

The Financing and Affordability of Urban Services for Housing in Angola

Allan Cain – Development Workshop Angola

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With the approaching rainy season in Angola and new reports of cholera, which has been held in abeyance since the epidemic of 2007, public policy makers and consumers alike look at the implementation of long-delayed urban services reforms. *Paying for services* has become the Government's mantra since the financial crisis hit two years ago and they were obliged to withdraw subsidies. Civil society and consumer groups at the same time demand equitable access and affordability when asked to pay for the first time for these services.

At the end of the war in 2002, Angola's urban water supply was highly deficient, it was estimated that only 16% of the families were supplied with piped water to their homes (25% in Luanda the capital and 8.5% in the other urban areas). Historically, the prices paid by consumers for the piped supply of water, sanitation and electricity were very low. The ability to operate, maintain, repair, improve and expand the basic infrastructure of water and electricity was greatly reduced during the years of conflict when many systems of water storage, transport, pumping stations, treatment and distribution, were destroyed or became inoperative through negligence. The same happened with the electricity infrastructure. The capacity of the systems of water, sanitation and electricity is insufficient to provide basic services that the communities need. Urban populations came to depend on the informal markets to deliver water through a supply chain involving truckers delivering river water and sales to consumers through neighbourhood tank-owners and even ambulant street-sellers. The informal water market in Luanda grew to a value of over a quarter of a billion US Dollars annually¹. The probability of contamination increased dramatically when an unsafe water source is used – in July 2014, the Minister for Energy and Water, João Baptista Borges, stated that 45% of the water consumed in Luanda comes from water cistern trucks². If the trucks draw the water directly from the river and then sell it to consumers, then there is a very high risk of contracting water-borne diseases such as cholera if the water is not treated.

Since 2007, the government has implemented the Water for All Programme³ with a budget of more than US\$ 650 million; it aims to achieve coverage of 80% in rural/peri-urban areas. According to an evaluation conducted in 2012, the program had a nationwide coverage of 45.5% reaching 3 million beneficiaries. The financial investment was increased in 2009 to US\$

¹ Development Workshop (2010) IDRC Informal Market Study

² *Semanário Económico*, "Cerca de 45% da água consumida em Luanda é das cisternas", 14/07/2014
<http://www.semanarioeconomico.co.ao/PRIMEIRO/Pages/Cercade45da.aspx>, accessed 15/07/2014.

³ *Água para Todos* (2007) originally responsibility of Ministry of Energy and Water sifter to Presidents office in 2012.

1.3 billion⁴. Starting in 2012, the programme began disbursing funds directly to select municipal governments.

According to the Angolan Statistics Institute's Household Wellbeing Study (UNICEF 2012), 42% of the total population had access to adequate drinking water which is defined as having a water supply point within 100 m of their housing unit⁵. Potable water was more accessible in urban areas (57.9%). The number of households described as occupied or self-built, with access to proper drinking water, were lower than those of formal sector housing, at only 32.8%. Households occupied by people with higher levels of education had greater proportion of access to drinking water than others⁶. 59.6% of the population is also considered to have access to adequate sanitation, and increases dramatically as education of the household occupants increased. In 2013, the construction of the new Luanda household water supply network got underway with Chinese financing. The project is installing 416,000 household connections and laying a network of 842 km of water pipes.

The sanitary conditions in cities was even more critical. At the end of the war, it was estimated that only 7% of the families had access to the sewerage system and 3% of urban households in Luanda used containers for the removal of household waste⁷. Many cities did not have any systems at all, such as incinerators or sanitary land-fills, to destroy and transform garbage⁸. By 2011, still, only slightly more than one-third (35.5%) of urban households deposited waste in landfills and a little more than one-fourth (28.1%) deposited waste in the containers⁹.

The Program Management of Municipal Solid Waste (PESGRU) was launched in 2012 to systematically and appropriately handle the 2.19 million tons of solid waste that is generated throughout Angola every year¹⁰. Provincial Action Plans for Urban Waste Management¹¹ were launched in 2013 and the Ministry of Environment drafted the National Environmental Sanitation Policy (PNSA) while UNICEF supported improvements in the national WASH M&E data systems through the development of the Information System of the Water and Sanitation Sector (SISAS)¹² to help to improve local-level planning and budgeting for the basic service sector¹³.

⁴ UNICEF note (2012). *Water and Sanitation Sector in Angola*.

⁵ According to the National Directorate of Water (DNA) drinking water can be collected "without risk"⁵ from the following sources:

- Tap in the residence connected to the network or with a pump
- Neighbour's or building piped supply
- Public fountain
- Protected well or borehole

⁶ <http://www.ao.undp.org/content/angola/en/home/mdgoverview/overview/mdg7.html>

⁷ Ministério de Obras Públicas e Urbanismo (2001). National Report on the Implementation of the Habitat Agenda in Angola (Istanbul +5), p.13.

⁸ Ibid. p.16.

⁹ INE (2013). Inquérito Integrado sobre o Bem-Estar da População (QUIBB) 2011, Relatório Analítico (2013), p.100.

¹⁰ Ministério do Ambiente, "Para um futuro urbano melhor. Habitat III – Protecção do Ambiente e Urbanização".

¹¹ Decree No. 234/13 Executive of 18 July 2013

¹² UNICEF, (n.d.) *Annual Report 2013 – Angola*, p.11. Retrieved from http://www.unicef.org/about/annualreport/files/Angola_COAR_2013.pdf

¹³ Ibid., p.14.

Decentralisation reforms delegate the responsibility for water supply and sanitation services to municipal administrations, including mandating municipalities to: "...ensure the maintenance, distribution and management of water and electricity in its area of jurisdiction, even creating local enterprises to do so." However, municipal administrations, along with their affiliated water utilities, do not retain sufficient capacities or staff dedicated specifically to water and sanitation. This may reflect the fact that despite the existing decentralisation framework and its provisions, fiscal decentralisation has not yet been fully implemented, leaving local government entities with unfunded mandates. By law, the local level of government is responsible for preserving and managing the repair of municipal services but they are underfunded.

Sustainable Pricing Policy for Basic Services

It has been the policy of the government since the end of the war to progressively reduce the subsidies to the consumer and restructure the management services and collection of funds from public services companies. Cost recovery will allow the government to re-establish the ability to maintain and restore the systems of water and electricity, and subsequently, to finance the expansion of systems to appropriately meet the growing needs of the population. The Decentralisation Reform allows municipalities to eventually set up public utilities to provide basic services. The Government took important steps towards implementing their plans by setting up a National Training Centre for Local Administrators (IFAL) that has trained hundreds of municipal technicians and manages in recent years. A training focus was put on financial training and a pilot municipal budgeting program was launched in 2007, giving each of Angola's municipalities a US\$5 million allocation from the central state accounts to manage for one year in order to implement a plan that they had created themselves based on their own local priorities. The successful pilot however was not replicated in subsequent years, and with declining central budgets in recent years, is unlikely to be re-introduced in the near future. While local municipal administrators have demonstrated their capacity in managing budgets assigned by higher-levels of government, they have not been adequately trained in generating income locally through taxes, rates and other mechanisms that they can then use to finance their local plans. Central Government, arguing that local municipalities lack experience in financial management, ensure that they never gain it, by insisting that all locally generated income must revert to the central budget. The inability for municipalities to retain earnings means that they have no incentive to generate income, or if they do, they are unlikely to be recorded in the municipality's books (obliging local authorities to employ non-transparent practices).

While municipalities had the responsibility for managing local-level services, little progress was made toward this end during the decade since the end of the war¹⁴. The legal provisions for municipalities to create and administer these utilities as autonomous institutions or companies have not yet been created, nor have the mechanisms been defined for these municipal utilities to collect and retain user fees without reverting such income to the state central budget. Without the opportunity to retain and reinvest the income, there is little incentive for municipalities to generate income from the provision of services.

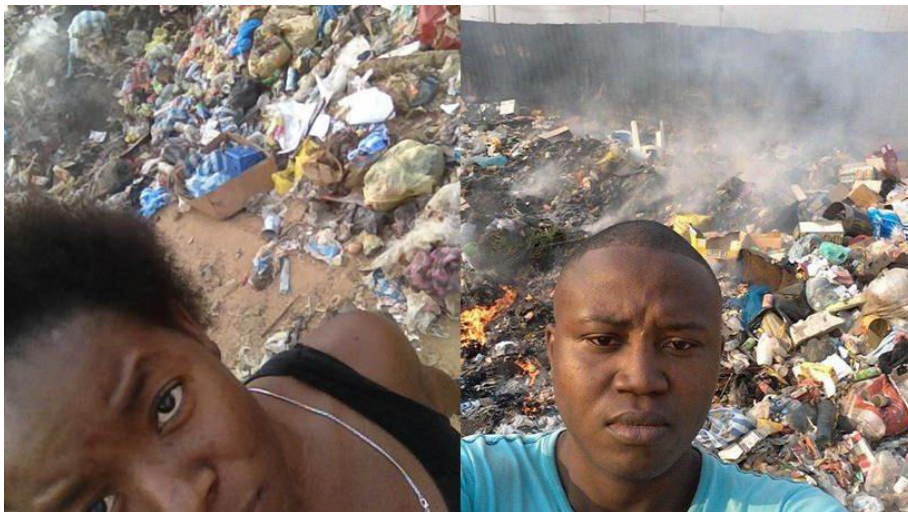
Development Workshop has demonstrated that even the most vulnerable population regularly pays for water services by the bucket at stand-posts. This is an indication that the willingness to

¹⁴ UNICEF (2012) Ibid., p..10. The Decentralisation Law-Decree 02/07 allows municipalities to eventually set up public utilities to provide basic services

pay for essential services. Collecting fees for rubbish pickup however is more problematic and some householders may clandestinely leave their rubbish in public spaces or vacant lots to avoid payment. DW has also demonstrated that the cost of the collection of garbage can be crossed-subsidised if embedded within the water tariffs. Clearly the cost of a cubic meter of water will climb, but payments for water are usually not problematic because alternative private or informal sector options for obtaining water are always much more costly.

Amongst the poorest of the population the political will of the population pay by sustainable services may be the strongest, because they have fewer choices. Communities in informal settlements in Luanda have shown that they are ready to participate by taking their rubbish bags daily to 100 or 200 meters distant from their home, to deposit in industrial-sized containers if, the city's sanitation company (ELISAL) removes them regularly. This type of service is more economical than door to door collection and can be a temporary solution in the rest of the city until the urban residents of more well-to-do areas demonstrate their willingness to pay for a higher level of service.

Development Workshop has advocated for the replication and scaling up of its successful pilot and demonstration projects to a city-wide level. In fact the sustainable water management model has been accepted as the national policy and is being rolled out nationally. Some of the elements of the sanitation strategy have been adopted in Luanda and some other cities. The municipalisation of sanitation services is wide-spread and sub-contracting of small and medium sized local companies that employ local labour is now wide-spread. The funds for subsidising these sanitation services continued to be drawn down from the central state budget.



The “Selfie Rubbish” campaign was launched on-line through social media by youth in Luanda as a protest against deteriorating environmental conditions outside of their homes.

With the dramatic collapse of prices of the commodities that fuelled the Angolan economy since 2014, funds for financing urban sanitation and other services dried up quickly. The accumulation of rubbish in public spaces became visible almost immediately and public health indicators soon deteriorated. A social media campaign was launched by youth and students to put on-line a “selfie of themselves standing with piles of rubbish in-front of their homes”. The media and civil society demanded urgent action. The Government realised the urgency of

accelerating the implementation of the reforms that had already been part of the National Policy for more than a decade¹⁵.

The announcement of the new tariff for the water and energy was made in the month of January 2016 and it was announced that the costs for rubbish collection were to be cross-subsidised as a surcharge on electricity bills. The authors considered this to be a smart solution, because electricity had a much better urban coverage (of over 70%) than household water connections. The table of charges however was set in May 2016 without having first considered issues like affordability and levels of service¹⁶. Middle-class communities, who had been the greatest beneficiaries of subsidies and had become accustomed to paying low or no fees for services, were the most vocal complainants. Some cases where monthly electricity bills for commercial clients had increased to as much as Kz 10,000 (US\$60) received attention in the press¹⁷. In most districts where many Government civil servants lived, including the new housing *centralidades* like Kilamba the fees increased by Kz 2,500 (or US\$15). For houses without electrical connections, the service fees were to be collected directly by the local sanitation service provider companies. The money paid together with the normal electricity bill on a monthly or quarterly basis was to be collected by the Provincial Government and then redistributed geographically to the respective municipalities for paying the rubbish collection contractors. The whole process was to be only overseen by the Ministry of Finance without the need of first passing funds through the central state budget, a major step towards implementing the policy of fiscal decentralisation.

The reform resulted in the substantial improvement of rubbish collection in Luanda. The new municipalized model was more decentralized and comprehensive. The public appeared to be reassured that fees paid actually were invested in the garbage collection services. However in mid September 2016, after only testing the new the cross-subsidy financial model for a few months, the Provincial Government of Luanda aborted the experiment. They complained that over the last three months they had encountered "difficulties and high costs in the creation of an appropriate database connected to the invoices for electricity"¹⁸. It was decided to remove the municipalities and the Electric Company from the financial equation. The payment of the rubbish collection fees were no longer to involve the municipal administrations, but were to be made into central government bank accounts, managed by the Ministry of Finance and the Government of the Province of Luanda. Payments to service companies would be then paid by the Provincial Government from centralized accounts, by-passing the municipalities. The municipal administrations' only roles became the delivery of invoices for the service collection to the citizens, at their homes, businesses or condos. Invoices were de-linked from any connection to the electricity bills. The enforcement of invoice-paying became the sole responsibility of municipal authorities who had neither material incentive nor any tools or castigations to apply in case of non-compliance.

¹⁵ National Policy of post-war of water supply has assigned to the provincial governments the responsibility for the establishment of fares for the supply of drinking water to communities through the Presidential Decree No 83/14 of 22 April that approves the regulation of public water supply and wastewater sanitation systems.

¹⁶ Presidential Decree 106/2016 of 20 May on the plan of Urban Cleaning of Luanda indicated that surcharged monthly fee for Luanda would range from 500 (US\$3) kwanzas for some households to 164,000 (US\$ 1000) kwanzas for some commercial clients.

¹⁷ O PAIS (2016) Governo de Luanda inverte na recolha de lixo para energia, 13 September 2016

¹⁸ Felix Abijah (2016) *Taxa de lixo começa em outubro apenas para condomínios e empresas*, Jornal Expansao 16 September 2016.

As a first step, invoices were to condominiums, and then to companies and, only later, to householders. Condominium dwellers were obliged to pay a monthly rate of only Kz 1,500 (US\$9). Willy Piassa, a civil society leader, said¹⁹ that “I do not believe that the constraints on household fee payments for services can be attributed to problems of data-collection. This is a problem which any high school student would be able to resolve. He said that it was not surprising that the Government backed off their initial commitment to introduce a policy of requiring consumers to pay for services in the months leading up to General Elections.”

Victor Hugo, a senior government economist, stated his concerns about the failure to recover fees for services and the cost to the State for continuing providing subsidies requires a diversion of resources from other needed programs. He complained²⁰ of the “inability of the government to comply with the policies and decisions it has taken itself”.

By the end of 2016 and Provincial Government of Luanda had spent the last three months since October attempting to recover fees for rubbish collection services by requiring commercial clients and condo-dwellers to make monthly deposits in the central bank accounts that the Ministry of Finance had set up. Virtually no funds had been recovered by the program from neither companies nor condominium dwellers that had been invoiced. Companies complained that the new tax had been imposed on them at a time when their profitability was on the decline and they were often already paying their own private cleaning services. Apartment dwellers protested that it was unfair to require them to pay taxes for rubbish removal since they already paid condominium fees to the building administration that were supposed to cover maintenance and incidental costs.

In an attempt to restore the integrity of the program, the Provincial Government imposed a deadline of the end of January 2017 for those who had been invoiced, to pay their pending bills or suffer penalties for non-compliance or lateness in clearing their tax obligations. The difficulties in reinforcing the new taxation requirement is reminiscent of the experience of many cities around the world in recovering costs for basic sanitation and rubbish removal. For many municipalities sanitation and public health costs are one of the most expensive budget items. Practice has shown that such costs are best rolled into local taxes or rates or paid for as cross-subsidies added to fees for services that are more-easily collected such as for water or electricity consumption. Municipalities become more diligent at collecting local taxes when they are able to retain and manage, at least a portion of local funds that they recover and can apply them to maintenance and improvements to the same services systems for housing.

¹⁹ Nilza Massango (2016) *As faturas da casa são pagas no banco*, Jornal de Angola 14 September 2016

²⁰ Felix Abijah (2016) *ibid.*