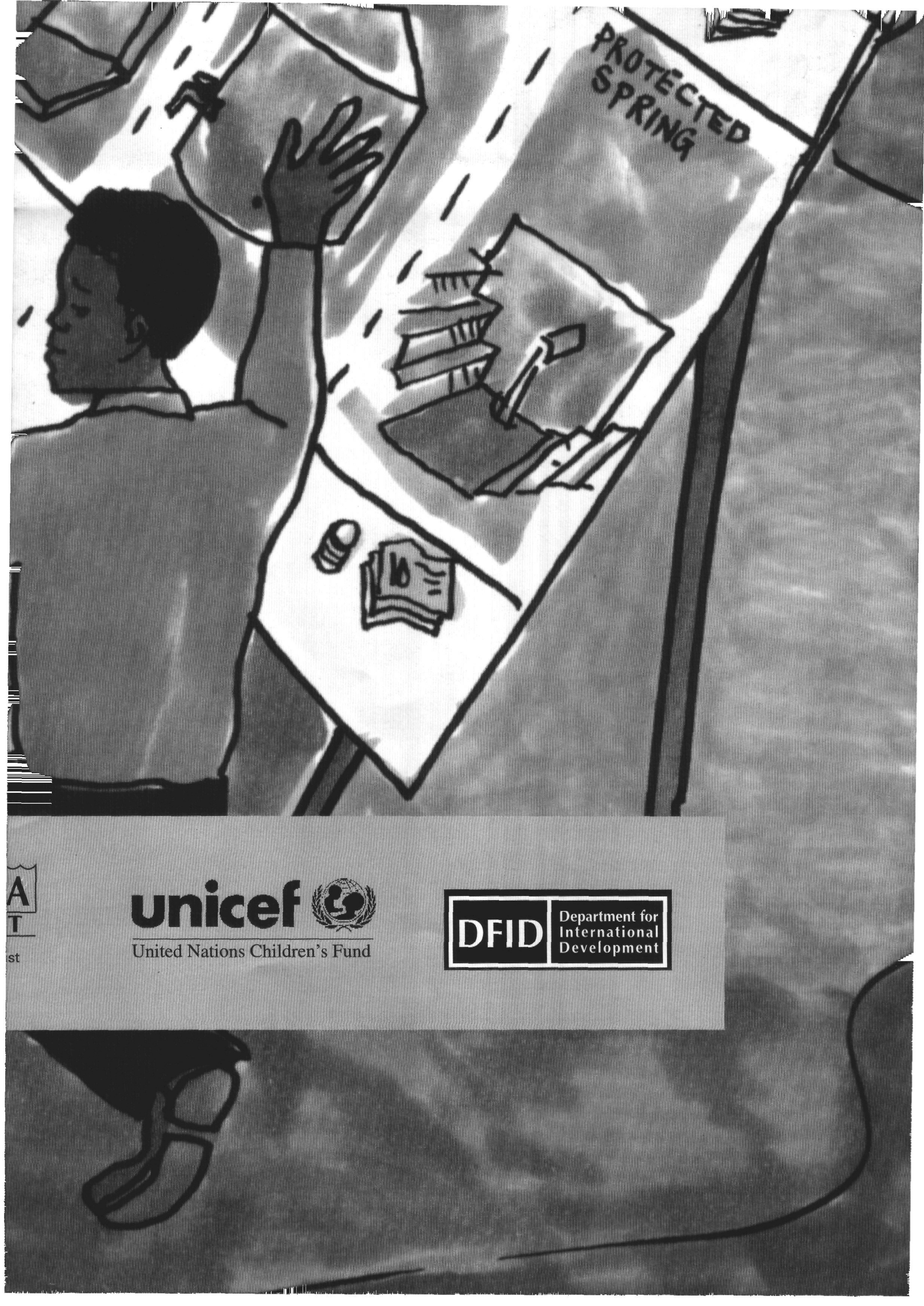
- The provision of a comprehensive range of financial services including savings, transfers, loans, and insurance services;
- The development of credit capacity for the community and its members;
- The effective utilization of local and foreign economic resources;
- The development of effective institutional capacity in the community to ensure sustainability for development projects.

Tangible benefits of community based financial services:

- Cuts down on high transaction costs and social transfers;
- Cuts down on long travelling distances;
- Reduces individual risk of transporting cash;
- Reduces the net outflow of capital out of rural villages.

Lessons Learnt:

- Rural people are conservative savers who look for a safe place for their money.
- Social viability and commitment will determine financial viability.
- To establish economic viability and stimulation of economic interaction between members takes 2-3 years.
- To establish institutional viability, the ability to manage and control all its functions effectively, and interaction with national authorities takes 3-5 years.
- Good value systems and community cohesion ensures sustainability.
- Self-reliance, self-governance and strong member participation results in strong peer pressure, which guarantees a high credit recovery rate.



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COMMUNITY AND SANITATION

BACKGROUND

The workshop on Demand Responsive Approaches (DRA) to Community Water Supply and Sanitation held in Malawi in 1997 fostered broad acceptance of the DRA as a guiding principle for community based WSS interventions. The workshop also identified key factors for implementing DRA *namely: (a) effective policy and program coordination* including adaptation of on-going programs; (b) adequate communication and awareness among communities, civil servants, local authorities, and politicians, and (c) financing mechanisms that provide access to user communities in a manner that provides incentives for efficiency and cost-effectiveness and mobilization of resources from a wide spectrum of actors. **Financing**, in relation to both **mobilization** of resources and the mechanisms for **channelling** funds to communities was singled out as a critical element for the implementation of DRA and a relevant focus for the next workshop.

Sector investments in the East and Southern Africa region are characterized by heavy dependence on public funding (donors and government), a multiplicity of fund flow arrangements and unclear financing policy. Other characteristics include a lack of consistent guidelines and rules for accessing funds by communities and other local actors, *fragmentation of interventions and a focus on project rather* than program approach, unclear partnership arrangements at all levels especially the community, and limited experience in mobilizing funds from the private sector.

The Regional Workshop on Financing Community Water Supply and Sanitation held South Africa in 1999 was the fourth in the Country Level Collaboration (CLC) series organized under the continuing regional theme of the DRA. The theme of the workshop was *Providing Guidelines for Mobilizing, Channelling, and Managing Funds for Development of Sustainable Community Based WSS Services.* The workshop was a **learning event** and a forum to share experiences. It showcased innovations and good practice in dealing with the question of: **(a) setting up and managing financing mechanisms to channel funds, and (b) mobilizing additional resources from non-public sources (private sector, NGOs, communities)** for the improvement of community based water supply and sanitation with a focus on the poor. The workshop achieved its learning objective and gave participants a better understanding of what it will take to help poor communities gain access to improved WSS services. Participants made recommendations on

- factors to take into account in the design and establishment of financing mechanisms and necessary conditions for their effectiveness,
- management of funds for CWSS,
- necessary conditions to attract private sector finance especially micro-finance and available financial instruments,
- the appropriate partnership arrangements between actors with clearly defined roles and mandates,
- how to maximize use of limited funds, and
- key messages necessary to achieve reforms.

The workshop also agreed on the need to (a) integrate development of WSS into the wider efforts of infrastructure development and improvement in household livelihoods, (b) *ensure provision of information and awareness on re-*sources, options, priorities especially at community level to allow for meaningful and informed decision-making, (c) improve the utilization of existing infrastructure, and (d) evolve strategies for increased private sector involvement especially small scale independent providers.

The **Mpumalanga Statement** summarizes the workshop *outputs and provides a cogent statement of critical issues* for implementing DRA and a guide for the regional learning and policy agenda.

THE "MPUMALANGA STATEMENT" ON FINANCING COMMUNITY WATER SUPPLY AND SANITATION

More than 130 professionals* engaged in community-based water and sanitation and in management of Social *Investment Funds participated in a regional workshop held* in White River, Mpumalanga, Republic of South Africa (RSA), November 26 - December 3, 1999. They took stock of the development of community-based water supply and sanitation services and reviewed **the financing challenge.**

The organizing committee included the Department of Water Affairs and Forestry (RSA), MVULA Trust (RSA) and the Water and Sanitation Program (WSP-ESA) as well as UNICEF and DfID (UK). This Statement summarizes key findings of the workshop to be conveyed to policy makers, donors and sector actors.

The Problem

In Africa today, over half of the population is without access to adequate water and more than two-thirds lack sanitary means of excreta disposal. Lack of access to safe water and hygienic sanitation remains one of the root causes of poverty as it is the poor, especially women and children, *who suffer most due to poor living conditions, diseases and* foregone opportunities.

Significant efforts over the last two decades have improved access but not enough to keep pace with population growth especially in fast expanding peri-urban and informal settlements on the fringes of cities. The trends are not being reversed. There are more people without adequate services today than a decade ago. In most countries public expenditure for water and sanitation and aid flows have leveled off or declined.

Sanitation and the promotion of hygiene are still neglected and need to be given much higher priority by all actors. Whilst **water is life, sanitation is a way of life!** Without hygiene and changes in behavior, the health impact of investment in water supply will be minimal.

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* From 17 countries : Botswana, Cote d' Ivoire, Eritrea, Ethiopia, Ghana, India, Lesotho, Kenya, Malawi. Mozambique, Namibia, Rwanda, South Africa, Tanzania, Uganda, Zambia, Zimbabwe; from regional NGO's and networks: Network for Water and Sanitation International (NETWAS), Institute of Water and Sanitation Development (IWSD), Africa Social Investment Funds Network (ASIFNET); and, from development agencies: African Development Bank (AfDB), Canadian International Development Agency (CIDA), Development Bank of South Africa (DBSA), *Department for International Development (DfID), European* Community (EU), Swiss Development Co-operation (SDC) and UNICEF.

Broad Policy Consensus and Sector Support

Regional consultations and exchanges among sector actors in Africa have contributed to a better understanding of what works and have spread new approaches. The emerging policy consensus underpinning ongoing efforts to re-direct and strengthen water and sanitation programs in the region is founded on the following guiding principles:

- access to WSS services as a right, recognizing water and sanitation as critical components of development;
- decentralization of service delivery and institutional reform;
- demand responsive approaches (DRA) and community based management;
- partnerships associating government, civil society and private sector; and
- cost recovery as the foundation for sustainable services.

In many countries the implementation of sector policies is *taking place in a context of broad-ranging political* changes involving restructuring of state institutions, political pluralism, stakeholder participation, decentralization and a larger role for the private sector. These changes facilitate institutional reform in the WSS sector and should bring increased attention to demands for better services.

The broadening of the Highly Indebted Poor Countries (HIPC) debt reduction initiative, from which several East and Southern African (ESA) countries stand to benefit, offers the opportunity for increased and more consistent funding of social expenditure in particular for water and sanitation.

The global focus on water issues through the Global Water Partnership (GWP), the Water Supply and Sanitation Collaborative Council (WSSCC), and the World Water Forum, will raise the visibility of the sector and should strengthen political commitment to its development.

Whether the policy consensus and the above developments translate into more effective programs and improved services will depend on the ability of sector planners and policy makers to tackle the **institutional and the financing challenges.**

Implementing DRA in Africa

* Community-based WSS cannot succeed in isolation. It needs to be developed within a **holistic perspective** considering the network of capacities available to the communities as well as the role of WSS in household livelihood systems. Investment in WSS services should keep in step with local economic development both contributing to improved livelihoods and benefiting from users' ability to sustain their systems.

* CWSS rests on effective and balanced **partnerships**

Poverty and Provision of Water Supply and Sanitation Services

Poverty affects all facets of society. At the institutional level, poverty is characterized by the inability of public institutions to raise funds from taxes and revenues. Other characteristics include poor working conditions for staff, low public spending on basic services, and fertile grounds for corruption. At the individual level, poverty is characterized by low levels of employment and access to basic services, and populations whose disposable incomes are below the threshold for financial sustainability of basic services.

To break the poverty cycle requires effective measures at all levels, from national governments to the individual person. It is highly unlikely that a single element such as water and sanitation will be able to transcend the constraints of the poverty cycle while the rest remain constrained. One does not find a country with a 97% literacy rate along with very low rates of access to basic services or poor health service, or a 95% coverage level for water supply alongside very low employment and large proportions of the populations living below the poverty line. *The solution, therefore, does not lie in the water sector, but in the eradication of poverty - creation of wealth.* This covers the full range of services: administrative and technical capacity, literacy, public health, employment, democracy, and human rights. The policy implications for this are to

- **Look the devil in the face:** understand the nature of poverty, its causes and impact, and recognize that all the factors that contribute to poverty eradication ultimately contribute to sustainable WSS services
- **Integrate and approach development holistically:** It is not possible to achieve success through single sector interventions
- **Even greater need to apply best practice**
- **Develop appropriate services through incremental development**
- **Lower the expectations**
- **Subsidies are inevitable.** They should, however, be applied with full understanding of their impact. The aim should be to decrease rather than increase peoples' entrapment.

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