



Innovative financing in the New South Africa

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THE MVULA TRUST ("Mvula" is Zulu for "rain") is an independent South African social investment fund specifically dedicated to the improvement of water and sanitation services amongst poor and disadvantaged communities. The Trust began operations in August 1993 and offers both a grant and loan finance facility. The Trust's capital base¹ derives from its founders². More latterly the South African Government, in particular the Department of Water Affairs and Forestry, and other national and international agencies also provide financial support for Mvula projects.

The purpose of this paper is to provide a brief overview to the Trust's operating and financing policies. The Trust provides an alternative approach to funding the improvement of services amongst poor and marginalised communities which may have application in other countries where centralised, supply-driven approaches have failed to achieve sustainable services.

Overview of the trust's policies

The Trust, although an independent body, operates alongside of Government and provides demand-driven finance in support of cost-effective and sustainable projects. The Trust will assist poor communities wanting to improve their water and sanitation services. The Trust operates nationally and any community wanting to improve their services may apply for financial support. Information about the availability of support from the Trust is made available through the media and governmental and non-governmental channels. The onus is on communities to take the initiative to improve their own services.

In the absence of effective local government, beneficiary communities establish their own local management structures. These bodies identify sources of expertise (from private, non-governmental or public agencies familiar with the Trust's criteria) to undertake feasibility assessments of different approaches to improving services. On the basis of community-wide discussion on the recommendations of this assessment the local management structure applies to the Trust for financial support.

If the application fits the Trust's criteria, the Trust can assist to fund the project. The community procures goods and services for project implementation, owns and is responsible for the operations and maintenance of the resultant assets. Training of the local management body is an essential component of every project. Where com-

munities require improved services, but do not have the local organisational capacity to develop an effective application, projects can be phased to complete an initial mobilisation and training phase before capital development.

The trust's achievements

To date (May 1995) the Trust has received over 1000 community applications and approved finance to over 150 projects. The areas from which the majority of the Trust's applications come are those where there is no other adequate source of support for service development, such as a local Government authority or Water Board. Most applications come from communities in the former "homelands" of the Northern Transvaal, the Eastern Cape, Kwazulu-Natal and the Eastern Transvaal, where the majority of South Africa's rural population resides. The Trust has attracted such interest that the initial capital has already been fully subscribed requiring the Trust to identify further sources of financial support.

Through this fast and flexible approach to project implementation the Trust has been able to provide much practical experience towards national policy development. As an independent organisation the Trust has also been a useful vehicle for piloting technologies and approaches, which, if successful, might be later developed into large scale programmes.

Financing policies

The financial policies of the Trust are widely available in South Africa³. The central tenets are as follows.

Direct empowerment of the poor

The Trust generally only funds projects by providing financial assistance directly to poor communities: cheques are deposited directly into community bank accounts. Bureaucratic rules frequently prevent Governments being able to empower communities in this way. The advantage of direct financing is that, from the outset of project implementation, community representatives are in charge of the process. This approach goes well beyond the frequently empty rhetoric of "community participation" and provides great motivation to disadvantaged communities whose previous experience of public bodies is a succession of failed promises. The financial risks are minimised by disbursement controls and monitoring of project implementation.

Transforming the private sector

Communities generally employ private sector implementing agencies to assist in training and capital development. Private sector agencies are generally the most efficient in project implementation, given the right incentives and controls. Routing the money through rural communities creates new market opportunities and efficiencies in service delivery. This approach also transforms the private sector in South Africa whereby formerly all-white engineering concerns now have as their client base poor black communities. In order to succeed in this market the implementing agencies need to train and employ black staff, and widen their skill base to include social scientists and community liaison personnel.

Targeting the unserved

The Trust has project ceilings for grant financial assistance, presently at R170 (US\$47) per capita⁴, for a complete water supply to basic service levels. Additions to existing infrastructure have pro-rata ceilings. National sanitation subsidy policy is still under review. The Trust's pilot sanitation unit ceiling costs are set at R700 (US\$190) per household, about 58% of the total cost of a VIP. Upgrading pit latrines and lower levels of service have higher subsidy levels. Through these means the Trust's grant finance is targeted at unserved poor communities. Those wanting higher levels of service are offered loan finance.

Cost-sharing

All Trust capital projects share the cost with the beneficiaries: the Trust does not give handouts. The justification for the level of subsidy is the historical disadvantage of poor black communities forcibly marginalised to "homeland" communities. The level of beneficiary contribution has been set at what poor South Africans are able to pay for basic services. This has been calculated at a maximum of 8% of the per capita ceiling for water supply. Beneficiary communities are also required to pay all operating and maintenance costs and to establish an operation and maintenance fund. The householders contribution towards household sanitation would be about 40% of the cost of a VIP and a minimum 8% of a lower level of service.

Low overheads

The Trust is committed to efficient facilitation of projects and to keeping overheads to a minimum. Using demand-driven policies, the Trust seeks to establish incentives which promote efficient relationships between participating institutions. The start-up overhead has been around 23%: with the increased volume of project disbursements, future overheads are anticipated to reach 12%.

Operations and maintenance

The choice of technologies favour those with the lowest operation and maintenance cost. The Trust also supports the training of local personnel to establish operations and

maintenance capacity. Where necessary the Trust may offer loan finance to establish local maintenance entrepreneurs.

Whilst the Trust does not provide for running costs, it operates an operations and maintenance incentive scheme. Where communities demonstrate that they can manage projects for a reasonable period, the Trust will pay the community 5% of the capital cost directly into their operation and maintenance fund to assist with future replacement and refurbishment costs.

Loan finance Niche markets

Having established its Grant Finance Facility the Trust is developing its Loan Finance Facility. Focusing on the water and sanitation sector, the Trust is on course to develop niche loan finance opportunities where its specialist knowledge lowers the loan risk. It can also pilot loan finance opportunities which other financial institutions can take on a large scale. Areas for loan finance include:

- Higher service levels.
- Loans to fiscally empowered institutions, such as local governments or water boards.
- Loans for small scale entrepreneurs in the sector, such as latrine builders and maintenance contractors.
- Sector development for farm workers on private land.

Conclusions

In its short period of operation, the Trust provides a new and interesting institutional model for rapid investment in water and sanitation development for the unserved. This approach may well have application in other settings, especially where there is institutional failure of financing instruments for the sector. Social investment funds are an increasingly common means of targeting poor communities.

The Mvula Trust is an exceptional social investment fund because of its specific sectoral concentration and because of its formal independence from Government. Its independence enables the Trust to avoid the political pressure frequently experienced by Government Departments. The Trust's clients also do not have the same expectations and demands of aid handouts as they do of the Government. The Trust is not straddled with the constraints of a Government bureaucracy and is able to operate in an efficient and client-centered manner targeting its finance to those in need where there is a good chance of achieving a successful long term infrastructure investment.

Clearly Government leadership is a vital necessity for sector development in South Africa and the Government's White Paper⁵ is an impressive statement of sectoral policies. The partnership between state and NGO in South Africa provides new hope of institutional alliances.

¹ US\$1=R3.6 (May 1995).

² The Trust was founded by the Development Bank of Southern Africa, the Independent Development Trust and the Kagiso Trust with a starting capital base of R150m (US\$42m). Financial support from the Kagiso Trust is derived from the European Union.

³ The Mvula Trust, The Specific Policies of the Mvula Trust: Version 6.0, Johannesburg, May 1995.

⁴ This ceiling rises for small communities.

⁵ Department of Water Affairs and Forestry, White Paper on Water Supply and Sanitation, Pretoria, 1994.