

Financial Assessment of Private Rural Water Operators

Report for January – December 2023

9-6-2024

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1. Background

A strategic partnership has been made between the African Development Bank (AfDB) and the Government of Rwanda (GoR) aimed at advancing Rwanda's sustainable and resilient water and sanitation program. The sector budget support is designed to enhance governance, improve access to basic water and sanitation services, and strengthen institutional frameworks. The program's key areas of focus include:

1. **Institutional Strengthening:** Enhancing the institutional set-up to improve coordination, oversight, and performance in the water and sanitation sector.
2. **Functionality and Sustainability of WASH Interventions:** Focusing on improving the monitoring and coordination of district-level investments in water, sanitation, and hygiene (WASH) interventions.
3. **Efficiency and Capacity Building:** Strengthening the efficiency and capacity of service delivery to ensure sustainability and resilience.

This operation was planned to be implemented over a three-year period, from the fiscal year 2023/2024 to 2025/2026.

The program is expected to promote the adoption and implementation of innovative water governance practices across various levels of government through comprehensive policy reforms, legislative updates, institutional strengthening, and regulatory measures. The key components include: Harmonization and Adoption of Water and Sanitation Policy and Law, Updating Urban and Rural Water and Sewerage Regulatory Tools and Guidance, Institutional Assessment of WASAC and Implementation of Reform Action Plan, Updating National Investment Policy to Integrate Climate-Resilient WASH, Preparation and Adoption of Urban and Rural Water and Sewerage Tariff Structure and Preparation of Water and Sanitation Strategy Aligned with NST 2.

These initiatives collectively aim to strengthen governance, improve service delivery, and ensure the sustainability and resilience of Rwanda's water and sanitation sector.

2. Rationale of the financial assessment

The program is structured with a disbursement mechanism that is dependent on meeting specific triggers agreed upon between the African Development Bank (AfDB) and the Government of Rwanda. These triggers are designed to ensure that the funds are released only when certain key deliverables are achieved, ensuring the effectiveness and accountability of the program.

Among the key conditions for disbursement include;

- **Regulatory Tools on Water Quality and Sanitation Services:** The Rwanda Utilities Regulatory Authority (RURA) is tasked with confirming the development and implementation of regulatory tools that ensure the quality of water and sanitation

services. This is critical for maintaining public health standards and safeguarding environmental resources.

- **Rural Water Financial Assessment:** This assessment focuses on evaluating the financial viability and sustainability of rural water services, specifically in terms of operations and maintenance (O&M) costs, and capital investment.

3. Objective of the Financial Assessment

The financial analysis report on rural water operators is an essential part of this program. The assessment aims to ensure sustainable cost recovery by analysing the following:

- **Operations and Maintenance (O&M) Costs:** Evaluating whether the current revenues from tariffs can adequately cover the day-to-day operational expenses and maintenance needs of rural water systems.
- **Capital Investment:** Assessing the ability of rural water operators to secure funding for necessary capital investments, either through government subsidies, donor funding, or remunerative tariffs.⁴
- **Tariff Structure:** Recommending a tariff structure that balances affordability for rural consumers with the financial sustainability of the water services. This may include proposing adjustments to current tariffs or suggesting alternative funding mechanisms.
- **Government and Donor Funding:** Analysing the role of government subsidies and donor funding in bridging the gap between the cost of providing services and the revenues generated, ensuring that rural water services remain viable and sustainable in the long term.

This financial assessment report is crucial in determining the readiness for the next tranche of disbursement under the program. It provides a clear picture of the financial health of rural water operators and outlines strategies for achieving sustainable and resilient water service delivery in Rwanda.

4. Current Status of Water Sector

Market players in water sector comprises urban and rural water operators, WASAC utility operates in urban area while private water operators operate in rural areas with a delegated management from WASAC.

a) Urban water tariff

Current urban water tariffs have been approved in 2019. The below table outlines tariff per m³ for each customer category

Customer category	Monthly consumption	Applicable tariff(Frw/m3)- exclusive	VAT
Public taps	N/A	323	
Residential	0-5m3	340	
	6-20m3	720	
	21-50m3	845	
	>50m3	877	
Non-Residential	0-50m3	877	
	>50m3	895	
Industries	N/A	736	

Source: Board Decision N°001/BD/WAT/RURA/2019

b) Rural water tariff

The rural water tariffs have been approved in 2016 and they are different based on water supply systems.

Water supply system	Tariff Frw/m3- exclusive	VAT	Tariff Frw/Jerrican- VAT exclusive
Gravity	287		7
Electricity pumping	731		17
Diesel pumping	921		21
Turbo	689		16
Complex system	597		14

c) Changes in water policy

The Government of Rwanda has revised the delegated management model of managing rural water supply systems in which the role of WASAC and Districts was changed. WASAC is now contracting with private operators while the Districts are acting as witness. This has been adopted with a principle of integrating youth companies in rural water sector.

d) Rural water operators by District

#	District	Company/Operator Name
1	Gakenke	AMIRAH
		NEEP
2	MUSANZE	AQUAVIRUNGA
		REDEC Ltd
3	Nyabihu	AQUAVIRUNGA
		COWBE
		REDEC Ltd
4	Rubavu	AQUAVIRUNGA
5	Kamonyi	AQUARWANDA
		SEEGH Ltd
6	Gatsibo	AYATEKE STAR
7	Kirehe	AYATEKE STAR
8	Nyamasheke	AYATEKE STAR
		PAAKAM
9	Rutsiro	AYATEKE STAR
10	Rwamagana	AYATEKE STAR
		UBUZIMA BWIZA MKM
11	Rulindo	COWBE
12	Nyaruguru	KPC
13	Nyamagabe	NIBWOBUZIMA
		NKUNDIMANA
14	Burera	PAAKAM
15	Gasabo	PAAKAM
16	Kayonza	PAAKAM
17	Ngoma	PAAKAM
18	Nyanza	PAAKAM
19	Gisagara	PSF- GISAGARA
20	Huye	REDEC Ltd
21	Karongi	RWASACO
		VISION WORK

Report As of 31 December 2023

5. Financial Assessment

The scope of financial assessment target was financial data for the year ended 31 December 2023. Primary objective of this financial assessment was to evaluate the profitability of the rural water sector in Rwanda and to determine the necessity of revising the rural water tariff. This assessment aims to ensure that the current tariff structure is conducive to sustainable operations while being fair and affordable to consumers in rural areas.

a) Methodology

The methodology employed in this financial assessment involved the following key steps:

- **Data Collection:** The financial statements of all private operators managing rural water supply systems were collected for the financial year ending 31 December 2023. This included income statements, balance sheets, cash flow statements, and any other relevant financial records.
- **Financial Analysis:** The collected data was subjected to a detailed financial analysis focusing on key indicators of profitability such as revenue, operating costs, net profit margins, and return on investment.
- **Assessment of Cost Recovery:** The analysis included a review of the cost recovery mechanisms in place. This involved evaluating whether the revenues generated from existing tariffs were sufficient to cover the full cost of operations, maintenance, and capital investments, or whether subsidies and external funding were required.

b) Findings

The financial analysis revealed the following key insights;

i. Submission of Financial statements

Out of the 16 rural water operators who participated in the assessment, only 2 operators submitted audited financial statements. These audited statements provided a comprehensive and verified overview of their financial performance, including detailed income statements, balance sheets, and cash flow statements.

The remaining 14 operators submitted only extracts of their financial statements, with most of these submissions limited to the profit and loss account (income statement) alone. This situation limited the depth of the financial analysis that could be conducted on these operators, as key components such as assets, liabilities, equity positions, and cash flows were not available.

ii. Quality and Completeness of Financial Data

The difference in the quality and completeness of the financial data among the operators posed challenges to conducting a detailed and uniform financial assessment across the sector.

The operators who only submitted profit and loss accounts did not provide sufficient data to assess their financial health comprehensively. Specifically, the lack of balance sheets and cash flow statements prevented a full evaluation of their solvency, liquidity, and long-term sustainability.

iii. Results of the assessment

At country level, rural water sector is making profit as bellow portrayed.

Summary for the Rural Water Sector	
Overall total revenues from sold water	3,208,367,646Frw
Overall Total for other incomes	392,308,628Frw
TOTAL REVENUES	3,600,676,274Frw
Overall total expenses	3,117,218,332Frw
Profit	483,457,942Frw

Total costs represent 87% of sales while 13% is profit margin.

6. CONCLUSION AND RECOMMENDATIONS

Due to the limitations in the financial data provided, the assessment was conducted primarily on the basis of revenue and expenses as reported in the profit and loss accounts. Despite these constraints, the analysis revealed that rural water sector, as of the year ending 31 December 2023, is currently profitable. The revenue generated by the operators is sufficient to cover their operational expenses, and there is no immediate financial distress observed among the operators. Therefore, there is no urgency to review the tariff.

Considering the sector’s current profitability and the ongoing change management process for rural water supply systems, it is recommended to hold off any immediate revisions to the rural water tariff.

To address the reporting challenges, the implementation of the ongoing customer management system is anticipated to be beneficial, as it will enhance water customer management and reporting. This system is expected to improve financial reporting and data collection, enabling more detailed, disaggregated and accurate future evaluations of the sector's financial health