**STRENGTHENING CAPACITY IN STRATEGIC FINANCIAL PLANNING FOR THE WATER SUPPLY AND SANITATION SECTOR IN LESOTHO**

# EXECUTIVE SUMMARY

**Purpose and objectives**

The Ministry of Natural Resources and its office of the Commissioner for Water in partnership with the Ministry of Finance and Development Planning and other stakeholders have launched an initiative to strengthen the strategic financial planning in the water sector. This initiative is supported by the Organization for Economic Cooperation and Development (OECD) and European Union Water Initiative/ Finance Working Group.

A strategic approach to financial planning will strengthen the SWAP in the sector by:

* Providing a transparent and long-term overview of the overall financial needs of the Lesotho water sector to meet targets which will bring Lesotho closer to MDGs
* Developing tools to enable the sector to better manage any financial gaps through policy dialogue on sector strategies
* Embedding the planning tools and methods into the sector financial planning routines closely linked to the MTEF process.

At the same time these efforts will contribute to global efforts to develop generic tools for strategic financial planning by testing tools such as FEASIBLE and will also test paradigms for country specific tools.

The Financing strategy methodology is outline in the diagram below. The existing facilities and the targets combined with overall macro-economic forecast leads to an expenditure forecast. The sources of potential finance and the rules governing public transfers and user charges and the overall macro-economic context/ forecast lead to a projection of available finance. The difference between the expenditure forecast and the available finance results in a financing gap (or surplus) which can be managed by changing the “variables” within the demand side and supply side. This iterative process will allow different scenarios to be developed and provide an evidence based policy decision support.

**Findings and implications**

To support a better understanding of sector dynamics and bridge gaps in data a number of surveys were done:

* WASA connection survey (to improve understanding of customer behaviour and priorities)
* Peri-urban survey (gain insight in the rapidly changing peri-urban areas)
* Private rural connections (gain insight into assumptions on how rural systems are used)
* Willingness and ability to pay in highland areas (better understanding the poorest users)

The key findings are summarized in the table below:

|  |  |
| --- | --- |
| **WASA – urban customers** | **Peri urban survey** |
| * 26% connections serve rented accommodation (av. 4.1 households) * 20% connections serve neighbours (av 2.8 households) * 6.5 persons served per connection * 52% of connections house installations and 48% yard taps * 8% have alternative water supply from boreholes and 35% collect rainwater * 64% use water storage * The average per capita consumption is 51 l/p/day. Yard taps 42 l/p/day and house connections 67 l/p/day. | * Sanitation - 57% use pit latrines ; 25% VIPs; 4% share; 14% open defecation * In some areas ( e.g. Penpena) significant number of households with income > 1000 do not have sanitation * Some areas only those earning less than 1000 are without sanitation (e.g. St Monica) * Affordability is an issue but not the only issue * hygiene promotion is more effective in some areas * Water – 56% public water supply; 19% springs; 18% share supplies; 7% use private supply * 28% of households cannot afford the water tariff according to threshold of 5% of income used for water |
| **Private rural connections** | **Willingness and ability to pay** |
| * Study reveals main perceptions for not making connections:   + For DRWS - lack of information   + For communities – cost   + Local government – standposts are adequate * In Masana, Matsieng, Tsikoane the users said cost was the dominant constraint. * In Haschelel and Moholehoa the users said private connections were prohibited or the system was not designed for the purpose * Vast majority of users see public subsidy as the main means of obtaining private connections in the future | * The 30% that are only willing to pay less than 30 M/month is important – correspond well to the affordability statistics that about 30% of the households cannot afford water using the 5% of HH income as the threshold for affordable cost of water * Compared to urban areas, the number of HHs only willing to pay < 30 M/ month is almost 75% - has implications for the extension of urban systems to the rural communities. Contradicted by the fact that 40% are willing to pay more than 2000 for a connection |

The implications of these findings are:

* Tariff design will need to take into account the number of connections (20%) that are shared between households making cross subsidization between rich and poor and between high and low water users more difficult.
* Affordability for sanitation is an issue but it is not the only factor affecting sanitation access, low coverage areas can learn how to better promote sanitation from high coverage areas.
* Nearly 1/3 of householders cannot afford the water tariff which will imply that financing will need to come from taxes as well as tariffs if systems are not to be under maintained.
* Attempts to increase tariffs will need to take into account and perhaps change the consumer attitude that the sector should be subsidized through taxes.
* There are significant differences in the perceptions behind the low connection rate in rural areas.
* Contingent valuation on willingness to pay and to connect give different answer suggesting that such surveys cannot be fully relied upon in water sector strategy and that market observation will also be needed.

**Planning scenarios and the outputs of the modelling**

The poverty reduction strategies, Vision 2020 and the targets implied in the MDGs define the sector aims. Within the overall scope set out by these documents, there are different development scenarios that can be explored to analyse the possible options for the development of the water services sub-sector. The policy documents sets the overall targets for the water services in terms of coverage – 75% by 2015 and 100% by 2020 for water and sanitation in both rural and urban areas for both water and sanitation.

Within the overall frame set by the Vision 2020 – *‘by 2020 all Basotho will have access to safe drinking water and basic sanitation’,* the development of water services in Lesotho can be analysed according to the following four scenarios:

1. Business as usual (growth between 2% and 4%)
2. High Growth with Urban and Industrial Focus (growth > 5%)
3. High Growth with Rural Development Focus (growth > 5%)
4. Low Growth (growth 0%)

All 4 scenarios present the funding needs for water and sanitation to reach the overall target set in the Government Vision 2020 of 100% coverage The 4 scenarios also all aim for full cost recovery for urban water and sewerage services. The financing strategy presented here therefore has a large degree of ‘user payment for services’ but as we will see, a ‘social safety net’ will be needed to ensure that services also reach the poorer parts of the population – in line with the water policy’s statement on ‘free basic water for the vulnerable households’



**Scenario 1 – Business as usual:** Growth at 2-4%; population growth 3.6%; industry limited to large towns; inadequate attention to environmental management

**Scenario 1 – Implications**

Tariffs unaffordable for 18% of the Maseru and 28% of the other urban area population by 2035

Public funding reduces as user payments are increased (by policy)

**Scenario 2 – Urban focus:** Growth > 5% ; population growth 1% significant urban migration; sustained industrial growth; improved operational management of water supplies; inadequate attention to environmental management



**Scenario 2 – Implications**

Tariffs unaffordable for 14% of the Maseru and 19% of the other urban area population by 2035

Tariff increase 6% above inflation is needed

Improved operational efficiency is important to maintain supply for high urban and industrial growth

Funding needs are 20% less than for scenario 1 (business as usual) due to more modern management

Public funding narrows close to zero in 2035 – sector becomes self sustaining

**Scenario 3– Rural focus:** Growth > 6%; population growth 1.5% moderate industrial growth; adequate attention to environmental management



**Scenario 3 – Implications**

Tariffs unaffordable for 14% of Maseru and 19% of other urban area population by 2035

Tariff increase 6% above inflation is needed

Rural O&M subsidy increases to 50%

Very similar profile of water sector funding to scenario 2 (urban focus)



**Scenario 4– low growth:** Growth 0%; population growth 0%; stagnant industrial growth; inadequate attention to environmental management

**Scenario 3 – Implications**

Tariffs unaffordable for 17% of the Maseru and 26% of the other Urban area population by 2035

Tariff increase 4% above inflation is needed until 2015 and thereafter dropping to 1%

Sector funding needs reduce sharply compared other scenarios and over time

Public funding is a large proportion of sector funding both in the near and far term

**Key issues arising**

* Urban water tariffs and ‘free basic water’: The increase that is needed in the WASA tariffs to provide full cost recovery for urban water services is substantial and this will have an impact on affordability for the poor.
* Urban water operating efficiencies: The improvements in operating efficiencies of the urban water services are crucial to sustain high growth scenarios and to achieve cost effective urban services in the longer term.
* Bulk water supplies: the implementation of the Metolong project is a major investment for the water sector that goes beyond even the 2035 demand.
* Rural Water implementation costs: per capita costs for implementation of rural water systems have increased over the last 10 years for various reasons. Good coordination with the planning in urban areas and the lowlands bulk water systems would be required to avoid investment in production capacity in rural water systems that would later be served by the larger pipe systems.
* Rural Water O&M: The new water policy and the decentralisation provide an opportunity to improve consistency in strategy. A consensus in the sector on the responsibilities of local governments versus DRWS for support to O&M combined with capacity building of the local councils and the village water committees could improve the functionality of the rural water systems and eventually reduce the investments in replacement of systems.
* Sewerage and Cleaner Technologies: the treatment of industrial effluent needs attention as only 10% of the water supplied to industries enters the sewerage systems. Investment in cleaner technologies might reduce the sewerage treatment investment and O&M costs. Low cost sanitation is necessary.
* On-site sanitation: The level of funding for on-site sanitation needs attention. The present subsidy of 90% in rural areas is high and a good sanitation strategy with a mix of social marketing, hygiene education and different low cost technology options could possibly reduce the government’s investment requirements. The income levels in rural areas however indicate that substantial subsidies will be needed to reach the sanitation targets.
* Private investments: Private investments in the water sector in Lesotho beyond the investments in self-supply could be considered e.g. irrigation and industrial sewerage treatment could be relevant for private public partnerships.
* Increased funding: The funding gap for achieving the ambitious target of full coverage by 2020 could be closed by lowering the target – or increase the government and donor grant funding to the sector. Loan funding could be considered for the part of the funding that is for the urban water and sewerage and the bulk water supplies where there are prospects of cost recovery

**Development options and interventions**

Development options that arise from the financial modelling include:

1. Urban water:

* Comprehensive programme on calibration and replacement of old water meters
* Specific programme on zoning and metering supply areas to identify and reduce UfW
* Improved customer registration
* Improved management of groundwater sources
* Increased connection rates in urban areas – high connection fees and low tariffs favour those already supplied.

1. Rural Water and Sanitation:

* Investment in long-term planning of regional water schemes
* Subsidising rainwater harvesting
* Improved planning and coordination with Local Authorities
* More emphasis on developing capacity in Local Authorities and community structures for management, operation and maintenance to reduce the non-functioning supplies
* Options for on-site sanitation technologies other than the VIP latrines

1. Lowlands Bulk Water Supplies:

* Models for supply to rural communities e.g. supply into existing reservoirs, private networks.
* Use of highland water resources for the lowlands when the water sources for the present schemes are inadequate.

1. Free Basic Water

* Clarification is needed on how the vulnerable households are identified
* In the WASA supply areas, vulnerable households could be provided with a pre-paid or post metered connection
* Difficult to administer where connections are shared.
* In community managed rural water systems the Local Authorities could provide contributions to O&M costs for the vulnerable households (welfare)

1. Water Services Planning:

* The planning between WASA, DRWS and the implementation of the lowlands bulk water systems needs to be improved to avoid the present situation with overlapping systems.
* The possibility of establishing the capacity for overall water services planning in the COW’s office, possibly in a strengthened PPSU or Lowlands Unit or a combination of the two could be considered.
* The SFPM would be one of the tools that could be further developed together with a GIS system to improve the planning capacities.

Of these 5 interventions the two highest priorities are:

* Improving connections in urban areas
* Developing a workable strategy for the free basic water policy

**Capacity Development**

The aim of the capacity development activities of the strategic financial planning project is to ensure that the planning tools and methodology will become an integrated part of the planning process in the water sector.

This is achieved by combining practical hands-on participation in the development of the planning tools with specific training sessions on relevant aspects as identified in the process. The Technical Working Group (TWG) has received training in the use of the FEASIBLE tool by COWI, the developers of the tool.

The methodologies and tools developed by this strategic financial planning project are only likely to be sustained if the use of the tools is embedded in the existing/ future planning procedures in the sector institutions. Embedding of the strategic financial planning in the institutional set up of Lesotho will require: explicit allocation of resources and responsibility, clear chains of accountability linked to institutional mandate and adjusted job descriptions where relevant and sustaining of relevant inter-agency communication channels.

The capacity building activities have been regarded as an integrated part of the design of the tools and the planning processes. This has implied that the data requirements for the SFPM are structured according to the existing planning tools such as the WASA Financial Model, the DRWS District Information System (DIS) and the modelling done as part of the Lowlands Bulk Water Supply detailed design.

**Integration**

The Institutional Responsibilities for water services in Lesotho are described in Chapter 4.1. In line with these responsibilities, the national level responsibilities and institutional anchorage for the planning tools can therefore be summarized as:

* MNR, Planning Unit: coordinate overall planning and budgeting for the water services between the sector institutions in particular the Policy Planning and Strategy Unit (PPSU) and the Ministry of Finance;
* COW’s Office PPSU: use of the strategic planning tools to provide input into the MTEF budgeting process in close cooperation with planners in DRWS and WASA and depending on data from the Monitoring Unit;
* COW’s Office Monitoring Unit: provide accurate data on the water services for the strategic planning tools based on the monitoring systems in DRWS and WASA;
* COW’s Office, LLWSU: contribute to the overall strategic planning by advising the PPSU on the data, plans, costs etc for the implementation of the LLWSP;
* Department of Water Affairs: monitoring of water resources and advice to the COWs office on the availability of water resources for provision of water services;
* DRWS: monitoring of rural water supplies and compilation of plans for water services in rural areas based on data and plans from the local authorities. Provide data to the COW’s Monitoring Unit on rural water and sanitation and information on rural water plans to the PPSU;
* WASA: monitoring of the urban water and sewerage services and preparation of expansion plans for urban services. Provide data to the COW’s Monitoring Unit on urban water services and plans for expansion of services to the PPSU
* Bureau of Statistics (BOS): provide population data and data on source of drinking water and sanitation facilities to the water sector institutions. Coordinate national use of Geographical Information Systems (GIS) and provide advice the sector institutions on the use of GIS. BOS is the only source of data on on-site sanitation facilities in both urban and rural areas.

In recognition of the sector responsibilities, the project has been carried out in cooperation with the stakeholders as follows:

* DRWS: involvement of the Planning Unit as well as the District Engineers in the update of the DIS and definition of the service areas to assess the population served by rural water systems according to the population data from the 2006 census. Planning of the SFPM with the DRWS Planning Unit to ensure the structure is compatible with the DIS. Involvement of DRWS staff at head office and district offices in the implementation of the sample surveys on the use of private connections and the Willingness and Ability to Pay (WAP) studies in the rural areas in Thaba Tseka and Qacha’s Nek districts
* WASA: cooperation on the design of questionnaires and implementation of the WASA connection survey with the WASA Marketing and Billing Departments. Cooperation with the personnel responsible for the WASA Financial Model and personnel responsible for strategic planning (TWG members) in the design of the SFPM to ensure compatibility with the WASA planning tools.
* COW’s Office: cooperation with the personnel responsible for overall planning of the bulk water supplies (Technical Coordinator for the project) and the personnel responsible for the water sector monitoring activities (TWG member) in the overall development of the planning tools
* DWA: cooperation with the personnel responsible for monitoring of water resources to ensure familiarity with the planning tools for water services and ensure familiarity with the tools to facilitate the further development of the tools to include water resources and IWRM
* MNR: cooperation with the personnel responsible for planning and budgeting in the Ministry (TWG member) in the design and development of the planning tools
* Ministry of Finance: represented on the Project Steering Committee and involved in the overall discussions and directions for the development of the planning tools
* BOS: involvement of personnel responsible for GIS and providing the detailed village list with population data. The BOS personnel have been providing assistance in the compilation of population data for the water service areas.

The current staffing problems in the PPSU has reduced the role of the PPSU in the project implementation, however the involvement of other parts of the COW’s office will ensure that the future personnel in the PPSU will be made familiar with the planning tools.

The specific capacity development activities are described in Chapter 4.2. These activities have ensured that the TWG members are familiar with the strategic financial planning methodology and the design of the planning tools.

The process of involving the TWG members as well as other staff in the sector institutions according to their responsibilities in the project activities have ensured that the project and the methodology are embedded in the sector institutions e.g. defining the need for data and design and carry out surveys to provide the data, use of the planning tools to forecast financing needs in the future etc.

The following action have been identified to enhance the planning tools and ensure the integration of the strategic financial planning methodology into the planning and budgeting processes in the water sector institutions:

**Enhancing the Planning Tools:**

* Improve WASA network and customer data: carry out GIS mapping of the WASA connections including information on the type of water use and number of persons served by the different connections – the mapping of the WASA network in Maseru has started, but does not so far include the detailed connection mapping.
* Improve the rural water data on existing water and sanitation facilities by carrying out GIS mapping of the water systems and update the data on water source capacity in the DIS – the ongoing RWS Planning Framework project is designed to cover this.
* Integrate the BOS population and socio-economic data in the water sector GISs. The BOS is nominated as the national anchor for development of GIS and will be guiding the development of the GIS in the sector institutions – if approached.
* Coordination between the water sector and BOS for refining the definitions for water and sanitation facilities used by BOS for household budget surveys and census questionnaires to ensure that the BOS information corresponds to the definition of indicators used in the sector performance framework.

**Ensuring Integration:**

* Capacity building of the new staff in the PPSU in the use of the SFPM tool as estimating tools for the planning and budgeting process in the water sector.
* Capacity building of the new Monitoring and Evaluation (M&E) Unit in the COW’s Office as well as the personnel in WASA and DRWS responsible for monitoring activities to ensure that consistent data continues to become available for overall strategic planning in the water sector.
* Development of/ adjusting the job-descriptions for the staff of the PPSU, the M&E Unit and relevant positions in WASA and DRWS to specify clearly the functions related to data management and strategic financial planning. This would be done as an integrated part of the ongoing development of the Performance Assessment Framework for the water sector and development of the Sector Programme.
* Include the strategic financial planning methodology and the findings from the strategic financial planning project in the upcoming development of the strategy for water and sanitation.
* Dissemination of the results to a larger group of sector stakeholders and high level decision makers in government to ensure that the results of the strategic planning project will influence the sector to take rational decision on the future development of the sector.