

Water and Sanitation to the Urban Poor
Water Sector Reform Program Zambia

Design Summary and Implementation Document
Final Document – Post Appraisal
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Abbreviations and Equivalents

AfDB	African Development Bank
AusAID	Australian Agency for International Development
AWSP	Africa Water and Sanitation Program
BMZ	German Federal Ministry for Economic Cooperation and Development
CU	Commercial Utility
DANIDA	Government Of Denmark Development Agency
DTF	Devolution Trust Fund
DHID	Department of Housing and Infrastructure Development
EU	European Union
GRZ	Government of Republic of Zambia
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit" (German Agency for International Cooperation)
JASZ	Joint Assistance Strategy for Zambia
JMP	WHO/UNICEF Joint Monitoring Program
Kfw	Kreditanstalt für Wiederaufbau (German Development Bank)
MDG	Millennium Development Goal
MICS	Multiple Indicator Cluster Survey
MEWD	Ministry of Energy and Water Development
MLGH	Ministry of Local Government and Housing
NRW	Non Revenue Water
PEF	Performance Enhancement Fund
RWSS	Rural Water Supply and Sanitation
SNDP	Sixth National Development Plan
NUWSSP	National Urban Water Supply and Sanitation Program (5 th and 6 th SNDP))
NWASCO	National Water Supply and Sanitation Council
WASH	Water, Sanitation and Hygiene
WSI	Water and Sanitation Initiative
WSSP	Zambia Water Supply & Sanitation Program

1. Introduction

1. Australia's AUD 300 million Water and Sanitation Initiative (WSI) is being implemented from July 2009 to June 2011. The Africa Water and Sanitation Program (AWSP) is the largest regional/country program supported by the WSI and focuses on Sub Saharan Africa. The AWSP is a key part of Australia's expanded support to Africa.
2. Australian funding will be used to support the Government of Zambia's (GRZ) efforts to increase access to water supply and sanitation services in poor urban areas. This will be achieved through co-financing the German Government funded water sector reform program, implemented by GIZ over 2010 to 2012 (current budget phase of Euro 6.2 million). GIZ act under commission of the German Federal Ministry For Economic Cooperation and Development (BMZ). WSI funds of AUD 4 million are allocated to the program for Financial Year 2010/11.
3. This DSID is supported by a range of detailed reports and documents including: (1) GIZ Project Design Document (2) Water Sector Programme Support Phase II Zambia Sector Programme Support Document DANIDA (3) Sixth National Development Plan (SNDP) 2011-2015 Water Chapter (4) Water Sector Reform Program Zambia – GIZ, Devolution Trust Fund (DTF) Annual Report -2009, (5) Devolution Trust Fund Strategic plan 2010-2012, (6) Drawing on Experience, The GIZ Water Sector Reform Program, Zambia GIZ, (7) Case Study, Water Kiosk's GIZ and (8) Evaluation of the Joint Assistance Strategy for Zambia (JASZ) 2007-10.

2. Water Sector Reform In Zambia

4. The GRZ and donor community have worked together since 2005 to support the Zambian Water Sector through the ongoing Water Supply and Sanitation Program (WSSP). Germany is supporting the WSSP through the GIZ implemented "Program for the Water Sector Reform in Zambia" which has a period of implementation of 1 January 2010 to 31 December 2012. GIZ has prepared a Project Design Document, as an annex to this DSID and as appendices to the co-financing Grant Agreement, which details how AusAID funds will scale up the existing German program.
5. The Zambian National Water Policy of 1994 led to a new institutional framework for the sector which was formally adopted in the Water Supply and Sanitation Act (WSS Act) in 1997. Under the national water policy seven focus areas were adopted to govern policy in water and sanitation for water resource management, regulation, decentralisation, cost recovery, human resource development, and adoption of appropriate technology and increased sector spending.¹
6. The Government of Zambia is currently finalising a new phase of the National Urban Water Supply and Sanitation Program (NUWSSP) 2009-2030 to which all donor partners are expected to harmonise and align their support. The proposed new NUWSSP requires an indicative USD 1 billion to implement but funds have not been committed by Government or Donors. While donors are aligning their aid efforts with the GRZ program in line with the Paris Declaration and Accra Agenda for Action through a joint assistance strategy, all recognise that the ability of Government to implement a large new phase of the NUWSSP program is limited and that the institutional change process will take time. As part of a transition it is expected that the German Government will continue to support the DTF.

¹ Section 3. Policy and Key Reforms; Sixth National Development Plan 2011-2015 Water Chapter; Government of Zambia

7. GIZ's Program for Water Sector Reform in Zambia supports three sub sectors of the water sector: urban, rural and water resource management. It consists of the following five components:
 - i. Support to National Rural Water Supply and Sanitation Program- NRWSSP,
 - ii. Support to the National Urban Water Supply and Sanitation Program (NUWSSP), including a comprehensive advisory service to the Devolution Trust Fund (DTF),
 - iii. Improvement of Financial Viability and Efficiency of Eastern Water and Sewerage Company (EWSC),
 - iv. Operation of an Efficiency Task Force to assist Water Utilities to address especially Non-Revenue Water (NRW), Energy Efficiency and Accounting/Billing, and
 - v. Support to Water Resources Action Program (WRAP).
8. Implementing agencies for Germany's sector support are the Ministry of Energy and Water Development (MEWD) and the Ministry for Local Government and Housing (MLGH). BMZ (Germany's lead policy agency) has an agreement with the MEWD as the main program partner. The National Water Supply and Sanitation Council (NWASCO) is the independent regulator for the water sector. It regulates water supply and sanitation services (WSS) of the 11 Commercial Utilities (CU's) responsible for household service delivery. Commercial Utilities are limited liability companies formed under the Water Act with 100% ownership by relevant local government bodies. NWASCO has developed a range of guidelines for pro-poor service delivery, develops service level agreements, manages the tariff adjustment process and provides an annual sector performance report. Development of NWASCO and commercialisation of service delivery through the CU's has successfully increased urban service coverage, service quality and created a more sustainable sector that is able to finance normal operations and maintenance costs. A schematic of the Sector is given in Appendix 2.
9. The Devolution Trust Fund is a multi donor pro poor basket fund established by the Government of Zambia under WSS Act No 28 1997 as an instrument to assist commercial operators to improve water and sanitation services to the urban poor. It provides financing for sustainable access to water and sanitation in urban and peri urban areas of Zambia. It was established with the aim of reaching more than 600,000 beneficiaries through development of a system of water kiosks and low cost water supply and sewerage schemes. This is supported by additional infrastructure including transmission mains, pumps, elevated storages and reticulation mains. (A schematic of DTF management arrangements and a scanned copy of DTF Regulation SI 65-2001 is provided in Appendix 3 while Section 5.2 provides operational description.).
10. DTF has been operational since 2006. As at March 2009 DTF had funded 30 projects providing 500,000 additional people with improved access to safe water. Since the establishment of the DTF, donors including DANIDA, KfW and the EU have been basket funding partners while GIZ has provided technical cooperation and financial support. See further details in Section 4.1 of Appendix 1. (Appendix 4 contains a copy of the MoU between the DTF and Basket Funding Arrangement Partners which describes donor supervision arrangements.)
11. DTF operates through Commercial Utilities (CU) which make agreements with communities to build and provide water services through a water kiosk. An outcome of water sector reform is the formation of commercial water utilities which provide water and sanitation services to about 99% of urban areas. Commercial water utilities are established under the Water Act as limited liability companies that are 100% owned by the relevant local government body. CU's are regulated by NWASCO and provides evidence that water sector reform has been effective as these utilities are

operating commercially to recover increased O&M costs from user fees and charges, reduced unaccounted for water² and increasing the metering ratio.

3. The Proposed Program and Rationale for AusAID Participation

3.1 Proposed Program

12. Australian funding of AUD 4 million is proposed to support Water Sector reform in Zambia over the period 2010-2012, with all funding provided during 2010-11. WSI funding is proposed for two components of GIZ's broader water sector program (described in Section 3.1.2 of Appendix 1).:
 - Component (2): Support to the National Urban Water Supply and Sanitation Program, through
 - i. provision of water and sanitation services, to be delivered by the Devolution Trust Fund (DTF), and
 - ii. a comprehensive advisory service to the DTF, to be delivered by GIZ; and
 - Component 4 Operation of an Efficiency Task Force, assisted through technical assistance delivered by GIZ.
13. Component 2 supports the current phase of NUWSSP to deliver water and sanitation services through the DTF. Through advisory services provided by GIZ to the DTF, AusAID support will also improve efficiency and transparency of water and sanitation program implementation and strengthen the financing instruments to improve cost recovery of water and sanitation services. With the technical assistance of GIZ, AusAID's support to Component 4 aims to establish the Operation of an Efficiency Task Force that seeks to reduce non revenue water (NRW), increase energy efficiency (in water production and distribution) and improve accounting and billing systems. Sustainability of past and future sector investments in Zambia is a key challenge for the Government. A core strategy in Zambia is to support sustainability through sector reform and adoption of appropriate technology.
14. Through an agreement between AusAID and GIZ, AusAID will channel Australian co-financing funds through GIZ. GIZ will utilise this funding to assist their technical assistance work under Components 2 and 4, as well as replenish funding requests of the DTF so they can provide water and sanitation services.
15. Project administration will be by GIZ. Implementation will be through DTF grant funding of commercial utilities to construct water supply systems, including pro poor water kiosks, individual connections, construction of low cost sewerage schemes and associated hygiene promotion programs. Technical Assistance will be directly implemented by GIZ who will procure suitable consultants. Implementation of the DTF funded works will be through the Grant process which includes processing of applications from Commercial Utilities' (CU) (which are assessed against DTF criteria) and then the works are enabled through funding agreements. (See Appendix 5: DTF Funding Guidelines.)
16. Water supply kiosks and sanitation schemes are implemented by the CU's after consultation with local community groups. Physical works are constructed by the CU who then, in consultation with the community, select and contract a kiosk operator. The kiosk operator collects payments for

² Unaccounted For Water (UFW) is water that is lost in the system due to leakage, theft, inadequate meter reading, corruptions or poor billing practices.

water sales from individuals, records water usage and pays the CU a charge based on sales volumes.

3.1.1 Project Goal and Objective

17. The overall objective of the GIZ Program for Water Sector Reform in Zambia is “*The legal, organisational and institutional framework of the Zambian water sector is improved leading to sustainable access to safe and reliable WSS services in low income areas and improved Integrated Water Resource Management IWRM*”.

18. A Program Framework outlining development objectives is included in the GIZ Project Proposal in Annex1b of the Grant Agreement.

19. Component objectives and indicators of AusAID’s support of the 2 components are the same as for the GIZ program. They are:

- Component 2: Support to the National Urban Water Supply and Sanitation Program NUWSSP

Component Objective: Efficiency and transparency of the implementation of NUWSSP are improved. One project objective includes moving support for service delivery to better align with Government of Zambia budget processes. This would involve the integration of the Devolution Trust Fund (DTF) into the envisioned national financing mechanism of the 6th SNDP.
- Component 4: Operation of an Efficiency Task Force

Component Objective: Non revenue water, water reliability, expanding the customer base, energy efficiency and accounting and billing procedures of selected CU’s are improved.

Table 1- Project Objectives and Indicators

These objectives and indicators are taken from the existing GIZ program and design documentation. and will be used as the basis for expansion of the Africa Water and Sanitation Program Performance Framework to include AusAID support for Zambia.

Objectives	Indicators and Targets
Project Objective: <i>The legal, organisational and institutional framework of the Zambian water sector is improved leading to sustainable access to safe and reliable WSS services in low income areas and improved IWRM”.</i>	<ul style="list-style-type: none"> • The proportion of the people living in urban and rural areas with access to safe and affordable water increased to 85% in urban and X% (Target to be established following baseline survey) in rural areas. • 55% of the population in urban areas and Y% (Target to be established following baseline survey) of the rural population has access to improved sanitation facilities. • Strategies for mainstreaming Gender and HIV and AIDS are included in the sub-sector programme. At least 5 CU’s have developed workplace programmes to mainstream Gender, HIV/AIDS.
Component 2 Support to the National Urban Water Supply and Sanitation Program NUWSSP Objective: Efficiency and transparency of the implementation of NUWSSP are improved. (The objective includes funding of the DTF and integration of the DTF in the envisioned national financing mechanism for the NUWSSP.	<ol style="list-style-type: none"> 1. 150,000 additional people in peri urban areas have access to safe drinking water through DTF funded projects 2. A concept developed by DTF to achieve a sustainable provision of sanitation in peri urban areas is documented and is successfully implemented by at least 5 CU’s in 10 sanitation projects. 3. 30,000 additional people with access to improved sanitation. 4. The performance indicators as agreed in the MoU of the DTF –basket funding partners are met. 5. The DTF is part of an effective national sub-sector financing instrument whose resource allocation and use is transparent on the basis of the applicable guidelines of the program.
Component 4: Operation of an Efficiency Task Force	<ol style="list-style-type: none"> 1. In at least 3 CU’s implementing non revenue water programs, the degree of cost recovery is increased by 15% compared to 2009.

Component Objective: Non revenue water, energy efficiency and accounting and billing procedures of selected CU's are improved.	2. At least 3 CU's have reduced their energy consumption per M ³ of drinking water by at least 10%. 3. In at least 2 CU's X % of monthly bills are undisputed.
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3.1.2 Australian funding for Water Sector Reform In Zambia Program

20. Australian funding will enhance the existing GIZ Program by providing technical and financial support in key areas of Component 2 and Component 4 as identified by the GIZ and basket funding partners: including (i) Increased Access: Grant funding and technical assistance to formal water providers to increase access to water supply and sanitation in low income and peri urban areas (ii) Grant funding and technical assistance to formal water providers to increase operational efficiency and (iii) Innovative grant and soft loan mechanisms to ensure sustainability of the Fund taking into account the increased ability of utilities to cover their O&M costs.
21. GIZ will implement capacity building support for NWASCO, MLGH, MEWD and Commercial Utilities in support of Component 2 and 4 of the Water Sector Reform Program. This support will include technical assistance in the change processes of government's institutional reform and strengthening, as well as improving the capacity of the private sector to provide services to the water sector.
22. In addition to the 500,000 people reached by the ongoing GIZ project, 150,000 additional people will be provided with access to safe drinking water through AUD 1.8 million of the Australian funds allocated to DTF projects. Services will be provided through the successful water kiosk model developed for Zambia. Water kiosks are operated by formal water service providers and community water trusts which provide safe water to large numbers of residents in low income communities at affordable prices. The kiosks are located within 5 minutes walking distance of target groups and sell water in 20 litre amounts at the equivalent rate of water provided by a house connection. As well as supplying safe water the kiosks act as community hubs with space to display information on issues such as HIV AIDS, sanitation and hygiene. They are also fitted with shelves which allows the operators to operate a commercial enterprise, including selling soap for hand washing, detergents, condoms and groceries.
23. The DTF sanitation sub-program will also be supported with AUD1.2 million in funding which will provide for 30,000 additional people to gain access to improved sanitation. Household sanitation facilities that meet the JMP Definition for access to basic sanitation are planned for construction. The sanitation program follows a community participatory approach including hygiene promotion and HIV AIDS awareness based on the Indonesian experience of implementing sanitation and hygiene programs in high density low income areas. Implementation of sanitation schemes uses DEWATS³ and traditional sanitation technologies that are applicable to target communities. Training is conducted for staff from the CU's, local artisans and construction companies so that sanitation systems built through DTF funding can be replicated.
24. DTF has been an effective implementation mechanism. From 2006-2009 the DTF financed about 42 water project and 10 sanitation projects are under implementation through utilisation of DANIDA and KfW commitments of Euro 6 million. The DTF is able to take increased funding and has administrative and technical capacity to manage a larger program. It is independently

³ DEWATS – Decentralised Waste Water Treatment Systems

audited on an annual basis, is closely supported by technical assistance from GIZ and has sound financial and program management systems. Indicative GTZ in direct administrative costs are: 1.) for the financial contribution to DTF (AUD3.0 M): Overhead 4.5% + 1% statutory reserve; 2.) for the TA contribution (AUD 1.0 M): Overheads 13% + 1% statutory reserve

25. Table 2 provides a summary of the proposed AusAID project co-financing allocation on a component basis.

Table 2- Project Costs (Costs are shown in AUD)

Component/Activity

	Australian funding	Program Proportion
Component 2: Support to the National Urban Water Supply and Sanitation Program NUWSSP		
1. <i>Technical Services and capacity building provided by GIZ including consultant services, studies, training to improve operation of MEWD, MLGH, NAWASCO and CU's.</i>	\$700,000	17.5%
2. <i>DTF Provision of Water supply services through commercial utilities.</i>	\$1,800,000	45%
3. <i>DTF Provision of Sanitation services through commercial utilities.</i>	\$1,200,000	30%
Component 4: Operation of an Efficiency Task Force		
1. <i>Technical Services and capacity building provided by GIZ including consultant services, studies, training to reduce UFW, improve energy efficiency and billing services.</i>	\$300,000	7.5%
Total	\$4,000,000	100%

3.2 Rationale for AusAID participation

26. Support for the Water Sector Reform in Zambia program strongly aligns with the goals of AusAID's Water and Sanitation Initiative and the Africa Water and Sanitation Program (AWSP) in increasing access, promoting good hygiene behaviour change, support for sustainable service provision and institutional reform.

27. In 2009 Australia's Prime Minister and Germany's Chancellor agreed to extend joint efforts to include cooperation in Africa, with a particular focus on water and sanitation. Collaboration with Germany in water and sanitation in Africa will be part of continuing long standing development cooperation ties between the two countries. Through support for the GIZ Program for Water Sector Reform in Zambia, AusAID is aligning WSI support with the priorities of the Zambian Government and Germany and Denmark as the principal sector donors.

28. Germany is a leader in the African water sector with a well developed program of engagement in development policy issues and investment programs. Working with Germany in Zambia offers a good opportunity for Australia to scale up investment in Africa beyond its primary bilateral partnerships with Malawi and Mozambique. Government Agencies including KfW, and GIZ, as well as several specialist NGO's, have a strong presence in Africa with staff and resources implementing existing programs in Zimbabwe, Zambia, Kenya, Tanzania and the SADC Countries.

3.3 AusAID objectives in supporting this Activity

29. Australia's development cooperation program in Africa is planned to increase significantly by 2015. The Africa program has a focus on supporting Africa's progress towards the Millennium Development Goals, in areas where Australia is able to make a difference and has experience, specifically in the areas of food security, maternal and child health, and water and sanitation. This program will respond to Millennium Development Goal 7 ' *Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation*' but also contribute to other key MDG's including 1 (eradicating poverty), 3 (promoting gender equality and empowerment of women) and 4 (reduce child mortality).
30. Zambia is located in the Southern African Development Community (SADC) which is the focus area for the AusAID water program in sub-Saharan Africa. The country has Least Developed Country status as defined by the OECD-DAC and low levels of water and sanitation coverage.
31. A partnership with GIZ in Zambia aligns with AusAID's Africa Water and Sanitation Program (AWSP). The AWSP concept document sets out an approach to AusAID's water and sanitation program in Africa which includes a geographic focus in sub-Saharan Africa in provision of water and sanitation facilities through program partnerships and support for regional policy development, research and knowledge dissemination programs.

4. Country and Sectoral Issues

4.1 Country Profile

32. Zambia has about 13,300,000 people (according to 2010 UNDP HDR), spread over an area of 752,614 km². Approximately 40% of the population lives in urban areas. The UNDP HDR indicates that more than 64% of the population (8.51 million) lives below the poverty line and 17.8 percent (2.37 million people) are at risk of multi dimensional poverty. Being one of the lowest GDPs/capita countries in the world, Zambia faces formidable development challenges. Zambia is ranked 150th out of 169 countries on the Human Development Index.⁴ Public spending on water and sanitation has been low at 0.4% of GDP with government spending of 0.01%.⁵
33. The UNICEF WHO Joint Monitoring Program for Water Supply and Sanitation (JMP) report "Progress on Drinking Water and Sanitation: 2010 Update"⁶ shows the following for Zambia in 2008: (1) improved drinking water coverage is 60% with 87% coverage in urban and 46% in rural areas, and (2) improved sanitation coverage is 49% with 59% in urban and 43% in rural areas. Most of the unserved population in urban areas live in informal settlements around cities and towns.
34. The Joint Assistance Strategy for Zambia (JASZ) is a national medium term framework (2007-10) which has been developed by 16 Cooperating Partners⁷ to manage development cooperation in alignment with the Government of Zambia's National Development Plan. Twelve bilateral donors, the EU, UN, World bank and African Development Bank have signed up to the JASZ. Of the signatories Germany, Ireland, Norway and Sweden have replaced their

⁴ UNDP, Human Development Report 2010

⁵ WHO Country Cooperation Strategy 2008-2013

⁶ 2010 JMP Report is based on 2008 figures.

⁷ Cooperating partners include: AfDB, Canada, Denmark, EU, Finland, France, Germany, Ireland, Japan, Netherlands, Norway, Sweden, UK, UN Systems, USA, World Bank.

development country strategies with the JASZ. The JASZ includes commitment to the principles, commitments and actions of the Paris Declaration. Under the JASZ Denmark and Germany have lead donor roles in WSS and WRM.

35. Guiding policies for the water and sanitation sector are the Vision 2030, MDG's, Medium Term Expenditure Framework, Fifth National Development Plan and the Sixth National Development Plan (2011-2015) (SNDP) which is under preparation. In the "*Longer term National Vision 2030*" the vision for water supply and sanitation is "*Clean and safe water supply and sanitation for all by 2030*". Under the current (5th) and proposed (6th) National Development Plan the program has three components (1) Rural Water Supply and Sanitation, (2) Urban Water Supply and Sanitation and (3) Sector Capacity Development.

4.2 Sector Issues and Challenges

36. Specific challenges to the sector as detailed in the SNDP include:
 - Lack of strategic planning for the sector ;
 - Work plans are not implemented due to a weak program framework;
 - Water demand exceeds capacity, with predictions of a 61% shortfall by 2015;
 - Sewerage systems are in a poor state and require rehabilitation;
 - Less than half the urban population has access to basic sanitation;
 - Institutional and technical capacity is weak; and
 - Cost recovery mechanisms of CU's for funding service delivery require improvement .

4.3 Linkages with current programs

37. Proposed funding to this activity will complement support currently being provided in Zambia by key donors, Germany and Denmark. Under the SNDP aid programs include increased access to water supply and sanitation for the urban poor, reduction of unaccounted for water, rehabilitation of existing water systems in urban and peri urban areas, securing financial sustainability through demand management, sustainable tariff and improved collection efficiency. Service delivery is supported by strategies to strengthen the human, financial and technical capacity of institutions for improved sanitation service delivery in urban and peri urban communities.
38. GIZ also supports the transfer of knowledge and learning between other German Government funded programs in Tanzania and Kenya. In Tanzania, which is implementing a large SWAP, the Government is taking lessons from Zambia on service provision in low income areas, while in Kenya the Water Services Trust Fund has benefitted from tools and concepts developed for the DTF.
39. Funding of the GIZ Water Sector Program in Zambia will complement Australia's other water and sanitation programs in Mozambique, Malawi and Zimbabwe and civil society projects in Zambia and other SADC countries. Through AusAID's Civil Society Water, Sanitation and Hygiene (WASH) Fund, AusAID is funding Oxfam and Water Services for the Urban Poor (WSUP) to implement water and sanitation activities in Zambia. The WSUP activity is particularly relevant to this program, in that WSUP is also working with the Lusaka Water and Sewage Company to develop water kiosks in poor urban areas. It also links to the Australian-funded SADC Transboundary water management program which includes Zambia and 16 SADC countries. AusAID will further investigate potential linkages and opportunities for shared learning with these programs.

40. The proposed support for Zambia's achievement of the MDGs through an enhanced program in water and sanitation will contribute to meeting the great challenge in sub-Saharan Africa. A focus of Australia's aid program in Africa has been to enhance the capacity of African governments and civil society to deliver basic services to the most vulnerable communities. This program will support that focus through the supply of water and improved sanitation to poor urban and peri urban communities in Zambia.

4.4 Lessons Learned

41. Key lessons that have been derived from experiences of previous programs in Zambia and more broadly in Africa are being applied in new program development. Some of these are summarised below:

- Commitment by Government to a comprehensive sector program with effective sector coordination between donors and agencies results in more effective progress in delivering water and sanitation infrastructure to communities;
- Use of Commercial Utilities has improved the quality of service and coverage for water supply in urban and peri-urban communities;
- Use of appropriate technology, like water kiosks, can provide reliable services in poor urban areas;
- Cost recovery for water supply can be introduced, even in poor areas, when the level of service is reliable and the costs are seen by the community as providing good value for money;
- Commercial operators will be effective only when there is good independent regulation and effective consumer voice mechanisms;
- It is crucial that appropriate technologies and standards are adopted to ensure cost effectiveness and sustainability of investments;
- Sanitation: Sanitation and hygiene must be given more attention through development of appropriate strategies and provided with appropriate resources.

5. Proposed Activity Funding

5.1 Level and Modalities of Funding

42. Funding of AUD 4 million is proposed to increase funds allocated to WSI Africa funded programs over the FY 2010/11 period. These funds will be released to GIZ on execution of the AusAID-GIZ grant agreement and then on a funding request.

43. GIZ has an existing funding procedure for the DTF and disbursement of Funds to the DTF basket fund will be undertaken by GIZ through their existing program financial management systems.

5.2 Implementation Arrangements

44. AusAID will channel its support through a Grant Agreement between AusAID and GIZ. The partnership with GIZ is enabled by the AusAID and BMZ Partnership Agreement . Delivery of the GIZ Water Sector Reform Program is facilitated under agreements between GIZ and the Ministry of Energy and Water Development (MEWD). Under the GIZ program GRZ implementing agencies are the MEWD and the Ministry for Local Government and Housing

(MLGH). Construction work funded by AusAID through the DTF will be managed at the local level by the 11 commercial utilities who contract the companies and NGO's to construct works.

45. To implement physical works DTF operates two funds :

- The General Fund (water and sanitation) where CU's can apply for grants eg to construct water kiosks in peri urban areas or provide low cost decentralized sewerage systems;
- The Performance Enhancement Fund. Which aims at enhancing long term economic viability and increased efficiency of the CU's through works such as non revenue water reduction and energy efficiency.

46. Project selection for DTF is through a competitive process where there is a call for proposals from all the CU's. Applications are then screened against key criteria and those that pass are assessed in detail by DTF. Projects are prioritised and funding decisions made by the DTF financial committee. Successful CU's then enter into Financing Agreements with the DTF. Disbursements are made on request by the CU's 1 or 2 times per year. Project durations are generally for 6-12 months but can be longer. The imprest procedure of DTF is for an initial payment and when funds are 50% spent the CU applies for replenishment. CU's are required to provide evidence of correct expenditure at the time of each request and evidence of Audit of funds from previous project periods. AusAID will rely on existing audit procedures of the GIZ and DTF.

47. Corruption has been identified as an issue in several Zambian Government Ministries in the recent past. For the program all procurement of goods, works and services (water supply and sanitation infrastructure or hygiene promotion) will be in accordance with GIZ and DTF's rules and procedures for the procurement of goods, works and services, or as appropriate.

48. Supervision of works is performed by technical and social consultants contracted by DTF. These consultants undertake verification of data in the contract before commencement of works and then provide independent verification of quality and quantity of works/supplies delivered as well as monitoring the effectiveness of community consultation and poverty targeting.

49. Technical assistance provided to the MEWD, MLGH and DTF and CU's is implemented through direct procurement of consultants/services by GIZ. This includes general advice, organisational development, technical advice on water and sanitation and organisational support for evolution of DTF as a basket funding mechanism for NUWSSP support. Training is also organised with Universities and professional training institutions in maintenance, program management, works supervision, contract administration and monitoring and evaluation.

50. AusAID's role in the program will involve establishment of the arrangements for funding in coordination with GIZ, undertaking AusAID activity management tasks including periodic monitoring and review of progress, performance reporting and quality at implementation reporting. AusAID will use support for this program to better understand the sector and to investigate future opportunities with GIZ and other partners. A particular focus for AusAID will be to engage with the sector through the Joint Annual Sector Review and to support a scale up of sanitation in the next phase of the NUWSSP.

51. Achieving recognition of Australia's role in Africa's, and Zambia's, development from the proposed water and sanitation activities in Zambia is an important aspect of this collaboration between the Government of Zambia, GIZ and AusAID. AusAID will work with the Government of Zambia and the Cooperation Partners to identify such opportunities, which may include diplomatic or other representation at key program milestones such as openings of completed facilities or high-level meetings with the Government of Zambia such as Joint Annual Sector

Review. AusAID will also attempt to ensure representation annually at the Joint Sector Review with the Government of Zambia.,

52. As an agency used to delegated cooperation arrangements with other donors, GIZ head office in Germany has previously indicated they are quite cognisant of donor requirements for visibility. AusAID will also seek to contractually commitment GIZ in any agreement covering our support.

5.3 Implementation Schedule

53. A critical element of the project design is the need to disburse all AusAID WSI funding by June 2011 in accordance with the current funding allocation for the Water and Sanitation Initiative. While funds can be disbursed within the time period through the grant agreement with GIZ, the implementation period for the Australian supported program will match the current water sector reform program which goes until the end of 2012. A key consideration with the implementation schedule is allowing adequate time for community consultation and hygiene behaviour change which takes years to become effective. An indicative implementation schedule 2011-2012 is attached in Appendix 5.

5.4 Monitoring arrangements

54. Monitoring of the effective and efficient use of AusAID funds will be enabled through DTF governance and management arrangements and the partnership with GIZ. The DTF undertakes routine monitoring of CU funded activity and publishes an annual report which includes reports on DTF compliance and achievement against the key program monitoring indicators. GIZ is accountable to BMZ as the German Government Agency responsible for the impact of the water sector reform program and provides annual reports for the Joint Sector Review and regular quantitative and qualitative evaluations against key indicators. GIZ will provide annual reporting to AusAID in February and will provide the opportunity to participate in supervision missions. There is provision within the WSI Africa regional budget to enable access to specialist consultants to complement AusAID Post and Advisory inputs.
55. DTF Basket Funding Partner Cooperation Program includes the following monitoring indicators (Performance is shown in Table 4 of the DTF Annual Report) :

No	Indicator
Objective 1: The urban poor use safe water for domestic consumption	
1	Additional 2.85 million people have access to water kiosks by 2015
2	80% of people with access to water kiosk use at least 5 l/c/d from the water kiosk.
Objective 2: A feasible approach to improve sanitation for the urban poor is developed and tested and more residents in peri-urban areas use safe sanitation practices	
3	Additional people have access to improved sanitation facilities by 10 new sanitation projects until 2015.
4	The quality of construction contracts is adequate
Objective 3: The CU's are capable of managing peri-urban water supply schemes on a sustainable basis.	
5	The quality of kiosk management systems is satisfactory according to the DTF Toolkit for peri-urban water supply.

	Objective 4: the financial viability of the CU's is improved.
6	NRW and Energy system input volume (m3) expenditures of the CU's participating in Performance Enhancement Fund(PEF) projects are decreased compared to the previous year.
7	At least 40 Performance Enhancement Fund Projects are implemented by 2015.
	Objective 5: the DTF works efficiently and transparently and is able to handle a volume of up to 3 million EURO/annum.
8	The correct use of funds is confirmed by external auditors in semi annual audits.
9	Volume of funds handled per year is increased
10	The ratio of administration costs and annual turnover is decreasing.

56. Key indicators for the GIZ program include the increased proportion of people with access to safe and affordable water and access to improved sanitation, which align with key result areas for AusAID's Performance Assessment Framework. Further detail on Monitoring and Reporting including monitoring framework and indicators measured are contained in *Drawing on Experience: the Water Sector reform Programme, Zambia*.

5.5 Sustainability

57. Sustainability of the sector is being built through the combined efforts of all donors working on the Water Sector Reform. It includes associated programs of Denmark, World Bank in Lusaka Water and African Development Bank in North West Water Supply Company. Donor programs support the effective operation and increased cost recovery of Commercial Utilities, which serve about 92% of the population in urban and peri urban areas, and the independent regulator in NWASCO. Reform has improved service delivery and increased the available budget for operations and maintenance..

58. A key to reform is public disclosure of key operational and service indicators. Technical assistance provided by the program supports NWASCO's operation so that the CU's are benchmarked and results made public. NWASCO reports annually to the GRZ, local government and the public on CU performance. Through this each CU is motivated to improve their previous performance and to out perform the other CU's. Performance indicators include: number of water connections, water supply coverage, sanitation coverage, water production, unaccounted for water, metering ratio, water quality, hours of supply, customer complaints, cost of operations, cost structure, tariffs and unit operation costs, revenue collection efficiency, O&M cost recovery, staff efficiency and quality of information submitted to NWASCO. Over a number of years the CU's have increased their O&M cost recovery ratio from very low levels to a point where 6 out of 11 CU's covered greater than 80% of their operational costs.

59. Sustainable low cost WSS technologies are seen as key to the provision of affordable services in low income areas. This includes water kiosks which provide safe and affordable water to poor communities and provide small business opportunities for the men and women who operate them. Provision of large scale affordable sanitation in low income areas is seen as a challenge for the sector. Even investment in low cost sanitation is expected to result in higher charges than for water supply and costs must be met by users. Involvement of the community in determining appropriate levels of service will be a key consideration in the scale up of urban sanitation. Identification of innovative technologies including water-less toilets and recovery of nutrients in urine are also under investigation..

5.6 Consumer Voice and Sector Regulation

60. Local Government provide oversight of the commercial utilities through their Management Boards. Water Watch Groups (WWG) have also been established to provide a community based mechanism for customer complaints and oversight of project implementation. The WWG's operate where the consumer does not get a satisfactory response to a complaint they have made to their provider. If they are also unsatisfied with the actions of the water company the complaint is referred to NWASCO who attempt to resolve the issue. If there is a fault by the service provider NWASCO can fine them and publicise the issue.
61. The Draft Water Sector Programme Support Document proposes future improvements in domestic accountability and budget tracking in the water sector through an NGO program. Civil Society for Poverty reduction (CSPR), Transparency International Zambia (TIZ) and WaterAID have formed an Alliance on Water and Sanitation. The Alliance proposes to implement a community based monitoring system with the aim of improving service delivery, accountability and effective use of resources. While not operational this Alliance could be a key tool for the Sector in improving sustainability. AusAID will propose support for establishment of the Alliance through involvement in Joint Sector Reviews.

5.7 Risks and risk management strategies

62. Successful implementation of the Program assumes that a) the development of a new urban sector program does not disrupt operation of the GIZ program and DTF; b) the Commercial utilities have adequate capacity to effectively manage the projects; c) the CU's are able to effectively manage an increased number of water and sanitation systems and d) hygiene promotion is included in community mobilisation for water kiosks. A summary of risks and management responses is outlined below:

Risk	Risk Management Strategy	Risk Rating
Work of DTF is impacted by political and bureaucratic interference in development of a new NUWSSP.	-GIZ and donors sector reform program includes support for reform and effective regulation of the sector. GIZ has a technical advisor working inside of DTF.	Medium
Fiduciary Risk	-Ensure DTF has necessary resources to supervise and monitor the program.	Low
GRZ and donor investment in Sector is too low to meet national MDG targets.	-AusAID to participate in Joint Annual Sector Review to improve transparency of sector funding.	Medium
Program will not be delivered on schedule.	-Program timeline shows that there is time for 2 calls for proposals by the DTF and their implementation.	Low
Lack of personnel and knowledge capacity of staff.	-DTF will engage new staff and provide training as required to supervise works.	Medium
Exchange rate risk	-AusAID will transfer all funds by June 2011 with funds held by GIZ in relevant currencies.	Low
Non-Adherence to DTF procedures	-DTF is providing additional resources to ensure processes are followed and provide training to CU staff.	Low
Project implementation is delayed by CU's.	-Payments to consultants are based on project performance with final payment only after project	Medium

	completion.	
System sustainability is not addressed during implementation.	<ul style="list-style-type: none"> -Appropriate training of CU's and local operators. -Regular audit of physical works. -Tariff system established and enforced. -Involvement of women in management and operation of water kiosks and sanitation. 	Medium
Corrupt practices are encountered in implementation.	<ul style="list-style-type: none"> -DTF operates as a separate accountable funding mechanism outside current Ministry systems. -DTF has existing mechanisms of transparency and social accountability and is audited. -Water watch groups established to monitor service providers. 	Low
Sanitation lags behind water supply provision in NUWSSP.	<ul style="list-style-type: none"> -AusAID to advocate for increased resources for sanitation in the NUWSSP. 	Medium
Cost increase during implementation.	<ul style="list-style-type: none"> -Reduce the scale of activity to suit the available budget. 	Medium
Limited human resource capacity to implement a program and provide adequate O&M.	<ul style="list-style-type: none"> -DTF engage staff and local consultants to supervise quality and implementation of water supply systems. -Capacity building program provided by GIZ for CU's and consultants to improve service quality. -Cost recovery by CU's for O&M (staff) cost is maintained. -DTF delay disbursements if staff resources and CU contributions are not made. 	Medium

6. Cross-Cutting Issues

6.1 Environmental and Social Safeguards

63. GIZ as a federal government owned agency is accountable to the German Government for their programs and have established environmental and social safeguard protection principles and guidelines. BMZ and GIZ are also participants in the UN Global Compact which aims to support 10 key principles in the areas of human rights, labour, the environment and anti corruption. AusAID will rely on GIZ's environmental and safeguard systems in implementation of AusAID support to the program.
64. Program activities supported by AusAID under the two components will have minimal environmental impact. The water kiosks source water from existing CU water supply systems. Water pipelines and sewerage works are only being implemented in unserved peri urban and urban slum areas. Program activity will have a positive environmental impact in these areas by reducing water losses (which cause drainage problems) and by providing sanitation systems in areas with no facilities where high rates of open defecation adversely impact on groundwater and nearby shallow wells.
65. Implementation of water supply and sanitation works may cause some social disruption at a local level with possible low levels of relocation for new assets such as water towers. Implementation of DTF activity requires that a social analysis is undertaken as part of activity implementation with supervision and verification of social impacts by independent consultants.

6.2 Gender Equality

66. Further gender analysis is conducted by DTF as part of preparation for activity implementation. In order to do this, the program ensures the collection of gender disaggregated data for monitoring health and hygiene indicators as well as process and impact indicators. The program addresses many of the gender equality outcomes of both the GRZ and AusAID's gender policies. Under the GIZ program training is provided to CU's, NWASCO and DTF in gender, HIV AIDS and hygiene. Capacity building support is provided and mechanisms included that enable women to participate in professional technical training (ie financial, oversight, material development).
67. Provision of basic sanitation and safe water through the program will address identified problems for women and girls living in overcrowded peri urban and slum areas in Zambia. Under the program water kiosks are constructed within 500 metres of the target communities reducing the time taken to collect water and making the journey shorter and safer after dark. Kiosks are attended at all times and frequented by people purchasing water and a range of other goods increasing the level of security for women collecting water. Focal group discussions are held with men and women to plan the location of the water kiosks and for implementation of sanitation programs. Provision of affordable and safe water from the kiosks also reduces health and hygiene risks for men, women and children. Around 50% of water vendors are women creating job equality and access to training in selling water, accounting and selling small household items will create small business opportunities.

6.3 Support for People with Disabilities, the Elderly and Disadvantaged

68. In Lusaka and other urban areas most existing water points and sanitation facilities are not readily accessible for people with disabilities or mobility issues. While these individuals also have limited access to the water points because of poor roads, the adoption of universal design guidelines for water points will assist them to carry out tasks such as collecting water.

69. People with HIV and AIDS or a disability are involved in the decision making and planning of water projects through community consultation including focal group discussions and through capacity building of the CU's, DTF and NWASCO in how to improve access.

70. The water sector program, as far as is practical, actively supports the provision of water and sanitation facilities suitable for people with disabilities, the elderly and other disadvantaged people including people living with HIV/AIDS. Training is provided through the GIZ program on cross cutting issues including access for people living with a disability. Water kiosks are used for HIV AIDS outreach and education facilities. In areas of particular disadvantage, with high rates of HIV AIDS, small business enterprises have been established such as raising pullets (chicks) for domestic sale. Support for the water sector reform program creates opportunities to advance GRZ and AusAID disability-inclusive policies. In trying to ensure affordability of water resources, the pricing strategies developed will pay attention to targeting subsidies to people with disabilities and HIV/Aids affected households as these vulnerable groups tend to be economically marginalized. In the case of the latter, the additional water requirements for caring for HIV/AIDS affected households should not be denied due to affordability issues.

7. Supporting Documents

Reference was made to the following supporting documents in the preparation of this Design Summary and Implementation Document.

1. Project Design Document Annex 1 to the grant agreement for Zambia Water Program: GIZ November 2010.
2. Water Sector Programme Support, Phase II, Zambia: Government of Denmark May 2010
3. Sixth National Development Plan, 2011-2015 Water Chapters.
4. The Devolution Trust Fund, Annual Report 2009
5. The Devolution Trust Fund, Strategic Plan 2010-2012
6. Drawing on Experience, The Water Sector Reform Programme, Zambia, GIZ
7. Case Study, Water Kiosks , GIZ