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# Financing Strategy for Water Supply & Sanitation

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**presentation to  
EUWI Multi-stakeholder Forum  
by Mr. Rolfe Ebenhard, Financing Strategy Consultant**

**12<sup>th</sup> October 2006**

# Project outputs

1. Inception report
2. **Financing strategy report**
  - ✓ Draft presented for comment mid September
3. Financing plan model
4. Sanitation investment and financing needs report

**First  
Draft**

**This presentation**

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# Nature of presentation

Highlight key aspects  
of the emerging strategy  
for discussion

(Draft strategy was circulated in mid September  
for comment by end September)

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# The financing challenge

**It is now well recognised that financing water and sanitation is not just an issue of mobilising the required volume of investment. Equally important issues include appropriate institutional arrangements, developing related capacity, and selectively targeting expenditure towards intended beneficiaries. The use of limited public resources for promoting sector reform, thereby attracting community and market-linked resources, is also important. Finally, effective, efficient and transparent use of resources has gained recognition. This is the financing challenge in the new millennium.**

# The outcome sought ...

Identify the initiatives needed  
to significantly increase  
the level of investment  
in WSS and SHP  
*on a sustainable basis*

# There is good news ...

## Government

✓  
Sound policies  
are in place

UAP introduced

Political commitment  
to universal coverage

High level of  
commitment

draft Ethiopian  
Declaration

Common  
Implementation framework

## Donors

Donors actively  
harmonising

Substantial increase  
in resources recently



# But not all news is good ...

Much more needs to be done ...

## Government

Increase own  
resources to WSS

Consult on UAP to  
translate into an  
operational strategy

## Donors

Closer alignment  
still needed

Step up resources  
commitment

## NGOs

Better  
alignment  
coordination  
And  
reporting

Strengthen programmatic approach:  
One sector strategy and  
framework agreement between parties

# Some important constraints ...

- No English Translation of UAP at time of drafting ...
  - Please forgive any misunderstandings ...
- Availability of up to date and reliable data on spending is not good
  - Woreda level spending
  - Donor spending (actual)
  - NGO spending (WaterAid study currently underway)
- Very little data on sector performance
  - Actual per capita costs achieved in projects
  - Functioning and reliability of systems

This information is  
important to understand  
absorptive capacity  
of sector



# Strategy outline

Context

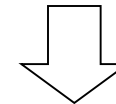
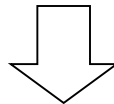
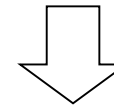
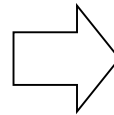
Sector performance

Investment needs

Financing framework

Indicative financing  
scenarios

Key strategic initiatives



## Status of report

Context



Sector performance



**As good as is  
available**

Investment needs

**1/2**

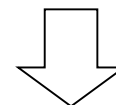
**Need to  
incorporate  
Sanitation  
investment needs**

## Status of report

**This financing strategy  
cannot do justice  
to urban sanitation  
and Addis**



**Financing framework**



**Indicative financing  
scenarios**

**Need to incorporate  
sanitation  
investment needs**



# Financing framework

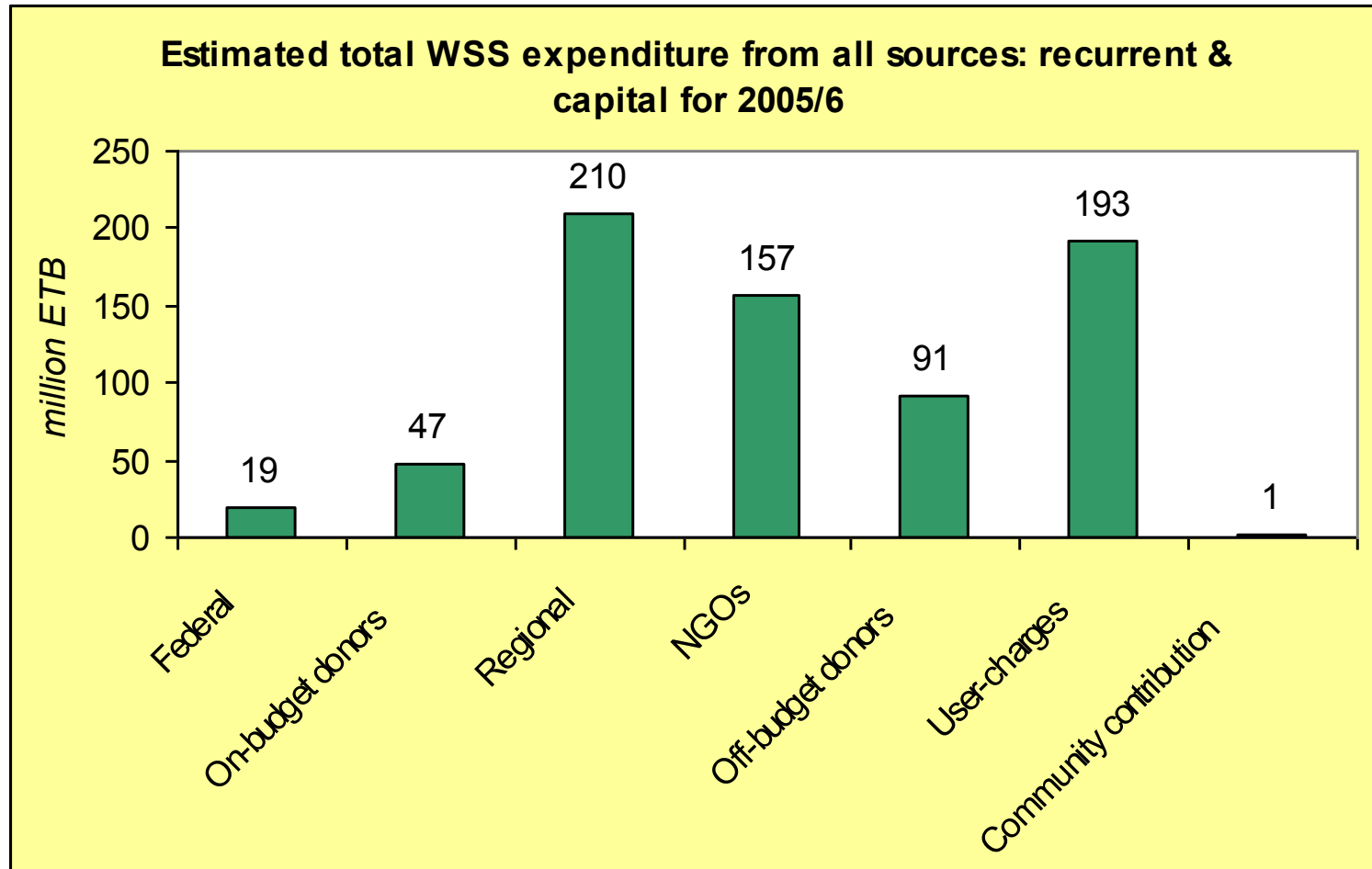
Promoting  
reform

Leveraging  
resources

Targeting  
subsidies

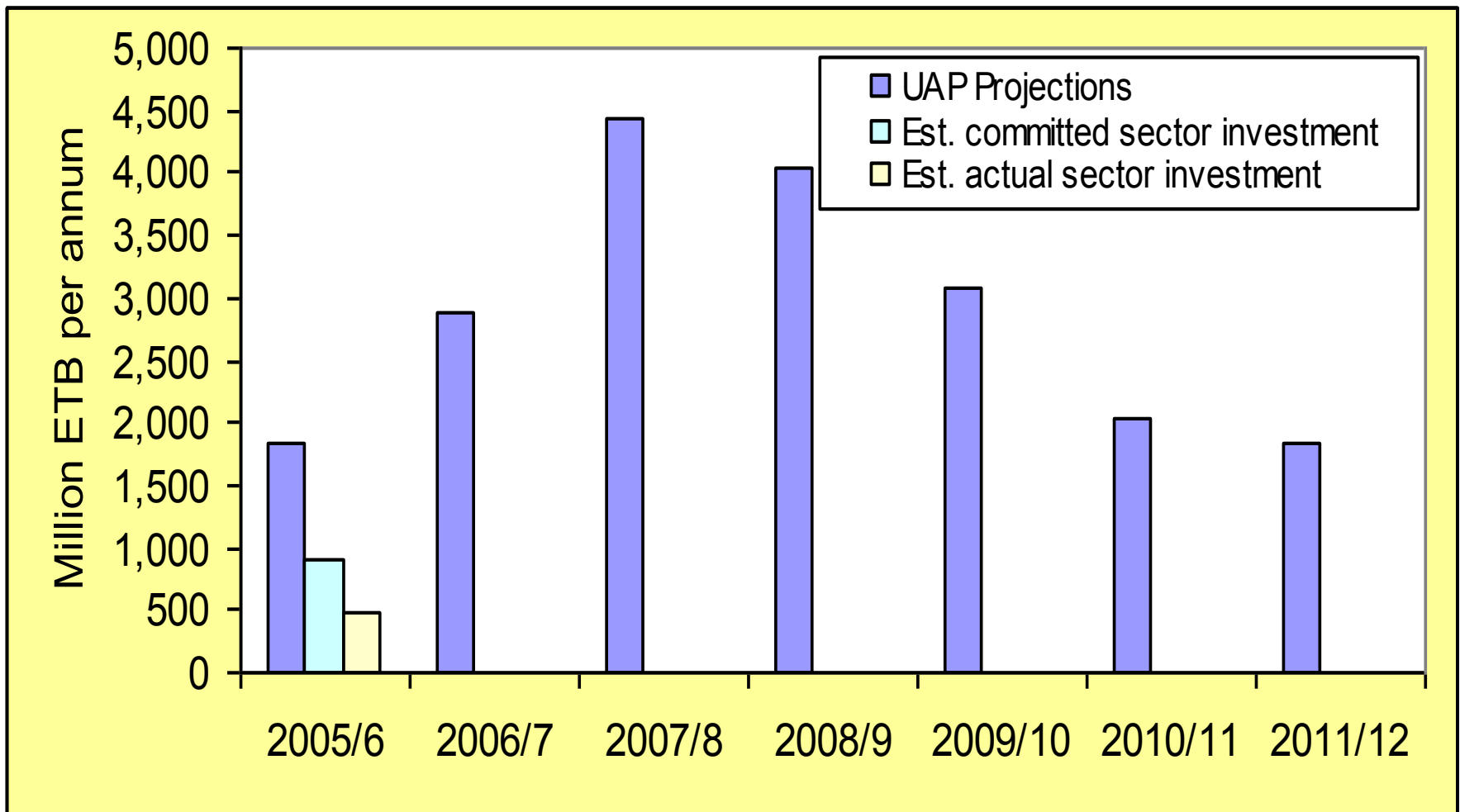
Enabling environment

# Current sector finance estimates: all sources (ETB million)

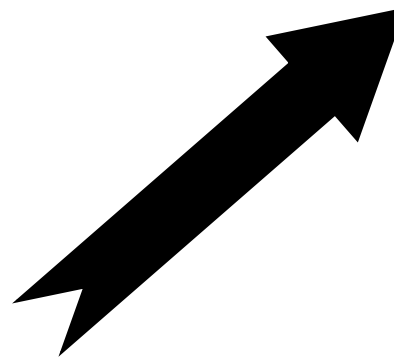


## Indicative financing scenarios (capital costs)

Work in progress .... Estimated combined expenditure of Govts, Donors, NGO's, and user-contributions



What will it take to  
increase financing  
significantly?



# Strategy outline

✓

Context

Sector performance

Investment needs

✓

Financing framework

Indicative financing scenarios

x

Focus of rest of  
Presentation ...

Key strategic initiatives



# What is the long term objective?

## Phase 1

**Substantial  
Increase in  
Sector-based  
donor funding**

**Substantial  
Increase in  
Government  
funding**

**Grow loan  
financing for  
providers**

## Phase 2

**Move donor  
Funding to direct  
budget support**

**Government  
funding**

**Grow loan  
financing for  
providers**

## Phase 3

**Government  
funding**

**Grow loan  
financing for  
providers**

time

# Time line for this strategy – five years

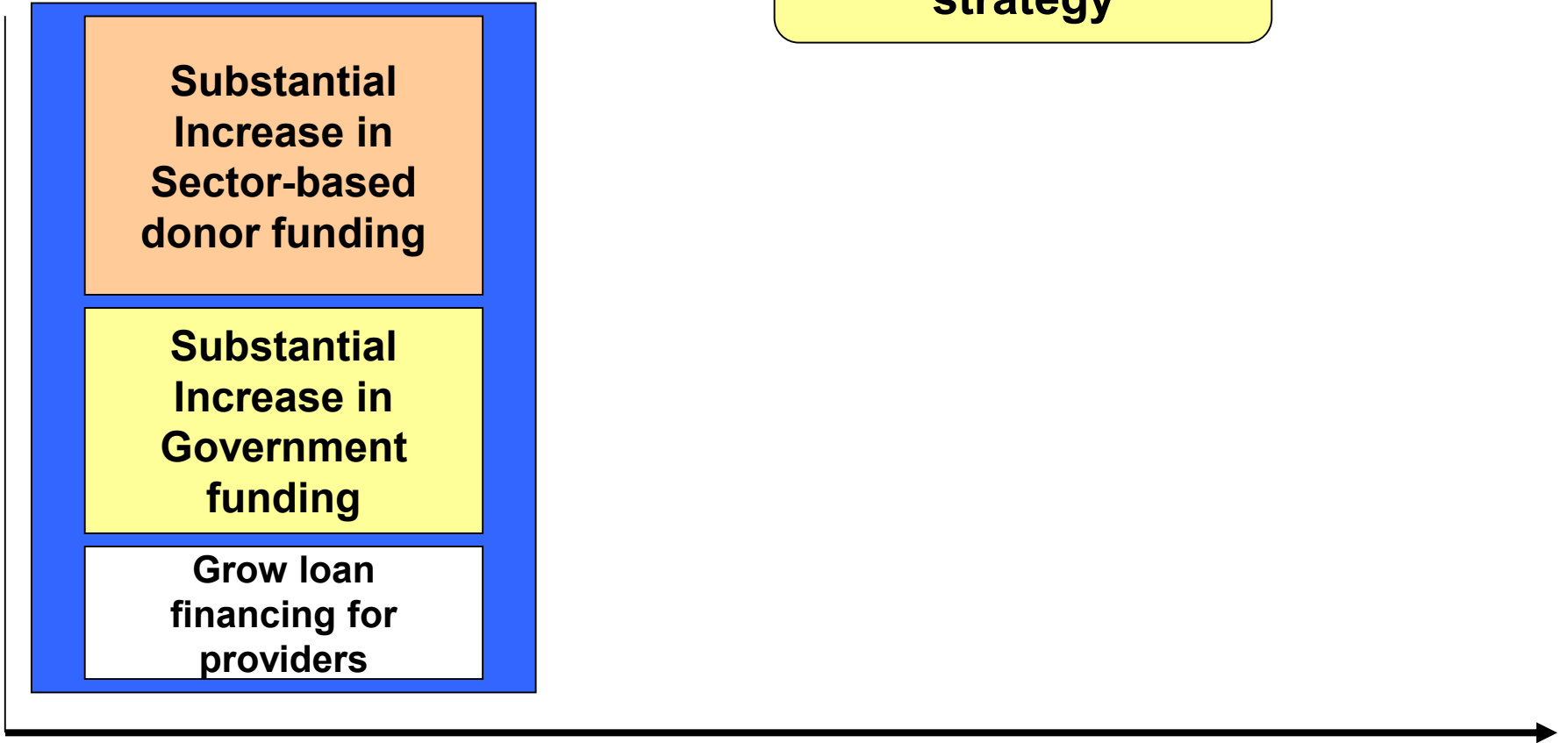
**Phase 1**

**Focus of this  
strategy**

**Substantial  
Increase in  
Sector-based  
donor funding**

**Substantial  
Increase in  
Government  
funding**

**Grow loan  
financing for  
providers**



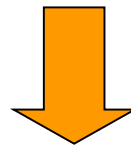
# Key strategic initiatives - overview

Strengthen programmatic approach

Harmonise and strengthen financial mechanisms

Strengthen sector monitoring and capacity building

Undertake reforms (micro-finance; private operators)



**Outcomes sought**

Improved  
financial viability

Efficient operations;  
User fees

New loans  
into sector

Strengthened  
WRDF

New grants  
into sector

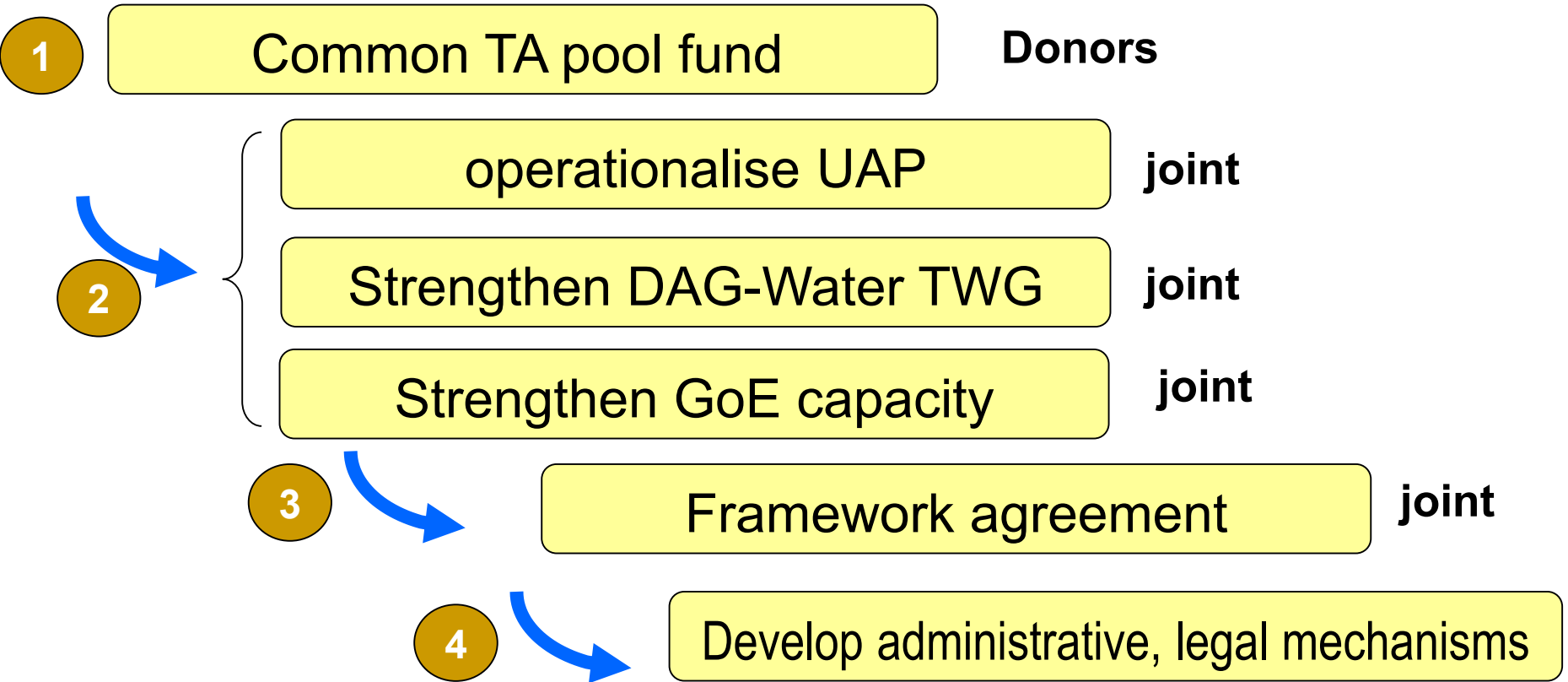
New donors  
attracted

Integrated  
NGO funding

Sustainable  
NGO funding

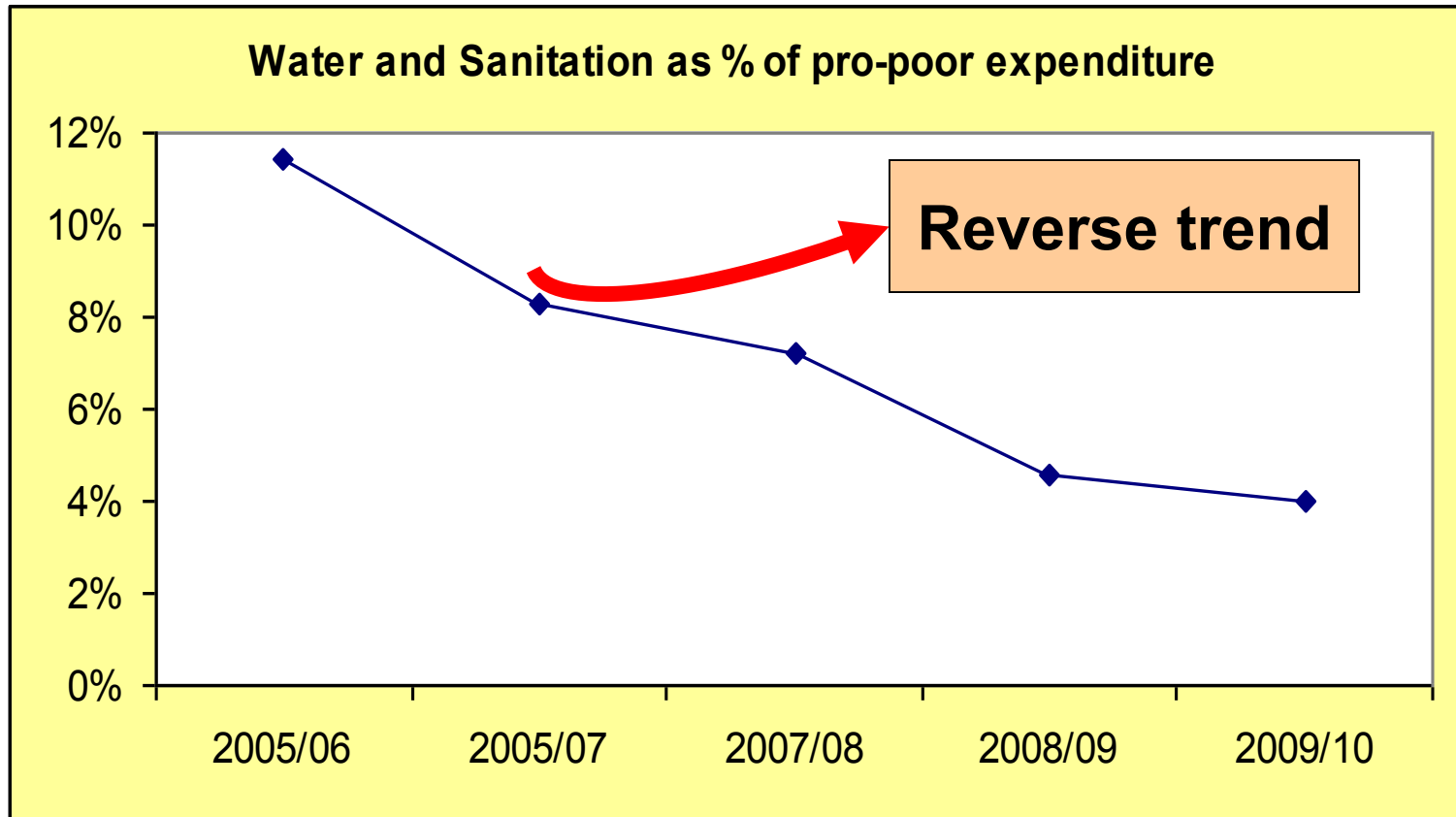
# Key strategic initiatives - overview

## Strengthen programmatic approach



# Key strategic initiatives

Increase government commitment of resources



Source: PASDAP, 2005

# Key strategic initiatives - overview

**Harmonise and strengthen financial mechanisms**

**Work towards a common donor pool fund ...**

**1st strengthen and align existing financial mechanisms  
(and avoid duplication)**

**Loan finance  
window**

**Grant finance  
windows**

# Key strategic initiatives - overview

Harmonise and strengthen financial mechanisms

Loan finance  
window

**Objective:**

**All loan finance  
through a  
financial  
intermediary**

**Task:**

**Reform WRDF  
into autonomous  
agency with  
capacity**

# Key strategic initiatives - overview

Harmonise and strengthen financial mechanisms

Grant finance  
windows

**Objective:**  
  
**Streamline  
grant finance  
windows**

**Mainstream  
Community  
Development  
Fund?**

**Rural water  
grant window?**

**Rural sanitation  
and health  
promotion  
window?**

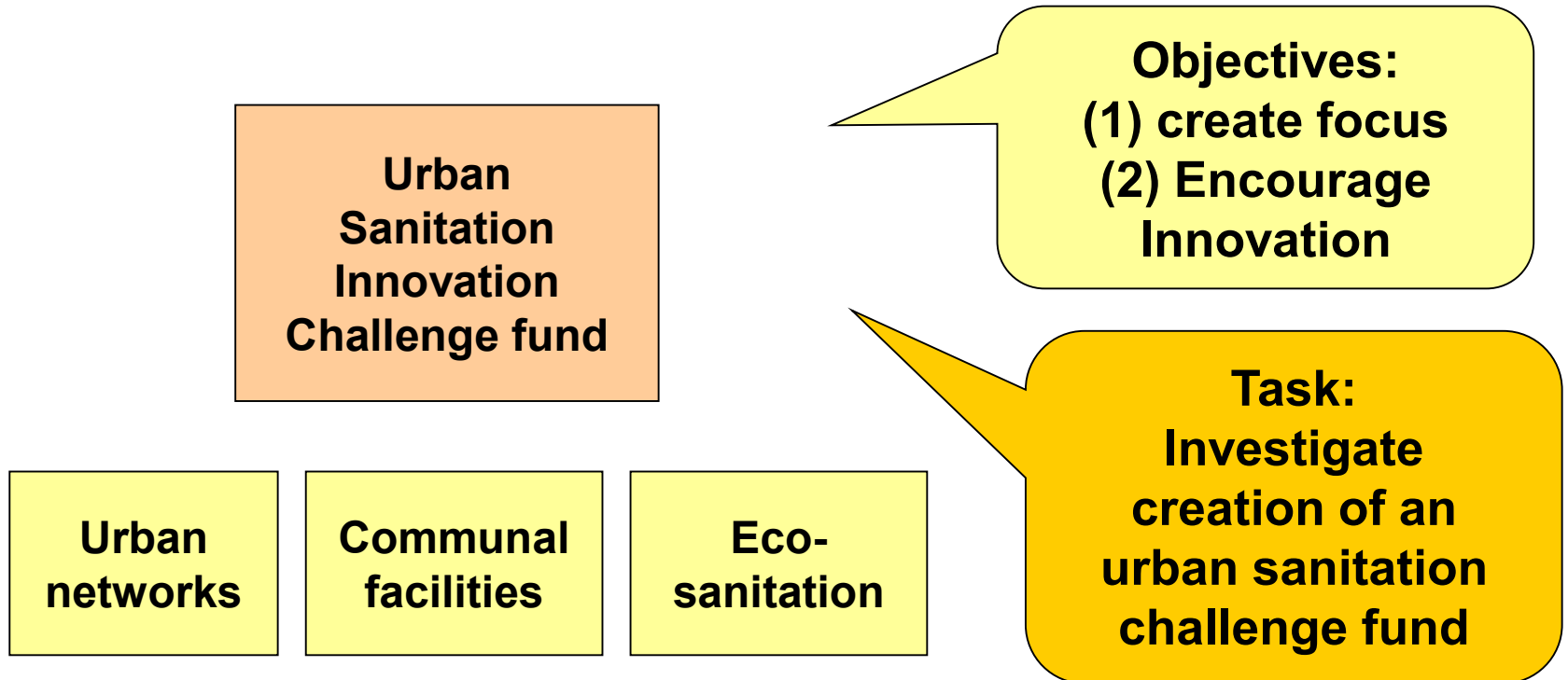


# Key strategic initiatives - overview

Harmonise and strengthen financial mechanisms

Work towards a common donor pool fund ...

Create new grant windows as appropriate

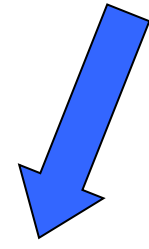
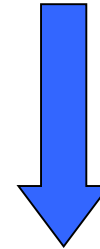
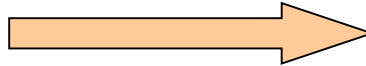
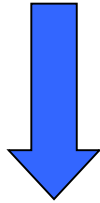
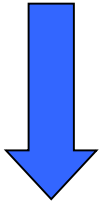
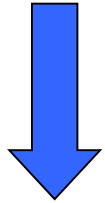


Donor 1

Donor 2

Donor n

Donors



MOFED

MOWR

MOWR

Common Donor Pool Fund  
For WSS  
(basket of funds)

Each donor has  
own agreement  
with GoE, though  
use same  
Implementation  
Manual

Only one framework  
agreement between  
donors & GoE

Medium term goal is to move all  
donor funding into a single  
common donor pool fund  
(basket of funds) with different  
financing windows

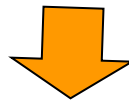
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# Strategic Opportunity

- Sector harmonisation and alignment is strengthened
  - Common fund is created
  - New donors can come in with a very low transaction cost and managed risk
  - New donor possibilities
    - Dfid: UK pounds 100 million
    - Dutch: US\$ 100 million
-

# What will increase donor & NGO commitment?

- Donors believe money will be well spent
  - ❑ Good policies in place
  - ❑ Good governance
  - ❑ Credible strategy and investment plan
  - ❑ Project implementation is likely to be sound
  - ❑ Capacity to spend exists
  - ❑ There is adequate monitoring of spending & performance
- There are low transaction costs
  - ❑ Easy to “sign up” and low monitoring cost
- The risks are acceptable and managed
  - ❑ acting in concert with other donors
- Grants contribute to long term sustainability of sector



Increased donor  
& NGO commitment

# Key strategic initiatives - overview

## Strengthen sector M&E

**JBAR  
& PER**

WSS part of this

**Objective:**

**Track actual  
performance**

**Annual  
Sector  
review**

Tracking studies

Audits

Value for money studies

Consultations

**PM&E**

Project level data

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# Way forward (financing strategy)

- On-going work
    - Collect data on actual expenditure
    - Incorporate sanitation investments
    - Develop financing model
  - Presentation of draft strategy to MSF (today – 12 Oct)
  - Finalise Strategy – 18<sup>th</sup> October
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