Report

Think local, act local

Effective financing of local governments to provide water and sanitation services

Acknowledgements

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Front cover image: A girl in Dhaka, Bangladesh, enjoys a safe water point.
Credit: WaterAid/Juthika Howlader

Contents

Background

In many low-income countries the main obstacle to delivering water and sanitation is at the point of local government and municipal authority delivery systems. These failures occur in the extension of coverage and in connections, in investments in the renewal and rehabilitation of infrastructure and in operation and maintenance. The net effect has been to hamper access to services, particularly for poorer communities.

WaterAid believes that local government authorities, who find themselves at the frontline of basic service provision, are key to the achievement of the water and sanitation Millennium Development Goal (MDG) targets to halve the proportions of people without access to clean water and safe sanitation. WaterAid's policy and practice work aims to strengthen local governments' ability to provide equitable and pro-poor water and sanitation services.

Development finance can enable or constrain local government performance. This research was designed to explore the influence that decentralisation and water sector policy and institutional arrangements have on financing at local level. The underlying assumption is that, in a decentralised context, greater control and influence of local governments over adequate finance will result in improved delivery of water supply and sanitation services.

Decentralisation is a fact of life in the countries where this research was carried out and so our objective was to explore how it can be made to work more effectively. Whether decentralisation contributes to poverty reduction or indeed works for the water sector in particular is another valid but separate piece of research that needs to be undertaken.

Methodology

The synthesis of findings discussed in this paper is based on case studies from 12 countries in Africa and Asia:

- Bangladesh
- Ethiopia
- Ghana
- Madagascar
- Mali
- Nepal
- Nigeria
- Philippines
- South Africa
- Tanzania
- Uganda
- Zambia

These case studies will be made available during 2008.

The research was undertaken using a common framework developed for the study. Initially, this framework allowed us to map policy and resources at national level in all countries. This preliminary information was compiled and reviewed at a workshop in May 2007, where more detailed indicators to assess finance at local level were developed collectively.

The initial idea was to select at least three local areas in each country so that the sample would represent the diversity within each country. However, the difficulties faced in obtaining adequate financial information at local level led to a reduction in the scope of the research. Most country researchers have collected data from one rural local area only. This area was intended to be representative of the situation in the country, but in reality the selection depended on our existing working relationships with local government and our familiarity with the local context.

Each country case study has a story to tell and a different set of problems and possible solutions. There are many differences and particularities with respect to water supply and sanitation (WSS) institutions, resource flows and, also with regard to the availability of key data sets. Across the countries selected for this study, decentralisation reform has not progressed at the same pace. The role of local governments in delivery of water and sanitation services also differs across these countries and the water sector is going through rapid changes in many countries.

As a synthesis of the country case studies, this paper relies heavily on them for data and analysis. These case studies often represent the very first national analyses of local level financing of water and sanitation. This is a relatively unexplored area of research and as such, represents a significant contribution to debates about aid effectiveness, governance and decentralisation. The studies present a rich set of quantitative and qualitative information and detailed understanding and insights that cannot be fully captured in this synthesis report.

Although we originally set out to track investments in both water and sanitation, most of the case studies are focused on water supply. Data for sanitation investments is difficult to come by; a fact which itself indicates the lack of political priority that has been given to this sector, manifest in an absence of budget, policy and capability at both national and local levels. Given the enormity of the health impacts of inadequate sanitation[1] – particularly on infant mortality rates – understanding this problem must be an urgent priority for national governments and donors.

Lack of a safe water supply means these people in Dar es Salaam in Tanzania are forced to collect filthy water from this hole

Executive summary

Every day, 5,000 children in the developing world die before they reach their fifth birthday because of the diseases caused by a lack of access to safe water and sanitation. These services are basic human rights, which underpin health, education and livelihoods, forming the first, essential step in overcoming poverty.

Billions are denied access, not because of a scarcity of water resources or a lack of technical know-how, but because development finance for the sectors is not getting through to the authorities charged with delivering services.

This report is a synthesis of analyses carried out in 12 developing countries. It maps out and seeks to identify some of the key blockages and systemic weaknesses that stand in the way of development finance reaching the local authorities who have the responsibility for delivering services to some of the world's poorest communities. Without these systemic failures being addressed, it is unlikely that the developmental gains from access to safe water and sanitation will ever be realised.

In most developing countries, decentralisation reform was ushered in during the 1990s with the aim of transferring decision-making to the level of government that is closest to communities, thereby making basic service provision more efficient, accountable and responsive to people's needs. WaterAid's research shows that in spite of policy commitments to decentralisation, local governments are consistently by-passed by those financing development. The problem is particularly acute in the water and sanitation sector where finance is fragmented and piecemeal, resulting in a bewildering number of actors funding investments at the local level. If local government has no control over these investments, there is a high risk of duplication and inequitable coverage.

In the countries studied, on average nearly two-thirds of capital expenditure for the water and sanitation sectors is outside of the local government budget and their direct control. This undermines governance and accountability at the local level. Local government's own expenditure on water and sanitation barely gets above (USD)$6 per capita per annum. And yet, even the simplest hand-dug wells cost $30 per capita.

This lack of a critical mass of resources undermines the credibility of local government as an agency of delivery, a focal point of accountability and the keystone of all decentralisation reforms. Ultimately, accountability will not develop and the decentralisation process will be jeopardised if local governments are disempowered and unable to take decisions which local people both care about and are in a position to influence.

This report argues that if the principles of equity, sustainability and accountability are to act as the bedrock of delivery of sanitation and water services, it is necessary for national governments and donors in particular to step back and allow local governments to make decisions (and mistakes) in response to local pressures. Stronger performance at local level of course requires the strengthening of local capacity, but this will not develop until local governments have control of a critical mass of resources. Breaking the vicious circle of inadequate and piecemeal finance and continued central control of resources requires the following actions:

National governments

- **Ensure clarity and respect of institutional roles and responsibilities in line with decentralisation**
- **Take the lead in the development of sector building blocks – policy, plans and financing mechanisms**
- **Ensure that local governments have resources commensurate with their mandate, for meeting both recurrent and capital costs**
- **Encourage and respect local planning processes through policy change and incentives for local governments**
- **Provide incentives to poorly performing local governments to build transparent, accountable and responsive systems for service provision**

Donors

- **Encourage and support the devolution of the water and sanitation sector**
- **Harmonise and align finance behind national and local government budget cycles, plans and systems**
- **Support the design and make greater use of intergovernmental transfers (IGTs) to ensure equitable distribution of public finance, with the aim of boosting local government revenue and sector expenditure**
- **Invest in data collection and sector monitoring systems**
- **Develop pro-active communication strategies in-country in ways that make information on donor finance accessible to broad groups of national and local stakeholders**
- **Provide support for systems and institutions that can build or strengthen the capacity of local governments**

NGOs

- Contribute to coordination and performance monitoring through participation in national and local sector dialogue
- Report in-country investments at national level
- Consult with local government officials and ensure that funds are on-plan
- Build the capacity of citizens, elected representatives and media to monitor and influence resource, outputs and incomes
- Provide support to ensure that local government planning, monitoring and implementation is transparent, accountable and participatory

Local governments

- Respect planning and budgeting
- Carry out needs assessments at sub-district level to understand real coverage levels and priority areas
- Consider efficiency of technology choices and draw up costed plans
- Contribute to coordination and performance monitoring through participation in national sector dialogue
- Report on expenditure publicly at regular intervals
- Open up participation in planning and budgeting

This woman stands over the open sewer that runs through her neighbourhood in Kampala, Uganda

WaterAid/Caroline Irby

Effective financing of local government is essential for water and sanitation service provision

WaterAid's interest is ensuring that development finance delivers water and sanitation for the poorest people. Access to clean water and safe sanitation has the potential to deliver considerable developmental outcomes, and yet this report reveals a sector that is held back by inadequate and ineffective finance. The findings from our research point to a failure of aid delivery mechanisms to respond to in-country reforms.

In many countries, the wrong kind of development finance is holding back progress towards the achievement of the water and sanitation MDG targets. As donors scale up their support between now and 2015, it is a critical time to address the key blockages that stand in the way of progress. Removing these blockages requires a radical change in the structure of finance for the sector and the mechanisms for its delivery.

This paper draws on some examples of effective financing of sanitation and water in Africa and Asia in order to set out a 'route map' for pro-poor reform. The objective of this route map is to ensure that, in countries undergoing decentralisation reform, adequate finance gets down to local government. Until this happens, it is highly unlikely we will see improvements in local service delivery, efficiency and accountability, and the poor will continue to lose out.

Our research has focused on the challenges that ineffective finance poses to local governments, which have the responsibility for basic service provision in most developing countries, and yet are rarely acknowledged by development policy makers. Local governments have not been supported in their mandate. They are rarely included in the national dialogues that set the direction for development. Our research shows that they are constantly by-passed by other development actors. As a result, their overall resource base is desperately low. Once salaries and other recurrent expenses have been paid, local government capacity for capital investment is extremely limited.

The lack of political will behind water and sanitation at national level also has an effect on the availability of resources at local level. Lack of political will to improve the lot of those living without water and sanitation services has resulted in limited policy initiative and a failure on the part of national governments to attract external resources.

Water and sanitation continue to lose out to higher profile, well-resourced and better organised sectors such as health and education. The result is that, in the countries we looked at, annual per capita capital expenditure on water and sanitation from all sources rarely gets above $6. And yet even the simplest hand-dug wells cost $30 per capita. Such a low resource base leads to low credibility of local government in the eyes of communities and thereby weakens accountability.

WaterAid's research starkly reveals, and indeed was bedevilled by, the lack of transparency in resource flows to the sector. Mapping finance to the sector, especially to the sanitation sub-sector, has proved to be a difficult and confusing exercise. In many cases, income and expenditure records were inaccessible. In some cases records had been burnt or hidden.

Local governments are not the only offenders. Making development finance more effective and accountable requires donors, non-governmental organisations (NGOs) and government ministries to make their financial reporting more rigorous and transparent so that the end users, particularly poor communities, are able to influence and monitor how service delivery is financed.

In many of the 12 countries studied, the absence of performance monitoring systems means that there are no links made between financial inputs and developmental outputs and outcomes. The poor quality of documentation makes an assessment of the equity and efficiency of investment at local level highly problematic and weakens efforts to hold decision-makers to account for the prudent management of public resources.

Brent Stirton

These shacks are the only toilets in this district of Antananarivo, Madagascar, and the surrounding area is covered in human faeces and rubbish

Section 1

What is the role of local government in water and sanitation service provision?

In theory...

While it is clear that more finance for the sector is necessary to meet the MDG targets for water and sanitation[2], there is an emerging consensus that the efficiency and effectiveness of development finance can be enhanced by greater involvement of local governments.[3]

Decentralisation reform was ushered in across Africa and Asia during the 1990s. In line with the principle of subsidiarity, decentralisation requires decision-making at the level of government that is closest to communities. This is meant to ensure that resources are allocated with greater efficiency, accountability and responsiveness. All of the countries in our study have embarked on decentralisation. In some of them, decentralisation is one of the basic principles enshrined in the national constitution. In each country, specific national policies and legislation govern functions and fiscal powers of governments at each level.

In the case of the provision of water and sanitation, this implies a separation of roles and institutional responsibilities, where national government is responsible for policy-making and regulation and local government has the responsibility for ensuring service provision, either by local government and/or third party operators, which may be private or community-managed.[4] In theory, finance should follow function, which means that local governments should have adequate resources to provide services to the communities they serve.

...and in practice

In practice, the process of decentralisation in developing countries has been slow to become embedded. Successful reform hinges on progress in different areas:

- Politics determines **democratic decentralisation** with elected governments at various levels in a hierarchy of local governments
- This needs to be supported by **functional decentralisation** (devolution of water and sanitation) through expenditure mandates to local governments
- **Fiscal decentralisation** determines availability and access to resources at local level through transfers, own resources and borrowing

In many of the countries WaterAid studied, the balance of fiscal power and distribution of functions between national, provincial and local governments is still evolving. In reality, the movement towards greater local control of resources and increased finance for water and sanitation is hampered by an unwillingness on the part of both donors and national governments. National governments are frequently unwilling to relinquish control of investments and the associated power and influence. For donors, there is a reluctance to forego assurances that allocations will be made to priority sectors.

Even in countries where policies related to decentralisation – political and fiscal – are implemented, there is reluctance to devolve the water sector to the local level. In Malawi, for example, the health, education and agriculture sectors have been devolved – in part due to intense donor support. In the water sector, progress has been slower and there continues to be a concentration of budgetary and human resources at national and regional levels. This creates ambiguities and confusion among institutions about responsibility for service delivery.

“Movement towards local control of resources is hampered by unwillingness to relinquish control of investments and the associated power”

Bangladesh is a case in point, where the Department of Public Health Engineering continues to provide services in rural areas alongside Upazilas and Union Parishads, the responsible tiers of local government.

The usual justification for non-devolution of the sector is low local capacity for planning, financial management and implementation. This is a circular argument: as long as funds for sector projects are retained by central ministry and projects implemented through the line department, local government capacity to implement water sector projects will not grow.

How funds flow to the local level

One consequence of non-devolution of the sector is the predominance of ‘project’ finance – delivered through sector programmes and off-budget projects. As a result, local financing of water supply and sanitation services involves a surprising number of actors – national and state agencies, non-governmental actors (such as official donors and NGOs) as well as local actors including both local governments and service providers (often these are different from the local governments).

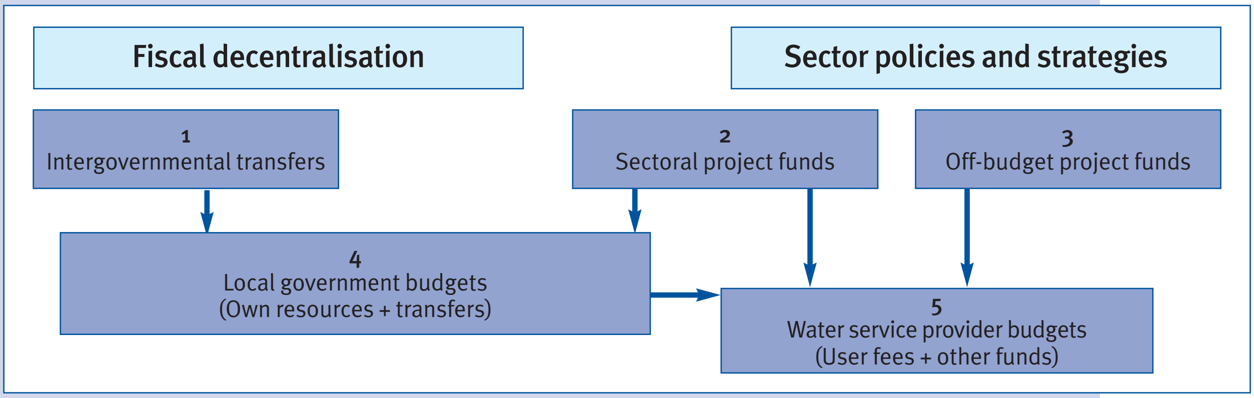
The different finance flows can be illustrated as five funding blocks as shown opposite. Most of these funding blocks are found at local level, although the relative importance of each block varies from one country to the next.

1. Intergovernmental transfers (IGT) are made from national to local government. The volume and modalities for IGTs are determined under the fiscal decentralisation framework. In federal countries, the provincial (or regional/state) governments become a second tier. The IGTs may include block (untied) grants as well as conditional (earmarked) grants, which may be earmarked for recurrent and/or development purposes.

2. Sector projects/programme funds are national or regional projects or individual donor projects which support capital investment in water supply and sanitation. These funds generally pass through national sector ministries of water and health and may be utilised by a variety of actors.

3. Off-budget funds: In sub-Saharan Africa and South Asia, there is considerable funding through off-budget routes directly by donors or NGOs. Such funds are not included in the national or local budgets, and follow their own policy and implementation rules. Donor agencies and NGOs account for these funds to their headquarters, and not to the local or national governments. Many developing country governments welcome such funding as it adds to the total pool of resources, and often focuses on innovation and social targeting.

Figure 1: The five funding blocks



4. Local government budgets only take on importance in the context of decentralisation and devolution of water supply and sanitation services. The budget income is determined by IGT flows and local governments' mobilisation of its own resources, which are determined by the fiscal decentralisation policy framework. Local governments may also receive funds from sector ministries and donors/NGOs for projects. The funds available in the local budget represent the total resources that are within the direct control of local governments. Decisions relating to use of these funds lies with local government.

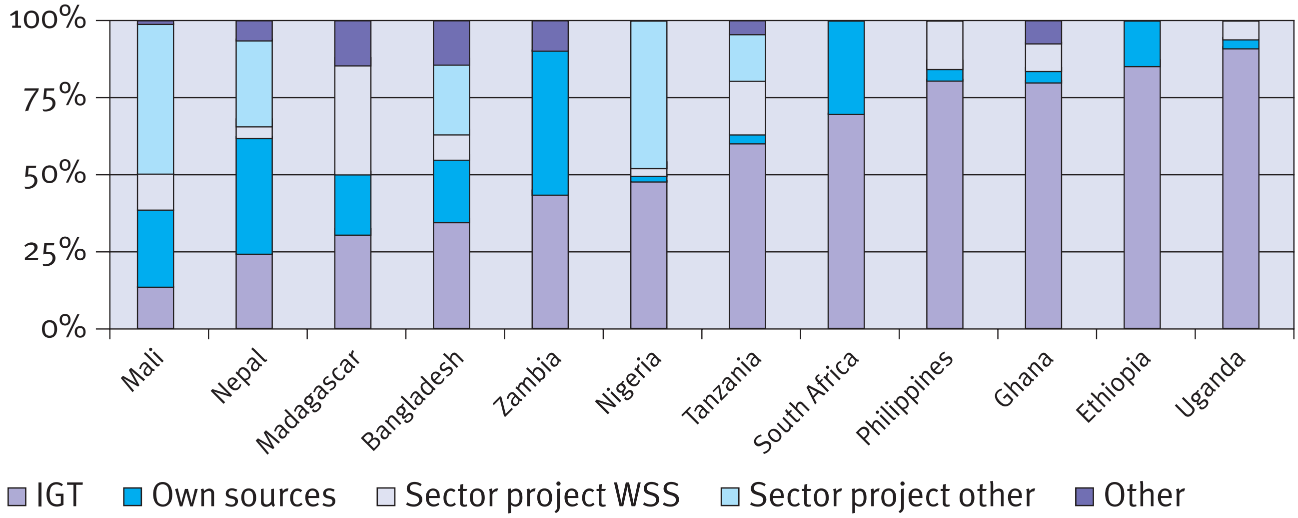
5. Water service providers' budgets: in many countries the actual service delivery is done by autonomous service providers – generally through community-managed user associations or local NGOs in rural areas and by small to large public utilities in urban areas. Their budgets are influenced by the resources they receive from local governments, sector projects and off-budget projects, as well as their own resources mobilised mainly through capital contributions by members and through user charges.

Where decentralisation is effective, we would expect a significant volume of resources to be transferred to local governments. However our research showed that on average less than 15% of total government expenditure is allocated to local governments.

Despite this low percentage, Figure 2 shows that IGTs represent a significant source of total local government income. On average, IGTs represent just over 50% of local government revenues in the sample countries. However, the 'average' masks significant cross-country differences. As shown in Figure 2, in Nepal IGTs are as low as 25% while in Uganda IGTs make up over 90% of local governments' resources.

In those countries where decentralisation reforms are advanced, IGTs represent a higher proportion of the budget. The other significant source of income are sector funds. The local governments' own sources of revenue represent its 'fiscal independence' from higher level of governments. While the average for the sample of local governments is 20%, there are many countries that have a much higher proportion of revenue from own sources.

Figure 2: Composition of local government revenue



Section 2

How are local governments being undermined?

Finance is not following function

As seen in the previous section, local government budgets are sourced by IGTs, revenue from own sources, and sector funds. The combined volume of finance is desperately low. In general, at local level, the annual per capita income for the provision of all services is not higher than $20. In Zambia the district government disposes of a paltry $1 per capita per year. In Uganda and South Africa the overall local government per capita income levels are much higher: $63 and $49 respectively. The combined volume of finance is desperately low, as seen in Figure 3 below.

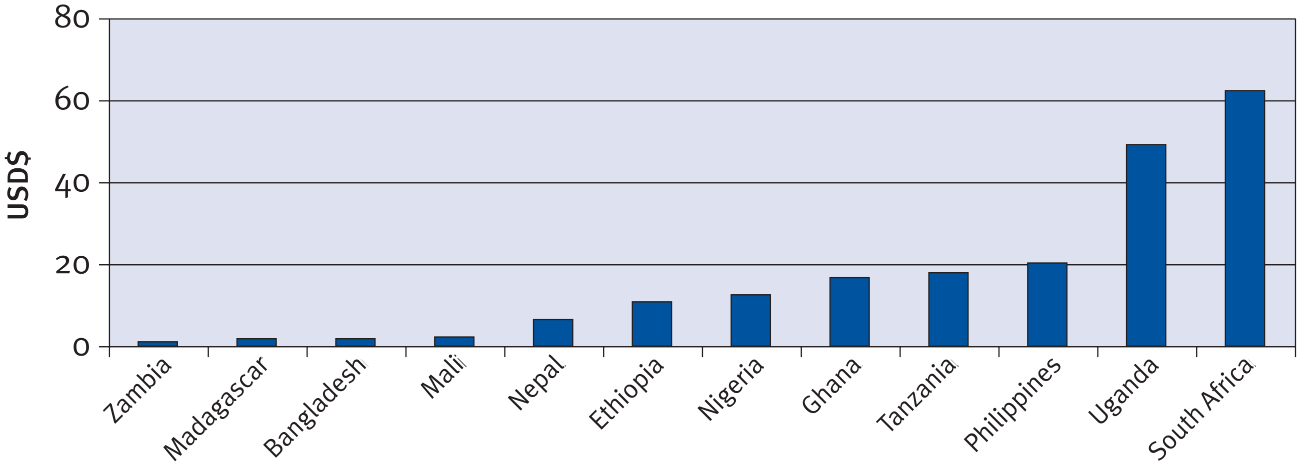
The low level of income is not necessarily linked to how rich the country is. Zambia and Nigeria, for example, both have higher national per capita income than Uganda, yet the local government revenues are lower.

The high local government revenue in Uganda is more likely to be due to a mix of effective devolution of the sector and flexible finance at national level, which reaches local governments through IGTs.

Expenditure is too low

Figure 4 overleaf shows annual per capita expenditure on water and sanitation from all sources in the local area, both on and off the local government budget. Although it is difficult to assess the adequacy of resources at local level because of a lack of information relating to resource availability and needs, the figures speak for themselves. Expenditure barely gets above $6 per capita, with some countries – Madagascar and Bangladesh – not spending more than 50 cents per capita per annum. In many countries the revenue received on local government budgets barely covers

Figure 3: Annual per capita local government revenue (USD$)



recurrent costs, leaving little or no funds for infrastructure development.
In Ethiopia, for example, Woredas (local governments) commonly allocate more than 90% of the block grant to pay recurrent costs, most of which is for salaries.

Finance is unpredictable

National finance for water and sanitation in most developing countries is highly dependent on donor funding. The unevenness and unpredictability of external development finance can undermine efforts to achieve smooth and predictable transfers and therefore fiscal decentralisation efforts.

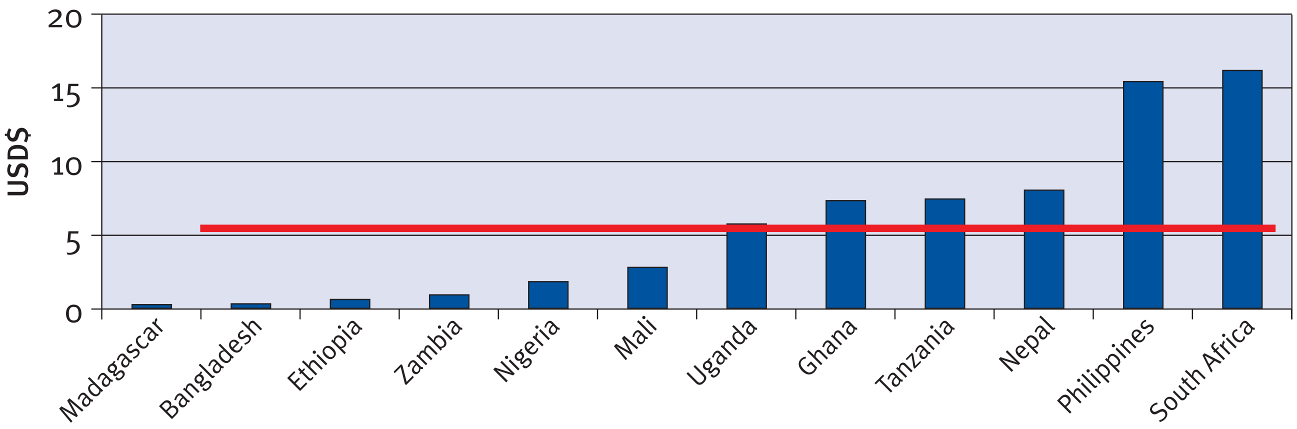
In Ethiopia, for example, the percentage of aid in the sector budget has ranged between 23% and 92% over the past three years. In Malawi, funding levels dipped from $14 million to $2 million in 2004 due to the completion of a major World Bank-led project. A second phase of this programme was due to begin in 2007 with up to $200 million pledged.

This kind of 'on-off' funding can create an artificial surge in capital receipts at local level. The expenditure profiles for local areas in countries that depend on sector project funds, such as in Zambia, Madagascar or Ethiopia, show patterns of very low expenditure moving to very high expenditure. The absence of sustained fund flows undermine long term planning and make it impossible to build the capacity of local human resources.

In all the countries studied, there were significant differences between local government budgets and actual funds mobilised. In Mali, Zambia and Madagascar, the actual IGT receipts were lower than planned, while in Bangladesh, funds received on local government budgets from sector projects were not expected.

The IGT system may be faulty in design: in Nepal the divisible pool (the transfer fund) is ad-hoc, and determined each year through parliamentary allocation of the budget. The local government law makes provision of a 'minimum grant' (and also for sector grants, including for water and sanitation), but fails to guarantee it by defining the 'minimum grant' or by linking the grant to a formula to ensure predictability and transparency in the system. As a result, the local governments live in uncertainty until the moment they receive the money in their account, which adversely affects their planning and budget management.

Figure 4: Annual per capita capital expenditure at the local level on WSS (USD$)



Local governments reported frequent delays in disbursement of sectoral funds, with funds regularly received by local governments in the last quarter of the year. This may occur for a number of reasons including slow spending and accounting by local governments and complicated procurement processes which can take up to three or four months. Further complications arise from the fact that many donors use a project year that is not aligned with the recipient country's financial year, causing severe dislocations of plans and budgets.

The speed of fund transfer can have a major impact on the implementation of water sector projects where seasonal variations limit periods where construction is possible. If this window is missed, then implementation can effectively be delayed for a further six months. In some countries, delays have resulted in the budget going unspent.

A recent report by Care in Ethiopia[5] found that the utilisation of the capital budget allocated to the water sector in the region of Benishangul-Gumuz has averaged only 42% over the previous seven years. Care estimates that the impact of this has amounted to a missed opportunity to provide safe water to 70,000 people (around 10% of the population of the region) over this period.

Water for some, not water for all

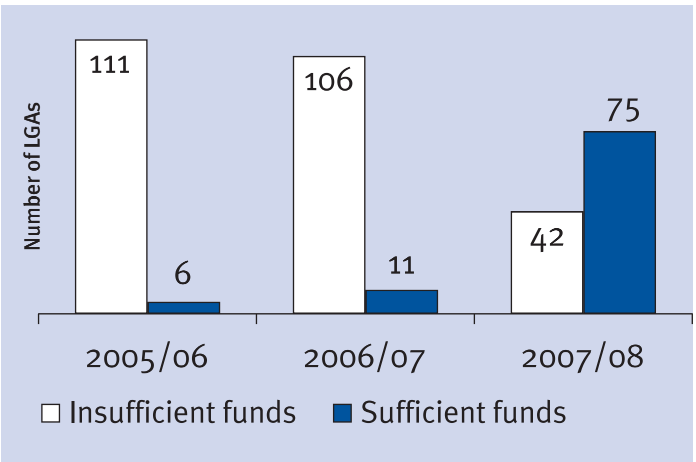
A high dependence on external funds has led to severe inequities in coverage. Historically, donors and NGOs have intervened according to expedience rather than as part of a planned, rational response to need. Interrupted and unpredictable flows have undermined efforts to coordinate and systematise planning processes and extend coverage.

National government investments have all too often been guided by political imperatives rather than following rational principles for allocation.

> "Investments have all too often been guided by political imperatives rather than following rational principles"

Tanzania provides an example where the *2002 Population and Housing Census* showed huge disparities in coverage across districts. Only 42% of rural households had access to an improved source of drinking water. In seven districts, fewer than 10% of households had access to a safe water source.[6]

Figure 5: Number of local government authorities (LGAs) in Tanzania with sufficient funds to meet the MDG target for rural water supply



The funding in Tanzania now takes account of these inequities through the introduction of a formula-based block grant to guide the allocation of sector funds according to levels of coverage, poverty data and technology types. Over the last two years this has resulted in a dramatic improvement in the number of local government authorities that will have adequate resources to meet their MDG targets from six to 75 out of a total of 113 districts (see Figure 5).

Politics and power – sanitation subsidy in Bangladesh

WaterAid found that in Mohammpur Union Parishad 35% of sanitation subsidies are captured by the non-poor annually. These funds are intended for the 'hardcore poor' and if used as intended, could provide over 200,000 additional latrine sets each year.

Political linkages and kinship with Union Parishad representatives largely determines who gets these subsidised latrines. Poor communities have little knowledge of their entitlements and therefore many failed to claim their rights.

Furthermore, there are middlemen who will sell on a government subsidised latrine set for 100 Bangladesh Taka ($1.5). This scandalous practice means that the poor continue to lose out while those in power grow richer at their expense.

At local government level, across sub-districts, the same challenges exist. In Salima district in Malawi for example, political affiliation rather than need tended to determine the provision of water points to local communities. Between 1998 and 2002 investments in new water points continued to be disproportionately channelled to those already served, at the expense of the unserved population, thereby widening inequity in distribution[7]. One area in particular had benefited from the construction of water points for years because it was a constituency of an influential minister.

In Malawi and in other countries where we work, WaterAid uses maps that show the distribution of water points by traditional authority to influence District Assembly members to allocate more funds for new water points in less well-served areas.

Addressing inequity: Water point mapping

Water point mapping is a powerful tool for improving information on the distribution and functionality of water supply infrastructure across districts. This information enables national government to address inequities in coverage and concentrate on providing water for all rather than water for some. Water point mapping gathers data relating to the specific locations of all public improved water points in a district as well as management, technical and demographic information. The data is entered into a geographical information system and combined with official demographic, administrative and physical data (population, administrative boundaries, roads, etc). The information is displayed via digital maps. Water point mapping has the potential to open up public debate around resource allocation and stimulate demand for greater equity.

Lack of local government control

One of the reasons for inequitable coverage within districts is the by-passing of local governments. Across the research sample, the analysis of water supply and sanitation related capital expenditure at local level shows that only a small percentage is on local government budgets, and therefore under their direct control. This may include funding through IGTs, own sources or through central/donor sector projects, but all passing through the local government budget with the local government being directly accountable for these resources.

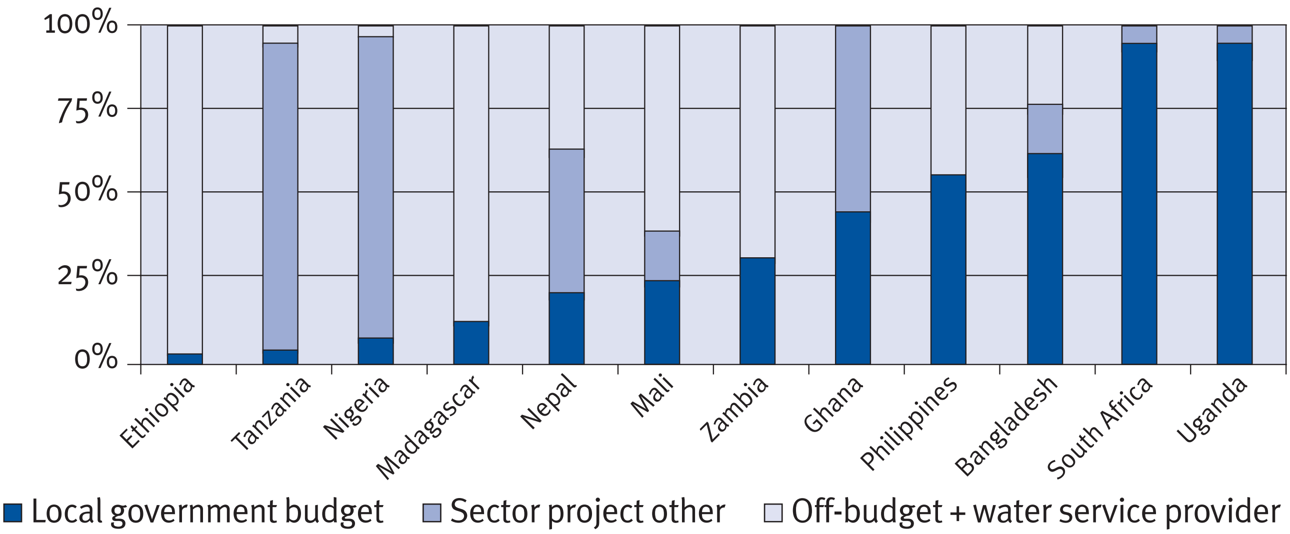
On average, our research shows that nearly two-thirds of the capital expenditure is outside of the local government budget, either through sector projects (27%) or off-budget resources (32%). Too often this results in local government carrying the mandate to deliver services, but having their financial capacity and service coverage marginalised when set against the scale of other agencies.

Who is making capital investments at the local level?

Figure 6 shows the composition of capital expenditure at local level.[8] Most local governments do not have direct control over more than half the resources in their jurisdiction and at least five local governments have no control over more than 75% of resources. Of course, it is not necessary for all resources to go through local government budgets but local governments should be able to influence investments, and participate in planning and implementation.

In countries where decentralisation reform is advanced, and where more resources are coming onto the local government budget through IGTs, local control of resources may not be guaranteed. There is an important

Figure 6: Composition of capital expenditure at local level



balance to be struck between national government leadership and flexibility for local governments. Local governments require dedicated resources for service provision, and a clear national policy framework within which to work.[9] But they also need to have discretion over how those resources are spent.

Often, conditionalities determine the level of freedom and flexibility for local governments. In South Africa, for example, the national government has determined service standards which constrain the way IGTs should be spent. As a result, local government discretion over the expenditure of sector funds, such as the Municipal Infrastructure Grant, has been constricted. Local governments are frustrated as national government continues to set the agenda and prescribe the approach, setting ambitious service delivery targets which local governments struggle to meet.

> **“On average, our research shows that nearly two-thirds of the capital expenditure is outside of the local government budget”**

Rehabilitated wells like this one in Kathmandu, Nepal, supply safe water close to people’s homes

WaterAid/Marco Betti

The more money the better?

Water and sanitation sector financing tends to be dominated by project funding that by-passes local government budgets. In many countries, it is also common practice for donors and NGOs to fund investments directly, by-passing local government budgets. National governments have welcomed all contributions and have not challenged aid delivery mechanisms. Does it matter if water and sanitation are funded through multiple channels? Some might say the more money the better. Here are the pitfalls of this approach:

- **Ineffective and inequitable spending**

  Local governments cannot make prudent investment decisions with only partial knowledge of the total available resources, and yet this is very common at the local level where NGOs implement directly without involving local officials. This can lead to duplication and inequitable coverage with the more remote and difficult to reach areas and population groups often forgotten.

- **Policy confusion**

  IGTs often have guidelines to ensure policy consistency but off-budget funds are less likely to do so. There are often inconsistencies in the models for service provision – in particular with regard to the extent of involvement of communities and the financial or in-kind contributions they are expected to make to projects. Parallel and conflicting policy rules can also make it difficult to implement the reform agenda of governments.

- **Reporting requirements**

  Local government officials also find the different financial management procedures confusing and time consuming. Different donors (both on and off-budget) request different types of financial and performance reporting. This can place a significant burden on recipients in terms of the time needed to collect data and to report. Much time and energy could be saved, both at national and local level, if a common reporting system for local government were agreed.

- **Weak accountability**

  More important perhaps than the inconvenience of unwieldy and conflicting policies, is the question of accountability. It is clear that off-budget funding circumvents core governance and weakens local accountability. Off-budget funding is, by its very nature, not integrated into the budget process and as a result does not undergo scrutiny by elected representatives.

This boy in Panchat Nathupra, India, stands outside his school's new latrine block which has separate facilities for boys and girls and also a supply of safe water

WaterAid/Marco Betti

Section 3

How to turn the sector around

1. Get the basics right

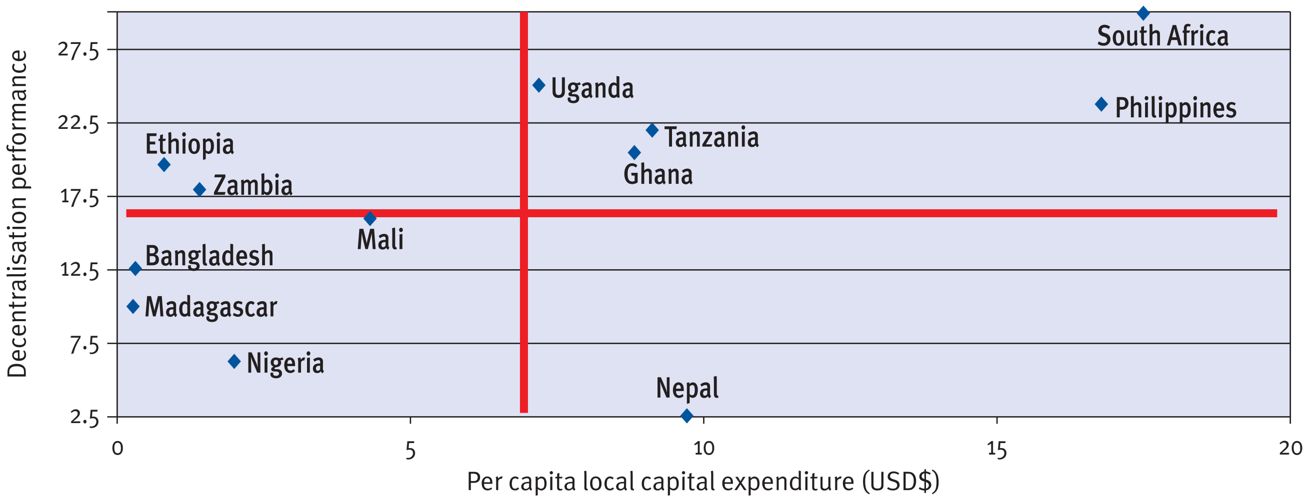
If local governments are to play a full role in delivery of water and sanitation services to the poor, the structure of finance for water and sanitation needs to shift. At present the sector is highly dependent on the most volatile form of aid: project funding. This kind of funding is often earmarked for specific purposes and fails to build overall capacity in systems. Two key parameters influence the resource base available to local governments. The first is **decentralisation reform** and the other is the **sector finance framework** at national level.

Support the decentralisation process

Figure 7 shows a strong positive relationship between the level of decentralisation[10] and per capita spending on water and sanitation by local governments. In countries with low levels of decentralisation the overall funding level is low and is mostly through sector projects or off-budget routes used by NGOs and donors. Funds from IGTs are limited or even non-existent.

On the other hand, countries with high levels of decentralisation have more

Figure 7: Local capital expenditure on water and sanitation versus decentralisation performance[10]



resources at local level. IGTs become an important source of income and are provided in a fully transparent manner in the form of formula-based block grants to local governments or service providers. The share of sector projects goes down significantly. In such situations, there is a greater likelihood that local development priorities determine the extent and type of investments.

Strengthen the sector finance framework

The second requirement is the creation of an enabling environment which will allow finance to work as it should. Sector policy and investment plans, institutions and coordination significantly influence the availability and composition of resources at both national and local level. In many countries, national governments have failed to get these basics right, with the result that finance for the sector is piecemeal and unpredictable. The example below from Tanzania shows how a strong sector programme increased donor confidence, doubled investment in the sector and resulted in a more rational allocation of public finance.

The Water Sector Development Programme: Rationalising sector finance in Tanzania

Investments in the sector used to be dominated by piecemeal, top-down projects, focusing on specific geographical areas and with a wide variety of planning, implementation and reporting approaches. The overall result was an annual funding shortfall of $84m, highly inequitable allocations between districts (see below) and a lack of transparency in planning and budgeting processes.

Since 2004, considerable effort has gone into developing the institutional arrangements to address these challenges. Development partners have committed to increased harmonisation, and the roles of key government agencies in the sector have been brought into line with ongoing decentralisation reforms.

In March 2007, the Government of Tanzania launched the Water Sector Development Programme (WSDP), a sector-wide approach that represents a significant step forward for the sector. Key features of the WSDP include:

- A doubling of investments in the water sector
- The majority of development partner finance for the sector flowing through a single coordinated mechanism
- Formula-based allocations to local government authorities for rural water supply investment funds, increasing geographical equity
- Investment funds for rural water supply will be channelled through pre-existing capital development grant system
- A single performance monitoring framework (not yet fully operationalised)
- A single mechanism for dialogue between key sector stakeholders

> “In Tanzania a strong sector programme increased donor confidence, doubled investment in the sector and resulted in a more rational allocation of public finance”

The dominance of project funding is in part the result of weak policies and institutions that fail to attract and direct donor funding. One obvious way to establish a coherent and adequate sector planning framework is through the adoption of a sector-wide approach (SWAp). In this way, public funding for the sector supports a single sector policy and expenditure programme under government leadership. Several governments have implemented SWAps (eg Uganda, Tanzania and South Africa) or have now initiated a move towards them (eg Zambia, Malawi, Ethiopia and several states in India). In some other countries similar efforts are being initiated to bring greater harmony (eg Nepal, Mali and Ethiopia) among different donors and national governments which provide project funding to local governments.

IGTs can only work once the majority of the funds are within the national government purview. This can be difficult when resources are fragmented across different sector projects, each with its own rules and allocation principles, but is more likely when national governments receive aid in the form of general budget support or sector budget support. SWAps can be a first step towards sector budget support or basket fund arrangements and are part of the upstream reforms necessary to smooth the problems of instability in financing flows and weak national and local coordination.

However, SWAps will only serve their purpose if coupled with allocation systems that strengthen local level systems of coordination and accountability. One first step in this direction is for the dialogue over the nature, purpose and conditions associated with SWAps to be broadened to include a wider group of national and local level sector stakeholders.

> “Given the historical neglect and slow progress of the sector, there is a strong case for an earmarked grant for water and/or sanitation to boost progress at the local level”

2. Use IGTs to boost sector progress

IGTs can ensure sufficient and flexible resources at local level. In terms of IGT design, it is important to enable local governments to make decisions related to the use of this transfer. In many countries, attempts have been made to create a pool of resources, known often as a District Development Fund or a District Capital Development Fund, but these are often under-funded and disconnected from national poverty reduction frameworks.

Our research shows that despite strong local demand for water, and separate evidence of the huge developmental outcomes that access to adequate sanitation brings, the WSS sector consistently loses out to other sectors. In Mali, at commune level, for example, health attracts twice the budget, and education four times the combined budget that goes to water and sanitation.

In countries where progress needs to be accelerated, there is a strong case for a special fund for the sector, linked to an earmarked grant for water and/or sanitation. This has been done in South Africa and Uganda with consolidated conditional grants for local area investments (referred to as 'block grants for capital works' in Uganda and 'municipal infrastructure grants' (MIGs) in South Africa).

Earmarked grants can be an important first step towards ensuring a 'critical mass' of finance (and expenditure) at local level, especially for countries which are just starting to implement decentralisation reforms. Once a pattern of expenditure has been established at local level, it should be possible to move towards greater freedom for local governments to manage IGTs in response to local realities.

Boosting sanitation coverage in Uganda

In the past few years, the Government of Uganda has made considerable efforts to improve sanitation and hygiene coverage. Despite these efforts at the national and district levels, sanitation and hygiene investments have struggled to get priority in local government work plans.

There is consensus that there is a need to dedicate funds for hygiene and sanitation activities over a longer period of at least 10-15 years to give time to influence local priorities and to allow time for behavioural changes to take place at the community level.

To address these challenges, one of the undertakings recommended in the Joint Sector Review (JSR) for Water and Sanitation 2006 was to explore the possibility of an integrated budget line for sanitation and hygiene. The funds would then be transferred either through a 'top-up', building on the Local Development Grant through the Ministry of Local Government, or as a sector conditional grant.

Capital grants in South Africa: getting the design right

The municipal infrastructure grant (MIG) programme was designed to provide all South Africans with at least a basic level of service through the provision of an IGT which would cover the capital cost of basic infrastructure to the poor. The MIG allocations represent a very substantial income stream to municipalities for the development of water and sanitation infrastructure.

Once the infrastructure is built, it is assumed that the sustaining of services (operation and maintenance) will be covered by another grant known as the equitable share (ES) or raised locally through cross-subsidies. In practice, municipalities rarely use the ES for the operation and maintenance of infrastructure. The ES is often absorbed by municipal operating costs. The ES is also under pressure from directives coming from the South African Local Government Authority, the provincial and national spheres. It is evident that funding for ongoing operation and maintenance falls far short of the required levels to ensure long-term sustainable services delivery.

3. Strengthen local accountability

This report focuses on how to get the right kind of finance within local government control – either on budget or on plan. This would be a significant step towards more transparent sector finance, as well as towards more locally-responsive investments. With increased local government control of resources, there is also a need to have adequate checks and balances to ensure accountability. Granting authority without accountability can lead to corruption and to lower productive efficiency.

Governments and donors engaged in decentralisation reforms have given considerable attention to 'upward' accountability – related to rules and regulation on transfers, use of funds, management of funds, and rules relating to procurement. Formal audits of public accounts are undertaken. In some countries the local governments may be suspended for improper financial management.

Defining accountability: does the local government...

- Take into account? Are there mechanisms for involving citizens in planning and are citizens involved in planning?
- Give an account? Are plans, reports, budgets or expenditures publicly available?
- Hold to account? Are there effective mechanisms for auditing, regulating or scrutinising expenditure?

More attention now needs to be given to the way that local governments give account to the people they serve, and to strengthening community voices, particularly the voices of marginalised, less powerful groups and women, in policy formulation and resource allocation. Attention also needs to be given to creating, from above, a policy environment that supports 'downward accountability'.

Local NGOs have taken up the first part of this challenge in some countries, for example UWASNET in Uganda or CONIWAS in Ghana have worked at national and local level to improve coordination and transparency of investments.

But there is also a key role for national governments and donors to play in setting the rules of the game. Incentives and sanctions can be used to increase transparency in planning, budgets and reporting, and ensure that planning processes are participatory. Similarly, up to date, detailed data on the state of local services is an invaluable tool for equitable and accountable planning – water point mapping is one tool that can provide this.

At local level, there is a need for greater understanding and support to elected representatives to play a full role in local development. In addition to practical support (see box), elected representatives need to develop their ability to scrutinise resource allocation and expenditure. This could be achieved through training on budgetary processes and the role of legislators.

Finally, and most importantly, a major reason for the absence of accountability at local level is the lack of a critical mass of resources. This undermines the credibility of local government and lowers the expectations of local people. Demand-side pressure will not develop unless there are substantive decisions to be taken that people care about and are in a position to influence.

Elected representatives in Zambia: the need for practical support

In some districts, it is not uncommon for elected councillors not to hold any public meetings to inform the public on the goings-on in the council. Moreover, plans, reports, budgets or expenditures are not publicly available unless requested from the council.

The weak interface between the general public and the council is on one hand attributed to the low public understanding of the role of the council in promoting local development, and on the other hand to the weak mechanisms for engaging the public in the planning and management of local development.

While elected councillors are supposed to play a crucial role as a link to the public, executing their mandate raises enormous challenges. Councillors are not full-time, not salaried, do not have offices to operate from, are not provided with transport or other logistical support for them to effectively engage the electorate on local development issues.

National governments and donors need to step back and allow local governments to make decisions (and mistakes) in response to local pressures. Decentralisation will only be effective and responsive to local need when meaningful decisions are entrusted to the local level.

4. Build local government capacity

Effective decentralisation in the WSS sector requires both political and financial empowerment, which in turn can lead to greater local control over resources. Local control over resource flows can lead to more sustainable financing of local services, and strengthens the capacity of local governments to plan ahead and in response to local needs.

Devolution of water at local level does have initial difficulties, but over time the capacity of local governments to manage investments grows. For national governments, involvement of local government in the WSS sector lessens administrative burdens and enables the sector ministry to focus on wider sector reforms and mobilisation of financial resources. Donor agencies and multilateral agencies can then see their aid being used more effectively. Stronger performance at local level requires an increase in local capacity for planning, implementation and financial management. As noted before, this capacity will not develop without local government control of a critical mass of resources. At the same time, local governments need support in a number of areas. In particular, local governments need adequate useable information on the location, quality and functionality of existing facilities in sub-districts or villages. In the absence of such information, objective and rational resource allocation becomes difficult.

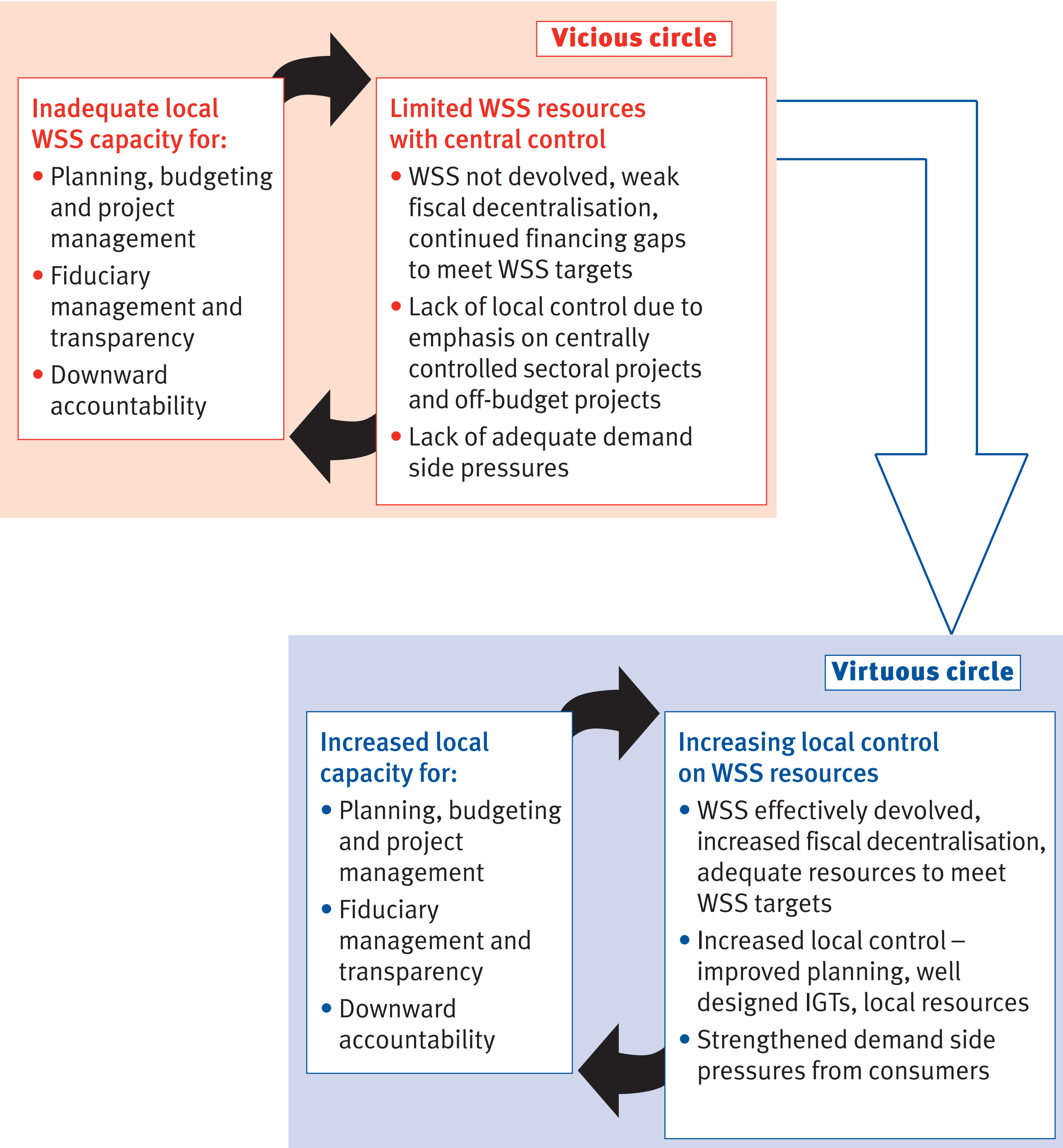
There are several examples of successful capacity building of local governments and local water service providers, such as the Technical Support Units (TSUs) in Uganda, or integrated support through the Masibambane Program in South Africa. Lessons from such programmes should be built into the design of capacity building support for local governments.

> **“Accountability will not develop unless there are substantive decisions to be taken that people care about and that they are in a position to influence”**

Conclusion

It is high time that the rhetoric about ‘local solutions’ to development became a reality. This requires donors and national governments in particular to concentrate resources on the strengthening of local government to provide services. It also requires more attention to be given to ensuring that the way funds are channelled empowers local governments in this role. Until this happens, efforts to make water supply and sanitation services more efficient, equitable and accountable are destined to fail.

How do we move from a vicious circle to a virtuous circle?



Key recommendations

There are some clear actions that can be taken:

	Governments	Donors	NGOs	Local Governments
Step 1: Get the basics right	Ensure clarity and respect of institutional roles and responsibilities in line with decentralisation Take the lead in the development of sector building blocks – policy, plans and financing mechanisms	Encourage and support the devolution of the water and sanitation sector Harmonise and align finance behind national and local government budget cycles, plans and systems	Contribute to coordination and performance monitoring through participation in national sector dialogue Report in-country investments at national level	Carry out needs assessments at sub district level to understand real coverage levels and priority areas Consider technology choices and draw up costed plans Respect planning and budgeting Contribute to coordination and performance monitoring through participation in national sector dialogue
Step 2: Use IGTs to boost sector progress	Ensure that local governments have resources commensurate with their mandate, for both recurrent and capital costs	Support the design and make greater use of inter-governmental transfers to ensure equitable distribution of public finance, with the aim of boosting local government revenue and sector expenditure		

	Governments	Donors	NGOs	Local Governments
Step 3: Strengthen local accountability	Encourage and respect local planning processes through policy change and incentives for local governments	Invest in data collection and sector monitoring systems Develop pro-active communication strategies in-country in ways that make information on donor finance accessible to broad groups of national and local stakeholders	Consult with local government officials and ensure that funds are on-plan Build the capacity of citizens, elected representatives and media to monitor and influence resource allocation, outputs and outcomes	Report on expenditure publicly at regular intervals Open up participation in planning and budgeting
Step 4: Build local government capacity	Provide incentives to poorly performing local governments to build transparent, accountable and responsive systems for service provision	Provide support for systems and institutions that build capacity of local governments	Provide support to ensure that local government planning, monitoring and implementation is transparent, accountable and participatory	

Annex

Mapping countries by performance

All the countries in the research sample were mapped across three parameters:

1 Level of decentralisation as measured by extent of political, functional and fiscal decentralisation

2 Level of local control and influence over resources as measured by the index of influence on all capital investments.

3 Adequacy of resources at local levels to meet the agreed targets as measured by per capita capital expenditure

In Table 1, a group of countries emerge as well-performing countries: South Africa, Uganda, the Philippines and Tanzania across all the three parameters.

At the other end of the spectrum are Nigeria and Madagascar which perform poorly across all parameters. The other countries are in a mixed group with some doing well on one or two parameters.

Table 1

Group	Characteristics	Countries	Nature of actions required	
			First priority	Next priority
High in all three parameters	Higher than average decentralisation, local control and per capita expenditure	South Africa Uganda Philippines Tanzania	Focus on improved design of IGTs to ensure equity in national allocations; improve downward accountability of local governments	Sustain local capacity to meet 'high' national standards
Low in all three parameters	Lower than average decentralisation, local control and per capita expenditure	Nigeria Madagascar	Focus first on ensuring progress on decentralisation; ensure effective WSS devolution	Work towards improving local control using a variety of measures

Group	Characteristics	Countries	Nature of actions required	
			First priority	Next priority
Mixed performance across parameters	Higher than average decentralisation, but lower local control	Ghana	Develop local capacity for planning WSS – may be a local SWAp?	Improve downward accountability of local governments
	Higher than average decentralisation, but lower per capita expenditure	Zambia Ethiopia	Increased focus on WSS in national allocations (government and donors)	Ensure local control through better IGT designs and using other measures
	Lower than average decentralisation, low capital expenditure, but high control	Nepal Bangladesh Mali	Devolve water at local level and increase WSS allocations through IGTs	Build local level capacity for planning – ensuring continued high local government control

Table 2 highlights the country level actions. South Africa, Uganda and Philippines emerge as well performing countries across the three parameters. At the other end of the spectrum are Nigeria and Madagascar.These are indicative: more specific actions can be found in the country case studies.

	High decentralisation		Low decentralisation	
	High control and influence	Low control and influence	High control and influence	Low control and influence
High per capita local WSS capital expenditure	Philippines Uganda South Africa Tanzania	Ghana	Nepal	
Low per capita local WSS capital expenditure	Ethiopia	Zambia	Bangladesh Mali	Nigeria Madagascar

Endnotes

1 Please see WaterAid's sanitation research reports, available at www.wateraid.org

2 For an assessment of financing gaps at national level, see WaterAid (2005) *Getting to boiling point: turning up the heat on water and sanitation*

3 Several recent reports such as the Camdessus report and the Gurria panel report have asserted the importance of local governments in delivery of water services.

4 Ahmad Junaid et al (2005) "Decentralisation and Service Delivery," World Bank Policy Research Working Paper 3603.

5 CARE (2007): Report of review findings – Achefer woreda, Amhara region and Sultan woreda, Oromia Region, Ethiopia

6 WaterAid in Tanzania and the Ministry of Water and Livestock Development (2005) *Water and Sanitation in Tanzania: An update based on the 2002 Population and Housing Census*. These extremes are largely the result of investment patterns over the years, but they also reflect the relative technical difficulties of developing water supplies in different areas. Many of the districts with higher rates of access are places in which gravity schemes, which are easy to build and maintain, are possible.

7 Stoupy and Sugden (2003), *Halving the Number of People without access to safe water by 2015 – A Malawian perspective*. WaterAid in Malawi

8 In Tanzania, funds provided by the Water Sector Development Programme could also be categorised as part of the local government budget. The funds are earmarked for the sector, but they are on-budget, on-plan and flow through an existing IGT mechanism.

9 This is particularly relevant for the sanitation sector where weak policy formulation and an institutional failure to bid for budget allocations, despite evidence that it is the single most cost-effective public health intervention, has led to low levels of finance at both national and local level.

10 Decentralisation performance is measured on three fronts – political decentralisation (relating to the role of elected local governments), fiscal decentralisation (measured as a percentage of sub-national expenditure), and functional decentralisation (measured as devolution of water and sanitation at the local level).

Notes

Think local, act local

Finance for water supply and sanitation is not reaching local authorities charged with providing services. This report maps out the key blockages and systemic weaknesses that need to be addressed in order to move the water and sanitation sector forward.

WaterAid's mission is to overcome poverty by enabling the world's poorest people to gain access to safe water, sanitation and hygiene education.

For more information please contact:
WaterAid, 47-49 Durham Street
London SE11 5JD
Telephone: +44 (0)20 7793 4500
Fax: +44 (0)20 7793 4545

Email: wateraid@wateraid.org
UK charity registration number 288701

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