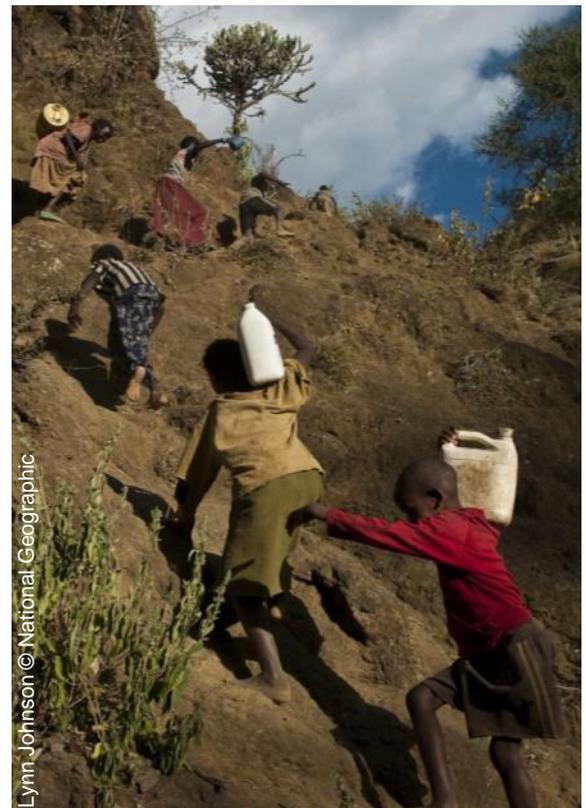


Public finance for water supply and sanitation: focus on national budgets

Key findings

- **Budgets for water supply are inadequate to meet access targets set in the Universal Access Programme (UAP). It is difficult to track sanitation budgets as they have no separate public budget line.**
- **32.5 million Ethiopians have no access to basic sanitation and 65 million have no access to improved sanitation. However, in spite of the associated risks to public health and productivity, there is no strategy to finance the uptake of improved sanitation.**
- **Where public budgets for water supply exist, they are not being fully utilised, and the Ethiopian people are losing out.**
- **Focusing on universal access undermines efforts to serve the poorest and most in need people, as it doesn't recognise the importance of inclusive design or a system for targeting the most marginalised groups.**



To get water in Foro, the women and children must walk down a steep rocky path to a shallow river. The round trip takes two to three hours depending on the wait.

1. Introduction: financing ambitious commitments

This policy brief is based on research carried out in three regions by WaterAid in Ethiopia and the Poverty Action Network in Ethiopia (PANE).

The objectives of the research were to:

- Estimate the portion of the national budget going to water supply and sanitationⁱ.
- Assess the adequacy of this amount in light of national targets.
- Identify obstacles to the effective utilisation of funds.

It is hoped this paper will stimulate debate at the national level among water, sanitation and hygiene (WASH) sector stakeholders, with a view to ensuring the effective utilisation of funds.

Access to safe water and improved sanitation continue to represent considerable challenges for Ethiopia's development. Diarrhoea caused by unsafe water and sanitation is responsible for almost a quarter of the deaths of children under fiveⁱⁱ. The Government estimates that the proportion of the population with access to a water supply is 68.5% (81.5% in urban areas and 65.8% in rural areas); however, international estimates are much lower for rural areas – around 26%ⁱⁱⁱ. The situation for sanitation is even worse, with access to improved sanitation at around 8%. The fourth Health Sector Development Programme (HSDP IV) reported that 44%, or 32.5 million Ethiopians, have no access to even basic sanitation facilities. Again, international estimates are lower – WHO/UNICEF report that about 88% of Ethiopia's population, a shocking 65 million people, have no access to improved sanitation^{iv}.

The Government's Growth and Transformation Plan (GTP) has set ambitious targets for universal access to water supply by 2015. Although there are no targets for sanitation in the GTP, the National Sanitation and Hygiene Strategic Action Plan also aims to achieve 84% access to basic sanitation facilities^v (a latrine) by 2015, while in the HSDP IV the Government plans to meet the target of 100% of villages free of open defecation and 86% of the population practising hand-washing at critical times. Meeting these ambitious targets requires public and private finance to be used as effectively as possible.

2. How are water supply and sanitation services financed?

The financing of water supply and sanitation is complex. For water supply, it is the responsibility of the Government to expand access by providing new infrastructure for communities and rehabilitating it where necessary. Communities are responsible for financing the operation and maintenance of facilities, with technical support from woredas and regional water bureaus. For sanitation, there is a no-subsidy approach for hardware, which means the construction of latrines is the responsibility of households. Public finance is used for hygiene and sanitation promotion only. When latrines fill up, rural communities construct another latrine while in urban areas pit emptying and treatment services are provided by the municipality in some cases, but for the most part by the private sector.

Public finance for water supply flows from federal level to regions through two channels – channel 1a and channel 1b. Channel 1a is the general transfer to regions and woredas as block grants. Channel 1b is a special purpose grant allocated to the federal ministries, regional bureaus and selected woreda WASH offices. Most external assistance flows through channel 1b. Allocation of channel 1 resources to regions is based on the equity formula developed by the House of Federation. The percentage of national water supply budget that has been financed through government treasury increased from 54% in 2006 to 62% in 2010. While the portion financed through external assistance has reduced from 25% in 2006 to 23% in 2010 (two percentage points over five years).

While water supply has a clear financing mechanism, financing for sanitation is a critical concern. Our research shows that a significant proportion of sanitation-related activities are funded by external agencies (development partners, non-governmental organisations, communities, private sector etc) and is off-budget. Although the Ministry of Health has taken the lead, there is no specific unit for sanitation at federal level, and no separate budget line at any level of government. Despite some donor programmes taking an integrated approach to water supply and sanitation, with a specific percentage of their WASH funds going towards sanitation and hygiene, practically this makes sanitation finance very difficult to track and to monitor.

3. Are budgets for water supply adequate?

The Universal Access Programme sets 2012 water supply targets of 100% in rural areas and 98% in urban areas. The total budget required for the programme was ETB 16.7 billion, but during the last five years only ETB 7.2 billion has been allocated to the programme – just 43% of the cost required to implement the UAP effectively.

Decline in priority

Overall, the Government has prioritised poverty sectors (water, health, education, agriculture, roads) over the past five years. On average, these sectors have received 71% of the national budget. Compared to health, agriculture and education, water supply has received the lowest share of the budget – an average of 3%, but this has been declining over the past five years (almost by half – from 4% in 2006 to 2.5% in 2010). The reasons for the decline in the budget for water supply are diverse and interrelated – low political priority given to water supply compared to other poverty sectors; the assumption that water supply is supported by donors and civil society organisations; and a shortage of finance from the treasury.

The per capita budget for water supply is low when compared to what was planned in the financing strategy and Universal Access Programme. In the financing strategy, the average per capita budget for water supply was ETB 160 (agreed between donors and the Government) while the UAP set the unit cost per capita at ETB 87 for low cost technologies and ETB 252 for high cost technologies (the average being ETB 181). In reality, the average per capita budget allocated to water supply is ETB 44. This shows an under-budgeting in relation to the UAP targets.

Allocation across expenditure categories

In order to make an assessment of the adequacy of funds, it is essential to understand the roles and responsibilities at each level of government.

- At the federal level, the **Ministry of Water** is mandated to enact and revise sector policies and strategies. While implementation of water supply has been decentralised to regions since 1995, the responsibility for implementation of cross-regional water supply projects lies with the Ministry.
- The **Regional Water Bureau** is the key implementer of federal sector policies, and as such should receive the largest share of the water budget.
- **Woredas** are mandated to provide water services with simple technologies like hand dug wells and spring developments.
- Operation and maintenance is carried out by **communities** with support from the woredas and regional bureaus depending on the type of technology used.

The budget allocated to all regions in the form of block grants has fallen below the federal government capital budget during the past five years. However, the situation is different with regard to WASH funds. The National WASH Coordination Office reported that a larger proportion of the special purpose grants for WASH are allocated to regions, as they are responsible for providing services. It was agreed between donors and the Government that around 3 to 5% of the WASH fund is allocated to cover federal level expense, while the remaining balance is transferred to regions. In practice, this percentage increases to nearly 20% in some cases, which has had an obvious impact on the amount of budget allocated to regions.

4. Are budgets for sanitation adequate?

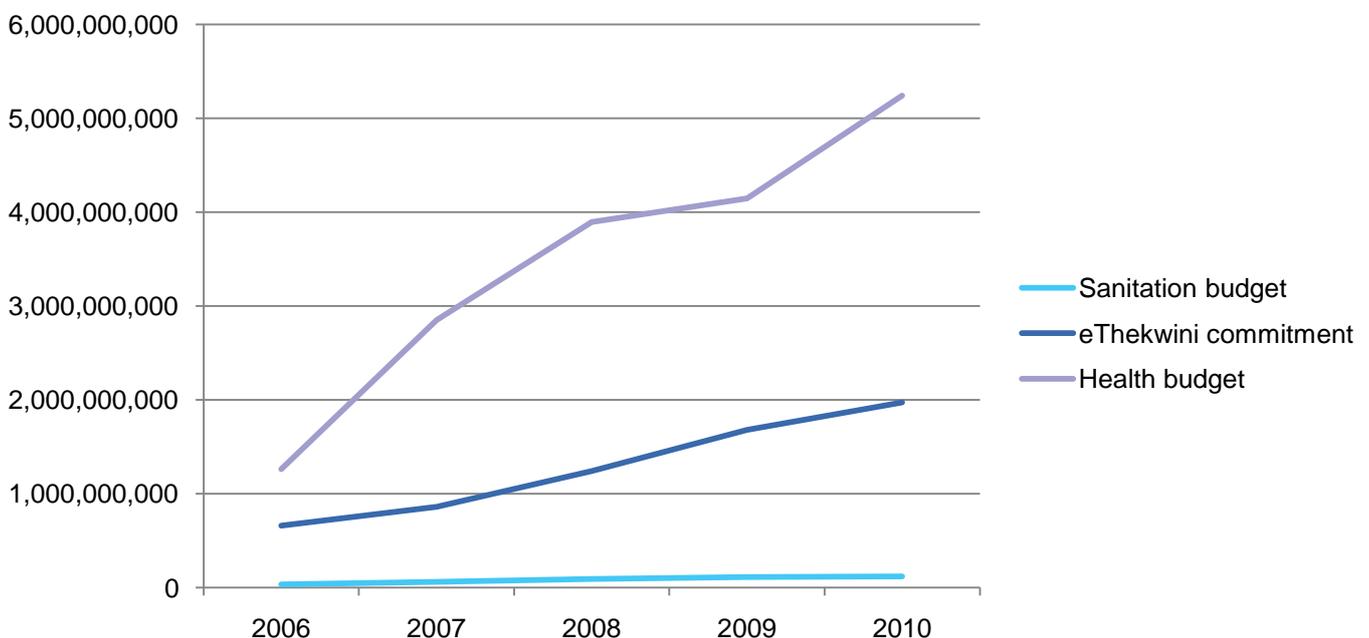
Needs and gaps

The Water and Sanitation Programme (WSP) of the World Bank supported the WASH sector to calculate the cost of the Universal Access Programme in 2006. The estimate showed that reaching universal access for sanitation required US\$ 650 million^{vi} (including hardware and software costs).

Financing for sanitation is highly dependent on external resources. A recent case study by WaterAid in Ethiopia^{vii} showed that more than 72% of the local sanitation budget comes from external sources. There is no specific budget line for sanitation, so the study used a percentage of the salary of health extension workers as proxy to estimate the amount of public budget going into sanitation indirectly, with the assumption that health extension workers are spending 44%^{viii} of their time on the promotion of sanitation and hygiene. However, this only covered one component of sanitation – hygiene promotion – so only represents part of the full cost of sanitation.

The share of proxy sanitation budget in the national economy stood at 0.03% over the past five years, which accounts for only 7% of the commitment made during the eThekwini declaration^{ix}, in which the government of Ethiopia agreed to allocate 0.5% of its gross domestic product (GDP) to sanitation. If we include the rough estimate of investments made by donors and non-government organisations (NGOs), the share of finance for sanitation in the national economy increases to 0.08%, which is still significantly below the eThekwini commitment.

Comparison of sanitation budget (in ETB) against health and eThekwini commitment



The proxy sanitation budget has been unstable over the past years. Some of the factors affecting the stability of the sanitation budget include, among others, the decreasing trends in the number of health extension workers and the higher proportional increase in the budgets of other poverty sectors, such as education.

The per capita budget for sanitation was estimated based on the proxy budget calculated from the salary of health extension workers. Sanitation per capita costs are not clearly stated in the National Sanitation and Hygiene Strategy, nor are different scenarios taken into account to reflect software and hardware costs or rural and urban environments. The Universal Access Programme estimated ETB 50^x for the construction of a rural latrine while the Financing Strategy for Water Supply and Sanitation Sector^{xi} set a unit cost of ETB 116 for the construction of latrines in schools. Since there are no better standards to compare with the actual costs, these (ETB 50 for rural sanitation; ETB 116 for school sanitation) are used for analysis.

In the period the report covered, the average sanitation spend per capita was ETB 1^{xii}, well below the theoretical per capita budget indicated in the Universal Access Programme for rural latrines and 1% of that indicated in the Financing Strategy for School Sanitation.

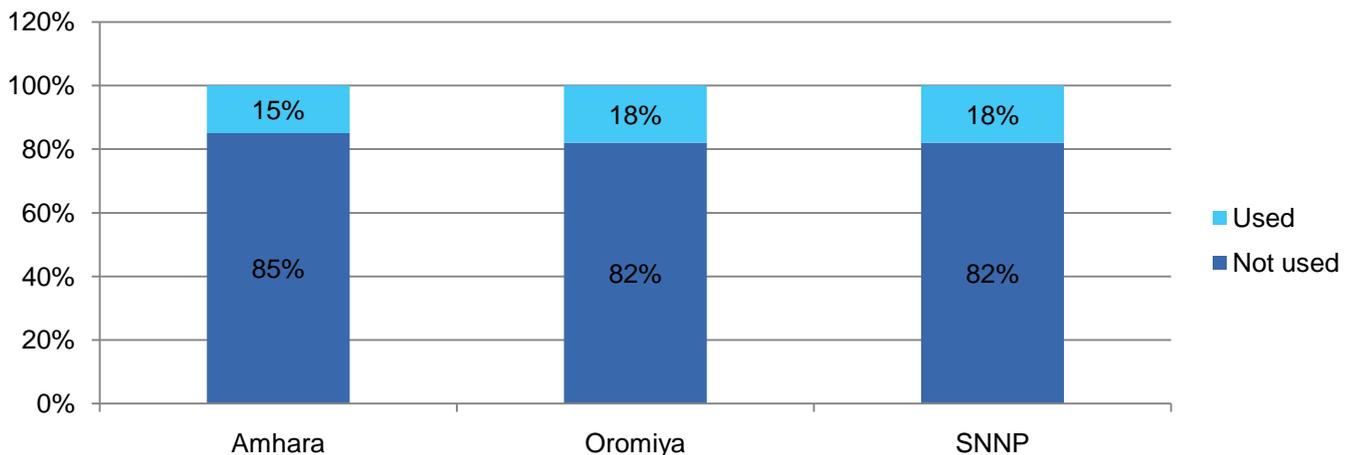


At the Shekena pond in the Konson region, Haliqe Berisha fills her jerry can up for the evening. She says, “We know when we are created that this will be our life.” People are frequently sick with intestinal problems, typhoid, parasites and malaria during the rainy season from all the standing water, a breeding ground for mosquitoes.

5. Are budgets used effectively?

An analysis of the figures in the 2009/10 WASH Annual Report^{xiii} shows that only 24% of channel 1b WASH funds are utilised out of the annual fund allocated to water supply during the first six months, leaving a significant proportion unspent. At the same time WASH institutions are paradoxically reporting budget shortages.

Utilisation of WASH funds for the study regions



In the three regions studied, less than 20% of the funds allocated were utilised during the first six months. The level of utilisation in Amhara was only 15%, while in Oromiya and Southern Nations and Nationalities Peoples regions only 18% of the WASH funds transferred to regions were utilised. Some of the reasons for this under-spending by the study regions include:

- **The delay in the release of funds.** Opinion survey results indicated that the release of WASH funds is delayed because of lengthy and bureaucratic process and the delays in submission of expenditure reports, which come about due to the late release of funds. This creates a vicious circle: delay in the release – delay in reporting – delay in the next release.
- **The WASH Coordination Unit being under-staffed.** The regional WASH programme management unit is under staffed and as a result implementation of WASH activities is slow.
- **The low capacity of local contractors.** The low capacity of local contractors and drillers has challenged the efficient utilisation of funds allocated to water supply, sanitation and hygiene.
- **Weak monitoring of WASH programme funds and unclear roles and responsibilities.** The results from the opinion survey clearly indicated the low level of attention given to monitoring of WASH programmes. Different donor-supported projects have different people responsible for monitoring who are paid through the projects. Government-financed projects are located in the planning department while donor-financed projects are located in other departments, and there is loose integration in terms of monitoring and evaluation of the programme as a whole. Different donors have different guidelines for financial management, which has considerable implications on the operational costs (different rates of payments). This has led to a low level of ownership by the Government. There are misunderstandings about who should put the controls in place and check if the programme is on track or not.



Many of the people seeking help at the clinic at Karat, the main town in Konso, and suffering complications of waterborne disease. Another serious issue is the problem for medical professionals who must practice without water to wash their hands between patients or keep patients and the hospital environment clean.

6. Are budgets benefiting the poorest people?

Equity: Moving from policy to practice

Ethiopian policies and strategies have no specific provisions for targeting sector investments to the poorest and most vulnerable people. However, the Ethiopian Water Sector Policy (1999) and the Universal Access Programme (2005) are both based on the 1995 federal constitution, which includes the notion that each citizen has equal rights to access basic services:

- Article 41/3 says every Ethiopian national has the right to equal access to public-funded social services.
- Article 41/5 says the state shall, within available means, allocate resources to provide rehabilitation assistance to the physically and mentally disabled, the aged, and to children who are left without parents or guardians.
- Article 44/1 also says all persons have the right to a clean and healthy environment.

The Water Sector Policy (1999) also promotes national efforts towards the efficient, equitable and optimum utilisation of available water resources for sustainable socio-economic development. The policy supports subsidies to communities that cannot afford capital costs based on established criteria. It differentiates between urban and rural environments – with full cost recovery in urban areas and partial cost recovery for rural areas. In order to translate this policy the Government prepared the Water Sector Strategy in 2001. This strategy was further developed into the Water Sector Development Programme in 2002. However, there are practical problems in turning the policy into practice. There is no good example on the ground that shows how the poorest communities benefit from the subsidy mechanism designed for the purpose. Rural communities are required to contribute at least 10% of the project cost – 5% in cash and 5% in kind. Again, promotion of inclusive technologies may require additional costs that are not sufficiently addressed in the Water and Sanitation Policy.

Regional channel 1b funds allocated to woredas follow certain criteria including the minimum finance agreed between donors and the Government. After deducting the regional level administration costs, regions allocate channel 1b funds equally among woredas on the basis of the minimum finance. All woredas supported under this financing scheme are receiving equal amount of funds. However, this doesn't reflect equity and undermines budget preparation and planning at regional and woreda levels (for example, all woredas of West Shewa zone covered under the channel 1b funding scheme received an equal amount of funds regardless of their population and coverage levels).

Ethiopia has developed a universal access approach to reach every citizen with 15 litres of potable water a day within a 1.5km radius for rural areas and 20 litres within 0.5km for urban areas. The temptation, at woreda level, where sufficient funds exist for capital costs (and this is rare) is to serve the easiest to reach communities instead of those communities that are more remote and therefore more expensive to reach.

Interviews with different key informants clearly indicated the fact that most people lack sufficient knowledge on the concept of targeting investments. Most importantly, those people responsible for making budget decisions have no clear understanding on why they should consider targeting. Data availability also raises problems for the identification of the poorest and most vulnerable people.

What provision is there for ensuring that sanitation is affordable for the poor?

Sanitation has no specific policy document, but it was included in the Water Sector Policy, Health Policy and Environment Policy. The rural-focused Strategy for Sanitation and Hygiene was developed in 2005 but has not yet been replicated for the urban environment. The Health Policy and Environmental Policy have no clear guiding statement on how sanitation should be financed. The Water Policy says 'water and sanitation financing is based on [an] established set of criteria', though this is not visible in practice anywhere. The Health Policy (1993) doesn't give much attention to sanitation and therefore doesn't make any statement that guides the financing of sanitation. The only document that describes how sanitation and hygiene need to be financed is the National Hygiene and Sanitation Strategy and the Protocol, developed in 2005 by the Ministry of Health with the financial support of WSP. It promotes self-financing to construct household latrines with some subsidies to those that can't afford the construction costs upon the approval of health extension workers and development agents.

7. Conclusions and possible solutions

Our research has raised awareness of the following challenges:

- **Water supply has not received adequate finance to meet the universal access targets.** During the last five years, the Federal Government allocated only 0.6% of its GDP, or 3% of the national budget, to water supply.
- **WASH institutions are unable to utilise funds available to them.** This is a result of limited capacity to implement services and meet reporting requirements.
- **The importance of sanitation to economic development is not sufficiently understood.** The Ministry of Health has developed the National Sanitation and Hygiene Strategy but this is not understood, financed or implemented at other levels of government. Most investments in the sector are off-budget and poorly coordinated, making the tracking and targeting of investments very challenging.

If the Government of Ethiopia is to meet the ambitious targets set out in the UAP and the National Sanitation and Hygiene Strategy, there need to be changes to public finance for the sector.

WaterAid and PANE call on the Federal Government to:

- Realise its political commitments by allocating sufficient budget to water supply and sanitation, taking into account the per capita requirements set in the Universal Access Programme (for low and high cost technologies) and in the Financing Strategy for Water Supply and Sanitation.
- Explore innovative mechanisms of financing water supply and sanitation in the coming years.
- Establish a hygiene and sanitation unit within the Ministry of Health in order to accelerate the achievement of national sanitation targets and the Millennium Development Goals (MDGs).
- Establish a specific budget line for sanitation with guidelines for the use of funds by regional and local governments.
- Give sufficient attention to under-utilisation of WASH funds, by fully exploring the root causes related to different aid modalities which include delays in fund flows and in expenditure reporting.
- Think of linking WASH investments with the National Management Information System (MIS) of the WASH sector presently under development.

We recommend that development partners:

- Provide the necessary support required by the Government to establish the sanitation department within the health institutions. This includes financing and the provision of materials and equipment.
- Improve the coordination and reporting of off-budget funding to ensure complementarities with public funds and better targeting of investments.
- Work towards a better understanding of the challenges and improve the procedures associated with disbursement, procurement and financial reporting at the regional level.

Endnotes

ⁱ Water supply and sanitation at household level, but not beyond (not including institutional water supply and sanitation – education, health, industry etc).

ⁱⁱ World Health Organisation (2010) *World Health Statistics, Part 2 – Global Health Indicators*.

ⁱⁱⁱ World Health Organisation/UNICEF (2010) *Joint Monitoring Programme for Water Supply and Sanitation*.

^{iv} World Health Organisation/UNICEF (2010) *Joint Monitoring Programme for Water Supply and Sanitation*.

^v Not all basic latrines meet the international (Joint Monitoring Programme) definition of improved sanitation.

^{vi} WSP supported the Ministry of Health to conduct a *Need Assessment for Universal Access to Improved Hygiene and Sanitation* in 2006. Results showed that the financial need to meet universal access to hygiene and sanitation was USD\$650 million (USD\$400 million for rural areas; USD\$250 million for urban areas).

^{vii} WaterAid in Ethiopia (2010) *More and better finance for effective local sanitation services in Ethiopia*.

^{viii} Sanitation and hygiene promotion are covered by seven out of 16 packages that health extension workers are expected to deliver.

^{ix} The eThekweni declaration has 11 commitments, which among others include the allocation of 0.5% GDP to sanitation and the establishment of a separate public budget line for sanitation. The Government signed to implement those commitments in 2008.

^x USD \$1 is equivalent to ETB 16.5 (ETB50 is equal to USD \$3).

^{xi} EU Water Initiative (2006) *Financing strategy for water supply and sanitation sector, Ethiopia*.

^{xii} Currently the per capita proxy sanitation budget is USD \$0.06 (ETB1).

^{xiii} National WASH Coordination Office (2009/10) *Annual WASH report*.



WaterAid transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities. We work with partners and influence decision-makers to maximise our impact.

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