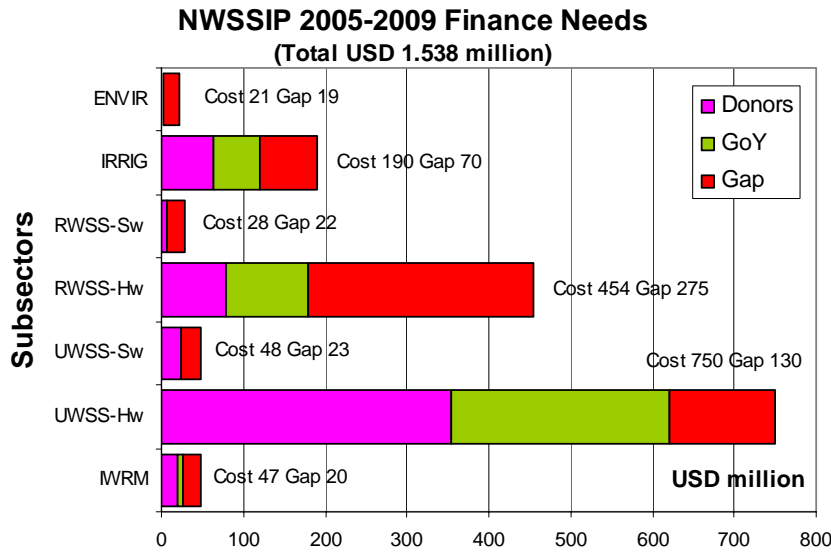


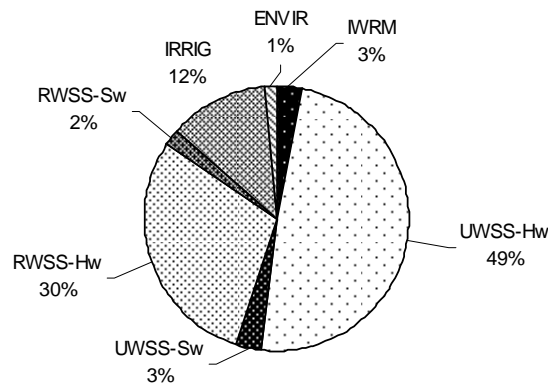
National Water Sector Strategy and Investment Program (NWSSIP) 2005-2009
 First Joint Annual Review (JAR 2005) in June 2006
 NWSSIP Finance Scenario



What was planned in NWSSIP base document?

- overall finance requirements identified early 2004 for the 2005-2009 five-year NWSSIP investment program amount to USD 1,538 million
- about 35.8 % was committed by donors, 27.9 % was expected from GoY, and 36.3 % had no identified funding source
- budget information provided by some sub-sectors was incomplete or tentative
- annual disbursement scheduled overall was USD 307.6 million, or USD 195.8 million based on committed / expected donor & GoY funding

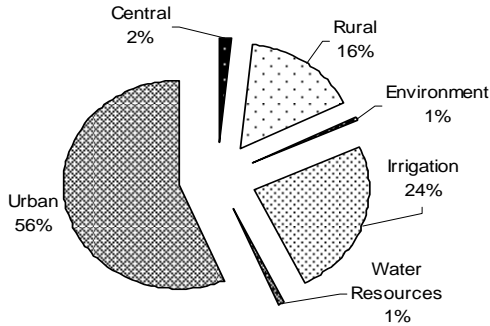
NWSSIP 2005-2009 Subsector Finance Shares



The NWSSIP investment budget was based on inputs from 5 sub-sector working groups with participation of some 120 professionals and stakeholders. It considered absorptive capacity and included a 1% annual inflation in USD terms. Concrete projects and actions were used as groundwork for financial estimates. For major investment packages in UWSS and RWSS, averages unit rates per house connections were established. The resulting sub-sector finance shares constitute the agreed sector priorities.

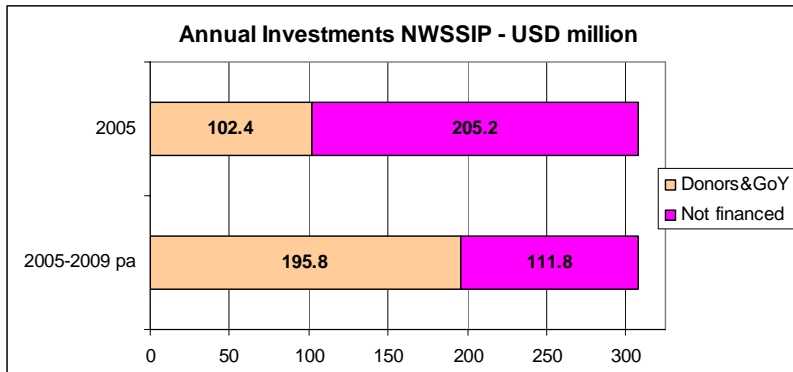
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2006 MWE Investment Budget Shares



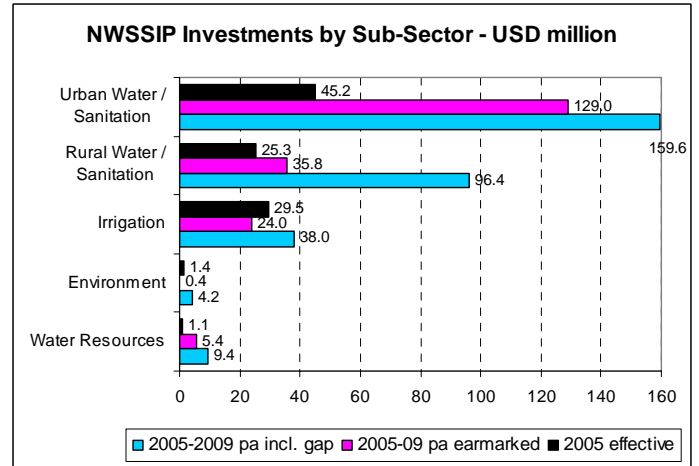
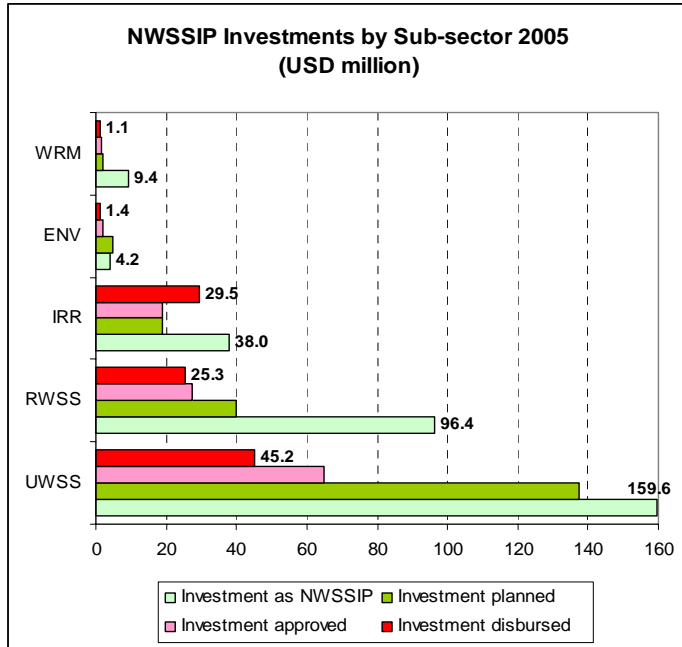
The 2006 MWE (national) investment budget deviates from this distribution in 2 main areas: RWSS has obtained a reduced share, while irrigation has increased notably. While RWSS was curbed assuming a continued limitation in absorptive capacities and the ongoing restructuring process, the irrigation budget was not really coordinated within the NWSSIP framework. Another reason is that for investment budget requests, the sector institutions use ready-to-go projects and complement with available donor funding.

What happened in 2005?



- the effectively disbursed investment budget dropped substantially against the NWSSIP annual target and thus increased the anticipated finance gap further
- as committed donor funding does usually not vanish, the low disbursement performance contributed to building up the respective financial pipeline and did not motivate donors to increase financial engagement
- at the end of 2005, some USD 432 million remained un-disbursed

What are the reasons for the 2005 under-performance?



- investments planned by the sub-sector institutions were in average about 66% of the NWSSIP annual target, triggered by a number of reasons (for example, less ready-to-go projects and actions as assumed); notably, RWSS planned well below NWSSIP targets
- only 56.7% of the planned investments for which budget was requested got the approval of the MoF; especially in UWSS, the approval rate was only 47.4%
- only 50.4% of the requested budget could actually be disbursed; this contrasts often with the physical completion of the implemented projects; for example in UWSS, started projects achieved a 71% completion rate
- noteworthy is the irrigation sub-sector where disbursements over-achieved the approved budget and even came close to the NWSSIP benchmark
- beyond that, reasons for financial under-achievement are multiple and need to be investigated more thoroughly

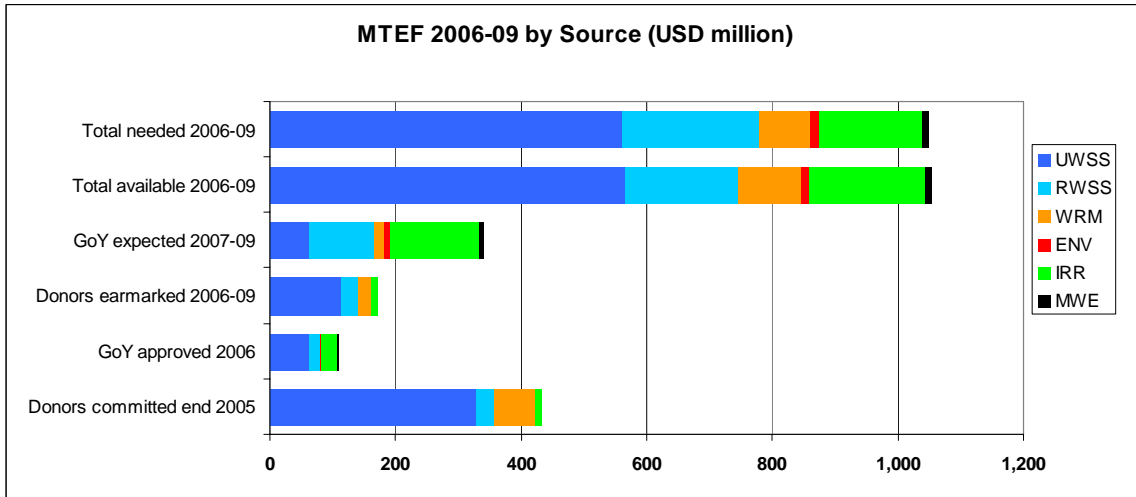
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Is there lack of funds for NWSSIP?

Summarized 2006-2009 MTEF USD million

	UWSS	RWSS	WRM	ENV	IRR	MWE	Total
Donors committed end 2005	327.9	29.0	64.4	0.0	10.5	0.0	431.7
GoY approved 2006	61.7	17.7	1.1	0.8	26.6	1.7	109.6
Donors earmarked 2006-09	114.1	26.3	22.4	0.0	10.0	0.0	172.8
GoY expected 2007-09	62.0	105.0	15.0	10.0	140.0	8.0	340.0
Total available 2006-09	565.7	178.0	102.9	10.8	187.1	9.7	1,054.1
Total needed 2006-09	560.0	220.0	80.0	15.0	165.0	10.0	1,050.0
2006 Adjusted Budget	98.6	17.2	5.4	3.0	26.6	2.0	152.8
2007 Proposed Budget	136.2	55.0	5.7	3.5	35.0	2.5	237.9
2008 Proposed Budget	130.7	65.0	15.0	4.0	45.0	2.7	262.4
2009 Proposed Budget	194.2	75.0	20.0	4.5	55.0	2.9	351.6
2006-2009 Proposed Budget	559.7	212.2	46.1	15.0	161.6	10.1	1,004.7

shaded: projected / planned



- the single most important sub-sector in terms of finance needs is UWSS; the financial requirements were projected from 2006-2009 based on a 10% reduced sanitation target and adjusted unit rate benchmarks; if this holds, the main portion of the sector finance is secured
- other sub-sectors have not yet fully updated their 2006-2009 indicative budget and have thus been roughly estimated
- at this point and considering some improvement in absorptive capacity (which according to sub-sector needs to be enhanced between moderately and dramatically), it seems that the 4-year investment period left from NWSSIP is fully funded with
 - o the committed and un-disbursed donors funds
 - o assumed donor new contributions
 - o GoY contributions 2007-2009 of USD 340 million, assuming that
 - approval rate of planned investments increases dramatically
 - disbursements flow is facilitated according to plan

How is the financial burden shared?

- in the presented scenario (2006-2009), donors would be providing 57.4% of the sector's investment program
- there is some potential for as yet undefined additional donor contributions, but covenants, legalities and milestones may slow down disbursement
- there is need to address the full 2015 MDG perspective and some indicators may have to be adjusted after finalizing the baselines of service areas and respective coverage
- the GoY must be prepared to increase its funding share, for which local contributions must be enabled

What about the recurrent budget?

- in 2005, the recurrent budget disbursed amounts to USD 51.6 million (excluding irrigation sub-sector), a high share compared to the USD 102.4 million investment (including irrigation sub-sector)
- In UWSS, recurrent budget of the utilities is covered by own revenues; approval rate of planned budgets has also been poor and, due to the nature of the expenses (mostly fixed costs), results in overspending of approved amounts; the O&M cost overage rate is above 100%
- In RWSS, WUAs fully assume the O&M cost of constructed water schemes
- Remaining recurrent budgets are GoY-financed; approval rate in critical authorities (NWRA, GARWSP, EPA) is acceptable, but there are doubts about budget planning and allocation to strategic priorities, and especially NWRA has a substantial under-performance in disbursing its recurrent budget
- Since recurrent and investment budgets are interlinked, capacity building and institutional support in strategic planning is urgently needed; donors are ready to support these activities