

THE NEED FOR ADDITIONAL GRANT FUNDING TO WSAs TO OVERCOME HIGH NRW

PRESENTED AT THE 4<sup>TH</sup> REGIONAL AFRICAN WATER LEAKAGE SUMMIT DBSA VULINDLELA AUDITORIUM, MIDRAND, RSA ON 20 AUGUST 2014 BY DEREK HAZELTON tsewater@icon.co.za



- SECTIONS OF THE PRESENTATION
- ❶ Why the need for grant funding?
  - ❷ Who should provide the funds?
  - ❸ Ensuring the benefits are optimised
  - ❹ Conclusions

WHAT IS THE CENTRAL CONSTRAINT?

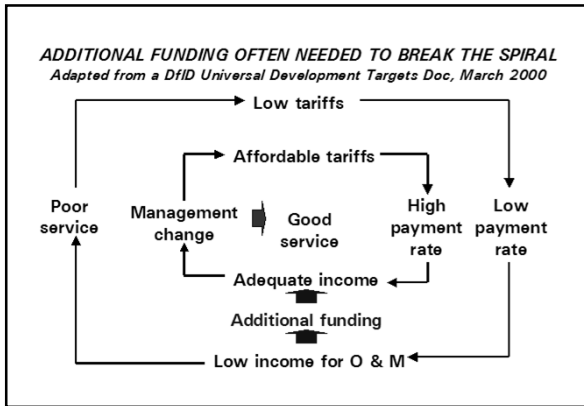
Water services authorities have insufficient funds to operate and maintain schemes

NRW reduction projects can assist in changing this situation, provided that long-term NRW management is regarded as a basic part of the WSA's O&M

OR TO PUT IT ANOTHER WAY

It is a man's world and men love building things (supply side management) so that is where they put the funding

However do not ask these men how the projects will be managed after they are built (demand side management)



- WHERE WILL THE ADDITIONAL GRANT FUNDS TO COME FROM?
- ◆ Public sector
    - > Additional DWS ACIP funds
    - > COGTA MIG funds
    - > The Office of the relevant Provincial Premier. Supply funds for augmentation. Why not for NRW reduction?
    - > The relevant District Municipality's RSC Levies Replacement funds
    - > A combination of these
  - ◆ Possible innovation
    - > National Treasury holds the purse strings. Other Departments, but especially the DWS, needs to motivate additional funds for NRW reduction
    - > It may not be practical to make the optimum funding available in one year, but guaranteed funding over a number years for specific WSA Business Plans would be a great help

**WHERE WILL THE ADDITIONAL GRANT FUNDS COME FROM? cont**

- ◆ **Financiers**
  - Provide bridging finance to WSAs, against public sector guaranteed future payments
  - Provide bridging finance to NRW reduction PSPs
  - Provide finance to WSAs using innovative repayment schedules related to the expected gains to be made by the WSA from NRW reduction (including some risk taking?)
  - As a very last resort provide partial straight loan finance to the WSA
- ◆ **NRW reduction PSPs**
  - Finance the WSAs NRW reduction project with payments being partially or wholly made from a percentage of the WSA's savings. The higher the expected payment period or the risk, the WSA must expect to pay a higher total cost for the service. The PSP may also wish to insist on providing ongoing support to protect the WSAs savings until he/she has been fully paid.
  - Use bridging finance from a financier to overcome future guaranteed or risk associated payments

**HOW WILL WSAs PAY BACK COSTS FROM SAVINGS?**

- ◆ **Improved cost recovery revenue**
  - This needs to be estimated carefully to provide a realistic figure
  - Poor customers are more likely to reduce usage than pay higher bills, plus Treasury's reporting instructions on being transparent and inclusive about Free Basic Services delivery needs to be noted
- ◆ **WSAs outsourcing most of their treated potable water**
  - NRW reduction project implementation should significantly reduce the water purchased
  - In turn this will achieve significant savings which can be used to pay the implementing private sector PSP
- ◆ **WSAs having their own drinking water treatment works**
  - NRW reduction project should significantly reduce the water that needs to be treated but most of the costs are fixed and significant savings will only result medium term from reduced capital expenditure.
  - Such projects are more suited to Public Sector financing, but guaranteed funding over a number years with Private Sector bridging finance can still be considered

**THERE IS STILL A NEED TO CONSIDER SUSTAINABILITY**

- ◆ **To optimise the benefits for Public Sector funders and reduce the risk for Private Sector funders: NRW reduction projects must be sustainable**
- ◆ **With universal services delivery, this is not possible for practically all WSAs without the WSA using its LGES allocations for their intended purposes**
- ◆ **Thus, funders need to know up front that the WSA is already adopting sound budgeting practices before embarking on providing funds for NRW reduction projects**
- ◆ **They may also need to know that implementation will include medium- to long-term capacity building**

**CONCLUSIONS**

- ◆ **High NRW often causes WSAs being plunged into a downward spiral of insufficient income, and poor services delivery**
- ◆ **Grant funding or bridging finance is nearly always needed to break the downward spiral**
- ◆ **Providing such funds is also sound business practice, since it can help WSAs to become more financially self-sufficient.**
- ◆ **Potential funders, in both the public and private sectors, need to seek innovative ways of providing these funds**
- ◆ **WSAs themselves need to facilitate the sustainability of the investment, by allocating adequate LGES funds to supplement their improved customer payment levels and reduced water delivery costs**
- ◆ **Future expenditure on expanding services will most likely still be required, but the amount of capital required will be reduced**