

EWDAF/FIN/28:

Leveraging Market-based Resources for the WSS Sector

Year: 2 of 3

Task Manager:

Meera Mehta

Client:

Country WSS and finance institutions, donors, CSOs

Region:

Africa

Partners:

AFTU1/2, DFID, K-REP Bank, PPIAF, WBI, WUP, GPOBA, DWAF

Desired Project Outcome: Increased use of public (/donor) finance by donors and/or national governments to leverage market based resources for the WS sector in selected focus countries in Africa

Project Description: Given the constraints of limited public finance, and the reality of MTEF sector ceilings in many countries, it is essential to explore the possibility of leveraging market-based resources for the WSS investments. Given the sector's continuing emphasis on cost recovery there is an opportunity for this, especially where the financial sector shows at least a reasonable level of development. Water supply and sanitation sector investments in major upgrades, new investments and rehabilitation works are invariably 'lumpy' and access to market resources would enable service providers to make timely investments. These resources also have the benefit of introducing market rigor imposed by lending institutions. This will help increase the perennial problem of lack of functionality and introduce efficiency by improved incentives for water service providers.

This project builds on the ongoing work in Kenya to facilitate microfinance institutions to finance small water projects in rural and peri-urban areas. WSP-Af, with PPIAF funding, has developed tools for pre-feasibility assessments of small water projects in Kenya and facilitated independent appraisal by domestic financial institutions. In addition, options for business models are being assessed for service provision as well as business development / support services. This project will support the Kenya work, as well as explore similar facilitating role in at least one other focus country. A second activity will focus on a better understanding of the possibility and support measures necessary for mobilization of market based resources by urban water service providers by both demand (utility profiles and WS sector policy framework) and supply (banks and other specialized financial institutions, and financial sector assessments) side assessments. The purpose this scoping study would be to facilitate improved access to market based resources on a sustainable basis by smarter use of public (and donor) resources. In both cases, a focus on sector and service provider reforms will be maintained to ensure sustainability and access for the poor.

Assumptions:

1. Financial institutions continue to be interested to take commercial risk for lending to the sector
2. It is possible to mitigate or provide cover for country level policy and regulatory risks
3. It is possible to mobilize additional budgetary resources as necessary in the next two financial years

Start Date: Jul 05

End Date: Jun 08

Indicators of Outcome:

1. Market-based resources leveraged for at least 18 community projects in at least two WSP-AF focus countries– Jun 08
2. Potential for market-based resources enhanced by at least 2 utilities exploring market based finance to fund their investments – Jun 08

Project Milestones:

- a. Final legal agreement signed with GPOBA for the pilot program on micro-finance in Kenya – July 06
- b. Regional workshop of Practitioners' for utility Financing – October 06

Project Update: There is good progress on both the activities despite the delays in project approval. For small water projects, the GPOBA grant for subsidy and TA has already been approved for Kenya. For utilities, additional funding for the regional practitioners' workshop has been secured from the PPIAF and WBI. The workshop has been postponed to August 2006.

Project Activities and Outputs:

Activities	Output(s) and their deliverable dates
Market based financing for small water projects	i. Market based finance for small water projects – Scoping study in at least two focus countries – Jun 06; ii. Action support in at least one focus country to develop market based finance mechanisms for small water projects –Jun 07, and initiated in a second country – Jun 07 and ongoing till Jun 08; iii. Support to creation of business development services for the community-managed water supply projects in at least one focus country – Dec 07, iv) Analysis from the two countries is used as a basis for negotiations with domestic MFIs, bilaterals and WB-managed programs – completed by Jun 06; v) development of guidelines for accessing market-based financing for community-managed water projects – Jun 07; vi) participation and contribution to relevant global, regional and national workshops, ongoing.
Market based resource mobilization by water supply utilities	i. Preliminary action support in at least one focus country to develop market based finance mechanisms for urban water service providers– Jun 07 and ongoing till Jun 08 and a second country by Jun 08; ii. Inter-regional workshop to share experiences – October 06; iii) Analysis from the scoping study and workshop proceedings is used as a basis for negotiations with domestic FIs, selected multi-lateral FIs and WB-managed programs – Jun 07 and ongoing till Jun 08; iv) development of guidelines for accessing market-based financing for urban water utilities – Jun 07; v) participation and contribution to relevant global, regional and national workshops, ongoing.