

Financing water and sanitation at local levels

Synthesis paper



WaterAid report

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Front cover image: WaterAid/Caroline Irby

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Abbreviations and notes

ADM	Amatole District Municipality (South Africa)
ANICT	Agence Nationale d'Investissement des Collectivités Territoriales (Mali)
Barangay	Unit of local government in the Philippines
COWSO	Community owned water service organisation (Tanzania)
CREE	Water and Electricity Regulator (Mali)
CWSA	Community water and sanitation agency (Ghana)
CWSP	Community water service provider
DPHE	Department of Public Health Engineering (Bangladesh)
DWAF	Department of Water and Forestry (South Africa)
DWD	Department of Water Development (Uganda)
EDM	Energie du Mali
Fivondronana, fokotany	Unit of local government in Madagascar
GDP	Gross domestic product
GNP	Gross national product
Gol	Government of India
Gram panchayat	A tier of local self government in India
Gram sabha	A village council, and a tier of local self government in India
IGT	Inter-governmental transfer
Kebele, woreda	Units of local government in Ethiopia
LG	Local government
Masibambane	Programme for rural water supply and sanitation (South Africa)
MDG	Millennium Development Goals
MIG	Municipal Infrastructure Grant (South Africa)
Mitaa	Streets or wards in Tanzania
Nagar panchayat	City council in India
NGO	Non governmental organisation
O&M	Operation and maintenance
Parishad	Unit of local government in Bangladesh
PFM	Public financial management
PPP	Purchasing power parity
RWSS	Rural water supply and sanitation
Swajaldhara	Programme for rural water supply and sanitation (India)
SWAp	Sectorwide Approach
WSS	Water supply and sanitation

Acknowledgements

This assessment of financing of water supply and sanitation at the local level has been done for 15 countries across Africa and Asia. It focuses on the assessment of finances available at local levels from various funding blocks. It also examines the role of local governments in the provision of water and sanitation services, and adequacy of finances at local levels and the accountability of local governments.

WaterAid has initiated studies in this important area that has been hitherto been neglected in more macro-level issues of financing water and sanitation. This study intends to strengthen the understanding of how water and sanitation is financed at a local level. This study will, hopefully, lead to the development of a country level advocacy programme and action for greater involvement of local level stakeholders in the water and sanitation sector. It also aims to initiate discussion around global advocacy with the aid community on the need for strengthening decentralisation support within water and sanitation sector financing.

In the preparation of this study we have benefitted greatly from the active contribution and support provided by WaterAid colleagues. At the headquarters, Laura Hucks provided the necessary support to coordinate the study with country offices. Regional policy advisors guided the country level research. The policy advisors at WaterAid's various country programme offices ably carried out the field studies that provided the core inputs for this research. Their insights on local situations have helped shape our understanding of the country specific issues. We acknowledge the support and cooperation of WaterAid country programmes.

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Executive summary

This study explores local level financing of water supply and sanitation (WSS) services. It builds on the national finance assessment studies undertaken by WaterAid in 2005. While additional financing for the sector is necessary to meet the internationally agreed goals of water and sanitation, there is an emerging consensus that the efficiency and effectiveness of existing expenditures can be enhanced by greater involvement of local governments. This research has been done in 15 countries across Africa and Asia, through WaterAid country offices and partners. In each country, due to time and resource constraints only one local area was selected by the WaterAid country offices for detailed analysis. The findings thus are indicative, and cannot be generalised for all local areas in a country. The study was to test a research framework for assessing local level financing. This framework has worked well, and needs to be applied in other local areas to evolve more robust results.

A framework of funding blocks

This research aims to assess the influence of decentralisation and WSS sector policy and institutional arrangements on local level financing, using a framework of local WSS financing organised around five funding blocks that reflect both decentralisation and project linked funding mechanisms. The five funding blocks at local level include: (i) inter-governmental transfers; (ii) sector projects funding at local level; (iii) off-budget funds that bypass the national and local budgets; (iv) local government budgets and resources; and (v) water service provider budgets. Decentralisation and sector financing influence the availability and use of finances at the local level. In the research design, this is measured by indicators related to: level of decentralisation, adequacy of funds for WSS at the local level, and local control of funding blocks.

Decentralisation context

The level of decentralisation is measured by the extent of political decentralisation (elected local government), administrative decentralisation (devolution of water and sanitation) and fiscal decentralisation (measured as percentage public expenditure at sub-national level). An aggregate index of decentralisation is developed with these three parameters. In all the countries, the decentralisation process in some form was initiated (or strengthened) in the 1990s. Political decentralisation exists in all countries, but elections at local level have not taken place in a few: either because of suspension (for example, in Nepal, Malawi, Bangladesh and Nigeria); or that the provision in the law is very recent and no elections have taken place yet (Burkina Faso). In some countries, the devolution of water and sanitation is on 'paper', and the state agencies continue to be the service providers (Bangladesh, Burkina Faso, India, Madagascar, and Malawi). In others, not only is water devolved to local level, there is also a separation of policy, regulatory and service provision (Uganda, Tanzania, the Philippines, South Africa). In most countries, fiscal decentralisation has not been very strong. The sub-national government expenditures in the countries range from 1 percent in Burkina Faso to nearly 50% in South Africa).

Level and predictability of local funding

The level of resources available at local levels is measured by per capita revenues. The aggregate revenue of local governments in some countries is quite low. For instance, the range of income varies from \$1.1 per capita in Zambia to \$77.0 in Uganda. Inter-government transfers account for over 70% of local government revenues in Ethiopia, Ghana, the Philippines, South Africa and Uganda. Predictability of funds in terms of timeliness is not a major issue, except in Burkina Faso and Madagascar. In all other countries, the major issue relates to the amount of funds released. In many local governments, the actual receipts are lower than planned.

Capital expenditures, measured as annual per capita investments in water at local levels, ranges from a low of \$0.2 in Madagascar to a high of \$17.5 in South Africa. Estimating funding gaps at local levels has been difficult. Only seven out of 15 countries made an effort to estimate the local level gap. Local resource availability is considered adequate to meet Millennium Development Goals (MDG) targets in Bangladesh, Ethiopia and Tanzania, whereas significant increases are needed in Ghana, Madagascar, Mali and the Philippines. In estimating funding gaps, some countries have considered basic levels of services with low unit costs, while others have considered a higher level of services. Adequacy estimates are also affected by decisions around building new facilities versus rehabilitation, choice of technology and service standards. Given the weakness of monitoring and evaluation systems in the WSS sector, it is difficult to measure the outputs achieved through these capital investments.

Local influence and control

The level of local control and influence on resources is measured as an index of influence on capital investments. There are three categories of capital expenditures at local level: (i) those that are within the direct control of the local government as a part of the budget, including funding blocks of inter-governmental transfers, own sources or sector projects – all passing through the local government; (ii) other block of funds outside the local budget (off-budget or other sector project funds) over which the local government has some influence on decisions related to project locations or beneficiaries, on service standards and technology, or procurement; and (iii) other funds which are implemented and operated completely outside the local government's realm.

On an average, only a third of total capital expenditure is through local government budgets. The rest is through either sector projects (25%) or off-budget resources (32%). Local governments are, however, able to exercise some influence on the sector-level budget. That influence essentially comes from “its ability to exert pressure on other actors in the district” (Tanzania); or its ability to collaborate and advice as in Ghana and Uganda – both have Associations of WSS non governmental organisations (NGOs). The presence of an NGO committed to local government participation can secure inputs, for example, by WaterAid in Ethiopia and Malawi.

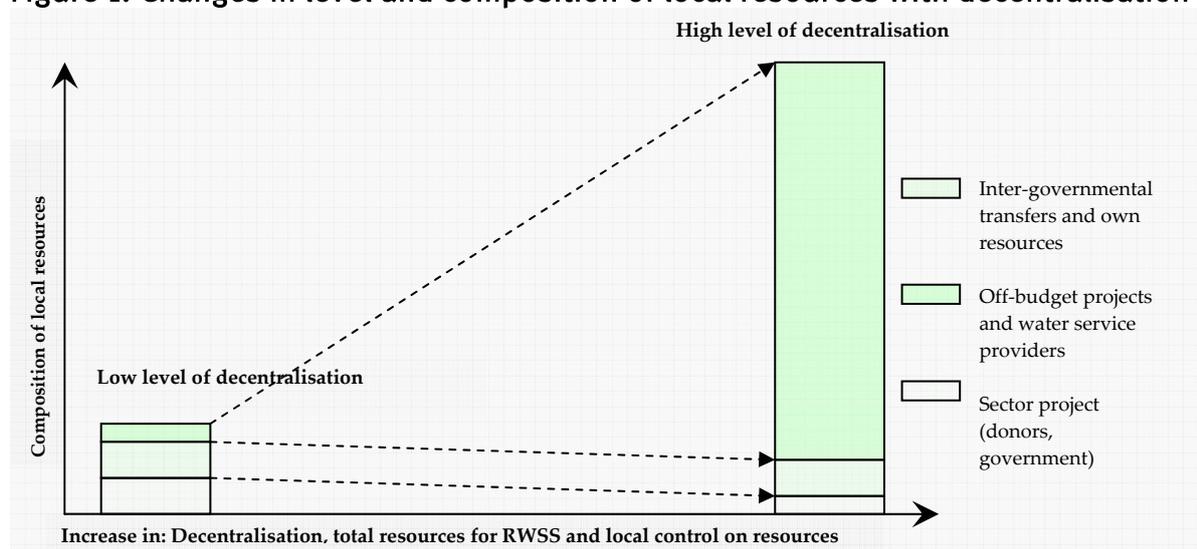
A key constraint in promoting greater local control relates to the lack of adequate accountability mechanisms. A qualitative assessment was carried out using a simple framework of both upward and downward accountability. In most countries the mechanisms of upward accountability of local government exist, but mechanisms for downward accountability of local governments (accountability to the people) are absent.

Decentralisation and local financing of water

There is a clear link between the level of decentralisation in a given country and the level and composition of funding for water and sanitation investments at the local level. In Figure 1, three key aspects are evident:

- With greater decentralisation, there is a significant overall increase in local funding.
- The composition of funding changes, with a significant increase in own resources, and/or block grants, providing greater local control. Donor-funded, and off-budget projects become a small proportion of the overall budget, and hence external influences on WSS expenditure are reduced
- Share of funding through inter-governmental transfers increases greatly, suggesting strengthening of fiscal decentralisation. Over time, even this should pave the way to own resources as local governments increase their capacities.

Figure 1: Changes in level and composition of local resources with decentralisation



In countries with low levels of decentralisation (those on the left in figure 1) the overall funding level is very low and is mostly through sector projects or off-budget routes used by several NGOs and some large donors. Share of inter-governmental transfers is limited or even non-existent. The sample countries in this group receive, on an average, 20% of resources through inter-governmental transfers or own resources, while 80% are through sector projects or off-budget routes.

On the other hand, countries with high levels of decentralisation (on the right side in figure 1) have a high level of resources (nearly eight times the lowest group). Inter-governmental transfers and own resources account for 80% of resources, 15% is through water service providers and only 5% is through sector project funds. IGTs are an important source and are provided in a fully transparent manner in the form of formula-based block grants to local governments or service providers. Share of sector projects goes down significantly. In such situations, local priority for water determines the extent and type of investments that are demand responsive.

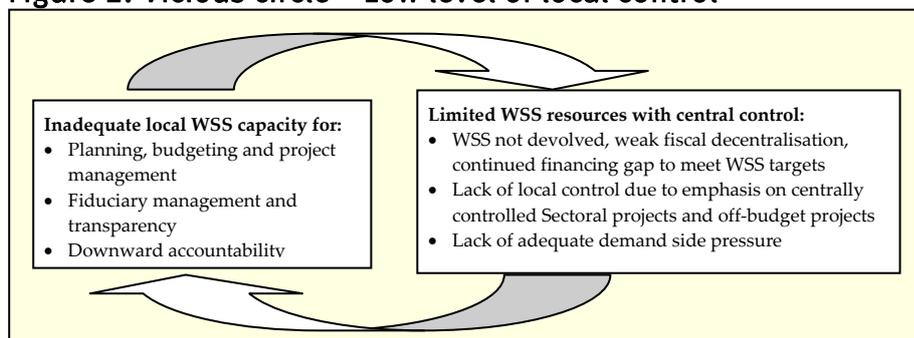
From a low level of decentralisation to a high one, there is a gradual change in the inter-government transfer design – starting with conditional grants for water supply and moving to block grants with complete local control, and in some cases to capital development funds. Separate funding mechanisms often become necessary when larger projects, as for piped systems, become common and cannot be easily funded through transfers in one year.

Table 1: Grouping of countries by performance levels

	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

Notes: The position of Tanzania is for the situation before the recently approved Water Sector Development Program (WSDP) within a Sectorwide approach (SWAp) framework as the data provided for this study was for the period before introduction of WSDP. This table excludes India, Malawi and Burkina Faso.

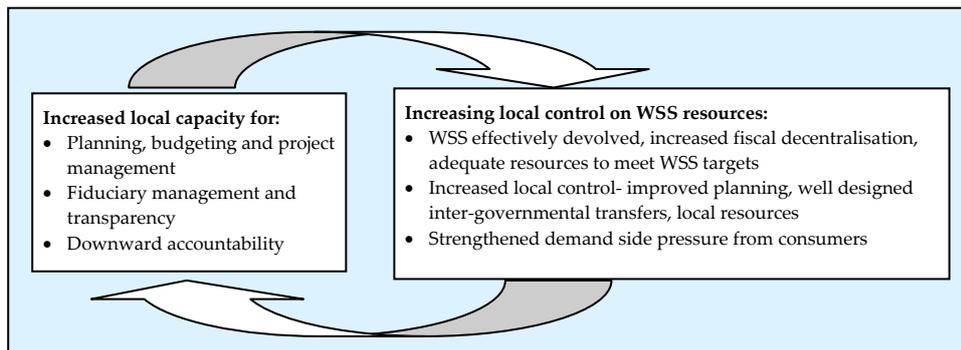
Figure 2: Vicious circle – Low level of local control



In many countries, the movement towards greater local control of resources and increased local total funding of water is hampered by the unwillingness of many donors and higher levels of government to trust local governments. Even in countries where policies related to decentralisation – political and fiscal – are implemented, there is some reluctance to devolve water sector to the local level. There has been a tendency by the central government to remain in control.

A number of countries have found ways to break this vicious circle through their decentralisation programmes, Sectorwide approach (SWAp), design of innovative financing mechanisms and capacity building support.

Figure 3: Virtuous circle – High level of local control



Lessons and agenda for action

What are the lessons emerging from the analysis of local level financing of water? There are a few common areas on which action is needed in most countries:

- Full decentralisation is a necessary minimum step for improved local control and adequate resources.
- It is necessary to have a 'predictable critical mass' of WSS resources to ensure credibility within local governments and evolve meaningful plans to meet local targets.
- Governments need to improve design of IGTs to provide more freedom at local levels and enable efficient use of capital funds. Moving from conditional to consolidated block grants can help improve local control, whereas appropriate financing mechanisms are needed for improving efficiency of capital investments.
- Efforts are needed to improve downward accountability of local government and upward accountability of water service providers – including an enabling environment and focus on demand side pressures.
- Capacity building efforts at the local government level are needed to improve water and sanitation sector information base, planning and implementation. Efforts are needed urgently to build information systems for the water and sanitation sector. This is critical for both good local planning as well as implementation.

1. Introduction and study rationale

In the past few years the water supply and sanitation (WSS) sector has seen an upsurge in interest from the aid community as well as national governments, resulting in greater flow of resources for investments.¹ While additional financing for the sector is necessary to meet the internationally agreed goals of water and sanitation, there is an emerging consensus that the efficiency and effectiveness of existing expenditures can be enhanced by greater involvement of local governments. Several recent reports such as the Camdessus report² and Gurria panel report³ have also asserted the importance of local governments in delivery of water services. This is often the underlying premise of many decentralisation policies as the process for local government empowerment through decentralisation has been initiated in a large number of countries.

Decentralisation recognises the role of local governments in implementation and delivery of services, and one of its key motivations is improved delivery of local services. Based on the principle of subsidiarity, it requires decision-making by the level of government that is closest to individual citizens. It is argued that when this is done, resources will be allocated with greater efficiency, accountability and responsiveness. The process of decentralisation in developing countries is in its early stages and the balance of fiscal power and distribution of functions between national/provincial and local governments is still evolving. In many countries, decentralisation has not gone the full distance in devolving all the necessary powers and functions to local governments. Even where this is done, there are often issues of full political commitment and local capacities.⁴

Local financing of the WSS sector tends to be more complex given its unique features: (a) lack of local control at local level – inadequate devolution and fiscal decentralisation practices that do not provide sufficient resources at local levels; (b) low capacity at local level and continued centralisation of WSS projects; (c) the continued importance of sector project-based funding by donors and non governmental organisations (NGOs) that bypass local government budgets; (d) importance of autonomous community or public water service providers with an emphasis on cost recovery; and (e) problems of a very weak database and information system. In several countries there exists also a heavy reliance on donor resources for capital investments. WSS sector donors need to have greater appreciation of the emerging decentralisation process and the important role of local governments. This necessitates a better understanding of the role of local government and local level financing of water and sanitation services.

The main aim of the research is to **explore local level financing of water, to identify constraints and triggers that affect local government performance in water and sanitation service delivery, and to identify measures to improve financing for local water supply and sanitation services. It is expected that this study will strengthen the advocacy efforts for appropriate and adequate funding for WSS delivery at the local level** to reap the full benefits of decentralisation.

This research has been done in 13 countries across Africa and Asia, where WaterAid country offices are located. Country researchers chose to carry out the study in local

¹ cf OECD (2006).

² World Water Council (2003).

³ World Water Council (2006).

⁴ See World Bank (2004).

government areas where they were already working alongside local governments in order to increase their access to information. Two more countries – South Africa and the Philippines – were added to the study to provide ‘reference’ countries that have made significant progress in decentralisation and water service delivery. This study builds on the national finance assessment studies undertaken by WaterAid in 2005, which identified that “water sector becoming a priority of government is currently a challenge. However, the bigger challenge to financing basic water supply and sanitation provision is how to make the money perform better”.⁵ There is a general notion that with greater local government control on spending, efficiency and effectiveness of use of resources improves. However, very few comparative studies on local level financing of rural water and sanitation exist.⁶ The set of research studies, conducted by WaterAid country offices and partners in 15 countries in Africa and Asia, intends to bridge this gap. These include: Bangladesh, Burkina Faso, Ethiopia, Ghana, India, Madagascar, Malawi, Mali, Nepal, Nigeria, the Philippines, South Africa, Tanzania, Uganda and Zambia.

There is considerable variation across the 15 countries selected for the study with respect to WSS institutions, resource flows and availability of key data sets. Progress on decentralisation varies greatly; the role of local governments in delivery of water and sanitation services is also very different and the water sector itself is going through rapid changes and reforms in many countries.

This paper presents a synthesis of the individual country studies. Each country study provides detailed analysis of only one local government. It relies heavily on data and analysis from the country studies and is also limited by the availability of data reported in the country reports. The country reports represent the first efforts at capturing the local level financing of water.⁷ For a relatively unexplored research area of water financing at local level, each country report has made significant contribution that needs to be acknowledged. Despite these difficulties, the country reports present a rich set of quantitative and qualitative information on local finances in most countries as well as detailed understanding and insights.

This synthesis report aims to identify key global messages for increasing the role of local governments in the delivery of water and sanitation services. At a country level, it will help position advocacy messages and guide policy discussions based on global experiences. It will also help improve research methodology for sector financing studies for those country offices that aim to deepen the analysis in other local areas.

⁵ WaterAid (2005).

⁶ See Mehta (2003) for a review of studies on financing of water and sanitation. For specific studies of water and sanitation financing refer to a number of reports prepared by Water and Sanitation Program-Africa, including Thomas (2004), Savage (2004), Chiwele (2004), Mehta et al (2004), and Mehta and Ondari (2004).

⁷ In the initial research design, it was intended to cover sanitation as well. However, very few country reports included adequate information on sanitation.

2. Framework for assessing local financing of water and sanitation

In theory, decentralisation and fiscal empowerment of local governments improve efficiency in resource use and delivery of services.⁸ The benefits expected from a greater control of resources at local levels include an improvement in allocative efficiency and productive efficiency. Allocative efficiency, it is argued, improves because a locally elected government has a better understanding of the local demand for public goods and services, and can allocate scarce public resources to match this demand. Productive efficiency, it is argued, also improves in many cases because local governments can choose appropriate technology and institutional mechanisms and means to deliver goods at a lower cost than centralised entities.

However, in many countries, decentralisation has not gone the full distance in devolving all the necessary fiscal powers and key functions to local governments. For local governments to play an effective role, it is necessary that adequate resources are provided at the local level and the role of local governments in water and sanitation services delivery is clearly defined. This is necessary but not sufficient as, where this is done, there are issues of accountability and local capacities (see World Bank (2007), Bardhan and Mookerji (2006) and Ahmed (2005)). The clarity, coordination and accountability of relations among LG, service providers and central governments are also crucial factors for efficient service delivery.

The research framework explores the influence of decentralisation and water supply and sanitation (WSS) sector policy and institutional arrangements on local level financing. The underlying premise is that greater control and influence of local governments on adequate local financing of water and sanitation services will result in improved service delivery. In this section we first describe the basic ‘five-funding blocks’ framework for assessing local finances, and then discuss the specific analysis and indicators used for measuring the three main mapping parameters: decentralisation and sector policy, adequacy of resources and level of control and influence of local governments. Selection of countries and local areas is briefly described along with highlighting the issues around information constraints.

2.1 A framework for assessing local finances – five funding blocks

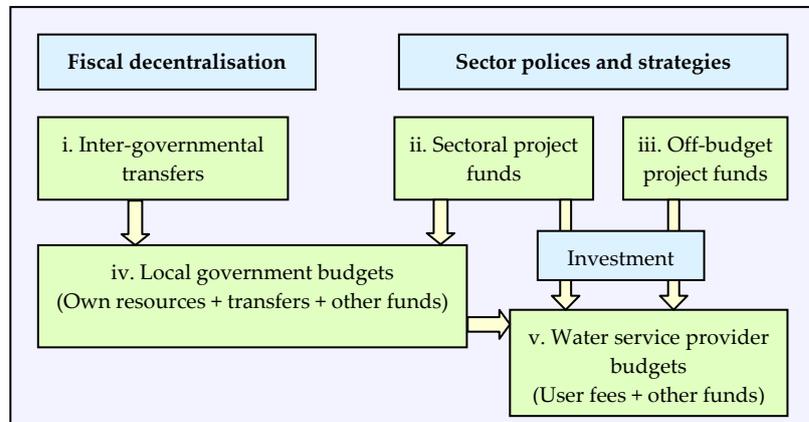
In this framework local WSS financing is organised around five funding blocks that reflect both decentralisation and project-linked funding mechanisms. The research assesses the influence of decentralisation, WSS policy and institutional arrangements on local level financing of water supply and sanitation through a framework of funding blocks. Local financing of water supply and sanitation services is influenced by financing processes involving national and state agencies, non governmental actors (such as external donors and NGOs) as well as local actors including both local governments and the service providers (often, these are different from the local governments themselves). These processes can be captured through five funding blocks as illustrated in Box 1. Most of these funding blocks are found at the local level in the 15 countries, though their

⁸ See, for example, Omar et al (1999).

relative importance varies and also changes over time with increasing decentralisation and sector coordination.

Box 2.1: The five funding blocks in local financing system

The five funding blocks at the local level are: (i) inter-governmental transfers; (ii) sector projects funding at local level; (iii) off-budget funds that bypass the national and local budgets; (iv) local government budgets, resources; and (v) water service provider budgets: Each block is guided by policies that outline the principles for allocation, transfer and use of funds. Together these comprise the local level financing system.



i. Inter-governmental transfers (IGTs) are decided under a fiscal decentralisation framework and typically include transfers from national government to local government. In federal countries, the provincial (or regional/state) governments become a second tier. IGTs include block (untied) grants as well as conditional (earmarked) grants, and may be earmarked for recurrent and development purposes. In some countries (for example, Uganda) there is a gradual move towards greater autonomy in decision-making at the local level by decreasing conditions in the use of tied funds as local capacities and fiduciary monitoring are streamlined. The critical aspects to examine for IGTs relate to the transparency (in allocation of funds), equity (allocation of funds in equitable manner to local governments) and predictability (timely availability of funds).

ii. Sector projects/programme funds are national/regional projects or donor-funded projects devoted to capital funding of water supply and sanitation projects at local level. They generally come within the purview of national sector ministries of water and health. These project/programme funds may be utilised by a variety of actors – national ministry, parastatal agencies, local government or service providers. The critical aspect to examine for such sector project funds is the role of local governments in project implementation.

iii. Off-budget funds: In sub-Saharan Africa and South Asia, there has been considerable funding at local level that is done through off-budget routes directly by donors or non governmental organisations (NGOs). Such funds are not included in the national or local budgets, and follow their own policy and implementation rules. The donor agencies are accountable to their headquarters, not to the local or national governments. Many governments welcome such funding as it adds to the total pool of resources, and often focusses on innovations and social targeting. However, unless these funds are coordinated with local plans, they may result in inequitable allocation of total public resources funds. Parallel and conflicting policy rules can also make it difficult to implement the government’s reform agenda.

iv. Local government budgets become important for decision-making at local levels in the context of decentralisation and devolution of WSS services. The budget income is determined by IGT flows and own resources, which in turn are determined by the fiscal decentralisation policy framework. Local governments may also receive funds from sector ministries and donor/NGOs for sector projects. The funds available in the local budget represent the total resources that are within the control of local governments. The decision on the use of these funds rests with the local government. Whether these funds have been used efficiently or not can be assessed on how the decisions on their use are made.

v. Water service providers' budgets are relevant in the emerging institutional arrangements as in many countries the actual service delivery is done by 'autonomous service providers' – generally through community-managed user associations (or NGOs in some countries) in rural, and 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. For urban water service providers, it may be possible to mobilise resources on a commercial basis from the domestic financial sector. The important aspects to be assessed include their share in total spending at the local level as well as the financial viability of operations through user charges. Good performance on these would suggest greater financial sustainability of the sector.

2.2 Mapping the country and local contexts

Decentralisation and sector financing influence the availability and use of finances at local levels. In the research design, this is measured by: level of decentralisation, control and adequacy. Countries and local areas are mapped across these three parameters.

Figure 2.1: Factors influencing availability and use of finances at local levels

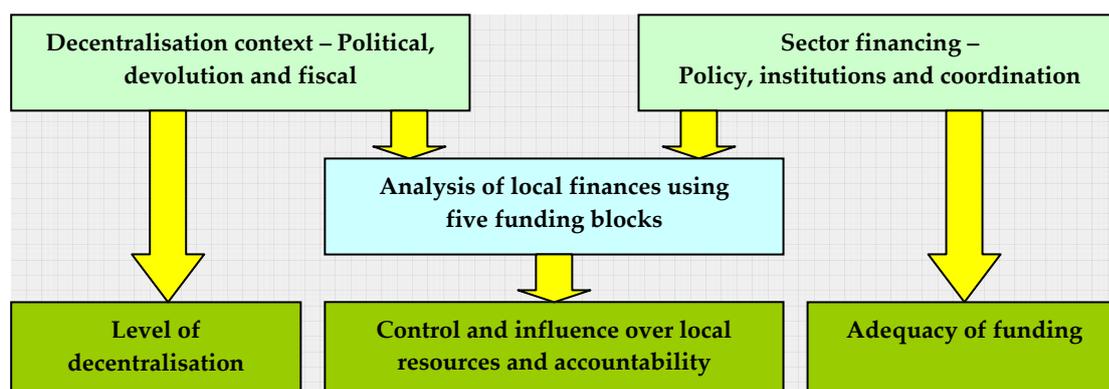
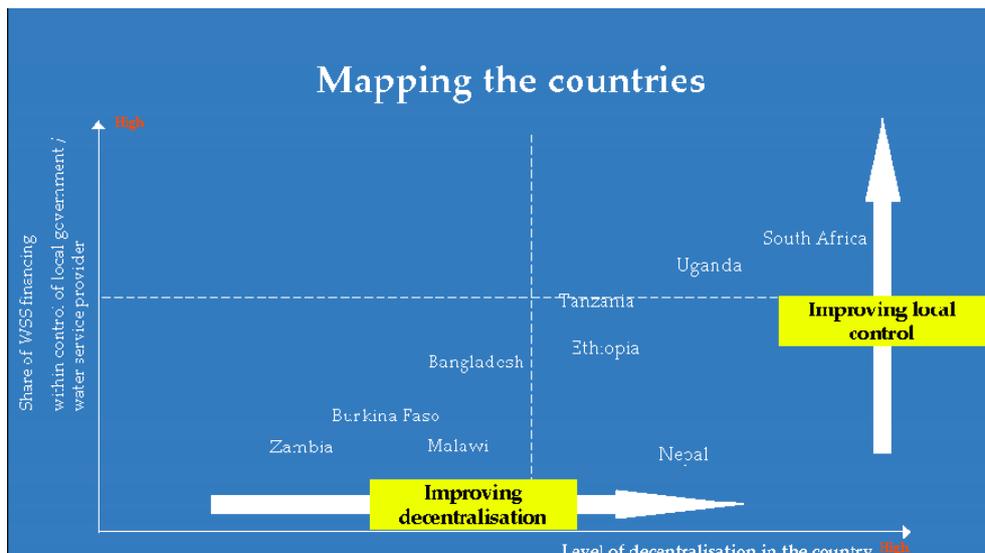


Figure 2.2: Mapping countries and local areas



- **Level of decentralisation** is measured by the extent of political, functional and fiscal decentralisation. Functional decentralisation refers to devolution of water and sanitation at the local level. It is hypothesised that greater decentralisation is expected to result in improved quality of accountability mechanisms. This, in turn, would lead to more appropriate decisions on capital expenditures.⁹
- **Level of local control on resources** is measured by share of total WSS resources at local levels over which the local government has control or influence. It is hypothesised that greater control and influence over local resources, backed by appropriate accountability mechanisms, are expected to result in better coordination and improved local decision-making on financial expenditures.
- **Adequacy of resources at national and local levels** to meet the agreed targets (both Millennium Development Goals and nationally set objectives, depending on which has greater currency) is measured by financing gaps for water and sanitation separately. If the financing gap is high, the focus at local levels needs to be on a detailed examination of all funding blocks and identifying the potential blockages to reduce the gap. On the other hand, if the funding gap is low, it suggests that funds are available at local level to meet the agreed targets. The emphasis has to then shift to strengthening accountability mechanisms to ensure effective delivery of water services.

Each of these parameters was assessed through a set of indicators. Information on the qualitative indicators is based on the assessment of WaterAid country offices. Analysis of these indicators for the three parameters was done using inputs from both national and local level studies.

⁹ See the framework presented in World Development Report (2004).

Table 2.1: Indicators for mapping national and local contexts¹⁰

Parameter	Sub-parameter	Indicator
Level of decentralisation	Fiscal decentralisation	Sub-national expenditure as a share (%) of total public expenditure (net of defence and interest)
	Political decentralisation	Qualitative index based on yes/no answers: <ul style="list-style-type: none"> ➤ Does decentralisation legislation provide for elected local governments? ➤ Have local government elections been held in the country as per schedule? ➤ Do the local government council and committees meet regularly?
	Devolution of water, and devolution of sanitation	Qualitative index based on yes/no answers: <ul style="list-style-type: none"> ➤ Has water supply/sanitation been devolved to local governments as per Local Government Act? ➤ Is devolution of water supply/sanitation effective in practice?
Adequacy of resources	Per capita total capital investments	Calculated for the selected local area on the basis of total capital expenditure from all sources for the latest available year. All sources included: (a) local government budget including inter-governmental transfers and own sources; (b) on-local government budget sector projects; (c) other sector projects in the local area through national budgets; and (d) off-budget projects through non governmental organisations or donors
	Finance gaps – at national level	Calculated as the gap between existing and projected flows from all funding blocks at national level, and the amount needed to meet country targets and/or Millennium Development Goals – on the basis of country own reports as well as WaterAid estimates ¹¹
	Finance gaps – at local level	Calculated as the gap between existing and projected flows from all funding blocks at local level, and the amount needed to meet local targets – on the basis of local government own report or WaterAid estimates
Local government control and accountability of water supply and sanitation expenditures	Local government – Direct control over resources	Percent of total water supply and sanitation related capital expenditure at local level from funding blocks that is included in the local government’s budget
	Local government – Influence over resources	A weighted index based on resources under each funding block weighted by the quality of local government influence over their use
	Predictability of funding blocks of inter-governmental transfers and	For inter-governmental transfers, qualitative index based on whether: <ul style="list-style-type: none"> ➤ Inter-governmental transfers are decided on transparent formula ➤ Are transferred as planned (on-time)

¹⁰ These indicators were discussed and agreed at a meeting of WaterAid country office representatives in May 2007 in Ouagadougou, Burkina Faso. See Annex 1 for details on how these are assessed.

¹¹ WaterAid (2005).

Parameter	Sub-parameter	Indicator
	sector projects	<ul style="list-style-type: none"> ➤ Are equal to the amount expected as per inter-governmental transfer norms For sector projects, qualitative index based on whether project resources are: <ul style="list-style-type: none"> ➤ Transferred as planned (on-time) ➤ Equal to the amount budgeted
	Quality of local government accountability mechanisms	Based on following accountability mechanisms: <ul style="list-style-type: none"> ➤ Take into account – Are citizens involved in planning and budgeting? ➤ Give an account – Are plans, reports, budgets or expenditures publicly available and posted? ➤ Hold to account – Are there effective mechanisms for auditing, regulating/scrutinising expenditure, follow-up and sanctions in case of mismanagement?

2.3 Selection of countries

The research was carried out by WaterAid country offices in 13 countries. In addition, South Africa and the Philippines (where WaterAid does not have country offices) were included as “reference” countries in Africa and Asia for their progress on decentralisation and water service delivery. Research was carried out by the Mvula Trust in South Africa and by the Philippines Centre for Water and Sanitation in the Philippines.

Table 2.2: Characteristics of sample countries

Country	GNP per capita (US\$) 2004	GDP per capita (PPP US\$) 2005	Population (million)	Density (persons/sq km)	Population share (%)		Improved water source % of population with access 2004	
					Urban	Rural	Urban	Rural
Bangladesh	470	1,870	142	986	25.1	74.9	82	72
Burkina Faso	400	1,169	13	47	18.3	81.7	94	54
Ethiopia	160	756	71	64	16.0	84.0	81	11
Ghana	450	2,240	22	92	47.8	52.2	88	64
India	720	3,139	1,095	333	28.7	71.3	95	83
Madagascar	290	857	19	32	26.8	73.2	77	35
Malawi	160	646	13	110	17.2	82.8	98	68
Mali	380	998	14	11	30.5	69.5	78	36
Nepal	270	1,490	27	184	15.8	84.2	96	89
Nigeria	560	1,154	132	143	48.2	51.8	67	31
Philippines	1,600	4,614	83	277	62.7	37.3	87	82
South Africa	4,960	11,192	47	38	59.3	40.7	99	73
Tanzania	340	674	38	40	24.2	75.8	85	49
Uganda	280	1,478	29	120	12.6	87.4	87	56
Zambia	490	943	12	16	35.0	65.0	86	27

Source: Based on information in World Development Reports (2005 and 2006). Oxford University Press

- *In Africa*: Ethiopia, Tanzania, Malawi, Zambia, Madagascar, Ghana, Nigeria (Enugu state), Burkina Faso, Mali, Uganda and South Africa.
- *In Asia*: Bangladesh, India (state of Madhya Pradesh), Nepal and the Philippines.

The 15 countries present a range of diversity: in size with India and Nigeria at one end and Zambia, Malawi and Burkina Faso at the other; in density with Bangladesh and Mali at the two extremes; and in economic level with South Africa at the top and Malawi and Ethiopia at the bottom as the poorest nations. The access to water services in each country varies significantly. Each country report prepared as an output of this study captures the local context and issues. This synthesis report provides summary findings; for details on each country, the country reports need to be referred.

In each country, research was undertaken by the WaterAid country programmes (or its partners) using a common research framework and research guide developed for the study. Preliminary information at the country level was compiled for most of these 15 countries and reviewed at a workshop in May 2007 in Burkina Faso. It was at this workshop that detailed indicators for local level financing were developed. A further guide on collection of information for indicators at the local level was developed for use of WaterAid country offices.

Selection of local government areas

Selection of local areas varies across countries. The initial idea was to select at least three local areas in each country, representing the diversity within the country. However, given the difficulty in obtaining adequate information at local levels in most countries, one local government area was selected in each country (refer Tables 2.3-a and 2.3-b). Selection of this one local area was intended to be representative of the situation in the country. However, in this pilot phase, WaterAid country offices have selected a local government area where they have active programmes and familiarity with the local context to ensure easy access to information. Most areas selected for the study are rural areas.

Table 2.3-a: Characteristics of selected local government areas

Country	Local government area	Population	Poverty level (% below national poverty line)	Local revenue per capita (US\$)	Population with access to improved water source (%)	Population with access to improved sanitation (%)
Bangladesh	Mohammadpur, UP	17,000	65	1.9	80	50
Burkina Faso	Koudougou	142,360	na	na	70	4
Ethiopia	Tenna <i>Woreda</i> , Oromiya	64,232	na	10.6	18	6
Ghana	Bongo district	91,949	80	16.6	31	1
India	Sehore district	1,078,972	68	na	85	27
Madagascar	Antanifotsy	66,495	75	1.6	9	73

Country	Local government area	Population	Poverty level (% below national poverty line)	Local revenue per capita (US\$)	Population with access to improved water source (%)	Population with access to improved sanitation (%)
Malawi	Salima district	309,300	52	na	77	70
Mali	Tiorobougou, Kuilikoro	14,341	100	2.2	35	25
Nepal	Dhading district	340,000	48	6.6	79	43
Nigeria	Igbo-Etiti, Enugu	326,442	na	12.9	15	53
Philippines	Bongao LGU, ARMM	53,054	na	20.4	na	na
South Africa	Amatole district municipality	1,675,000	70	62.7	70	18
Tanzania	Kongwa district	248,656	40	18.0	72	89
Uganda	Katakwi	118,928	54	49.2	57	17
Zambia	Monze district	165,741	63	1.1	70	8

Table 2.3-b: Characteristics of selected local government areas

Country	Number of inhabitants						Rural population in ('000)-2006	Population share (%) - 2004
	0-9,999	10,000 - 19,999	20,000-99,999	100,000-199,999	200,000-499,999	500,000+		
Bangladesh			4,470 unions 20,000		463 sub-districts 200,000	64 districts 2,000,000	106,259	74.9
Burkina Faso					45 provinces 200,000	13 regions 800,000	10,810	81.7
Ethiopia			500 wards 50,000				65,064	84.0
Ghana	16,000 unit committees 1,400			110 district assemblies 100,000		10 reg councils 2,100,000	21,420	52.2
Madhya Pradesh	22,029 gram panchayats 2,017		313 dev blocks 50,931			48 districts 925,905	44,443,447	73.6
Madagascar	1,350 rural						12,713	73.2

Country	Number of inhabitants						Rural population in ('000)-2006	Population share (%) - 2004
	0-9,999	10,000 - 19,999	20,000-99,999	100,000-199,999	200,000-499,999	500,000+		
	comm 9,500							
Malawi					30 rural districts assemblies 300,000		10,674	82.8
Mali		664 rural comm. 14,150		49 districts 100,000		8 regions 1,100,000	9,400	69.5
Nepal					75 district development committees 300,000		22,857	84.2
Nigeria				774 local councils 100,000		36 states 3,700,000	134,898	51.8
Philippines	41,945 barangays 738				80 provinces 300,000		30,971	37.3
South Africa						district municipalities	19,313	40.7
Tanzania	4-10 rural wards 2000	15-40 wards/ dist 12,000			127 local government authorities 250,000	21 regions 1,400,000	29,052	75.8
Uganda					55 districts 400,000		25,190	87.4
Zambia				60 district councils 100,000		9 provinces 800,000	7,584	65.0

Source: Based on country reports prepared by WaterAid offices supplemented by reports of national governments, and population information from Table 2.2.

In each country, research focussed on the following three aspects to assess the financing processes and systems for local level service delivery:

Institutional and policy mapping: For each of the five funding blocks, research identified institutional actors at national and local level who determine or influence decisions of allocation and use of funds; policies that influence these decisions and need to address challenges

- **Resource flows assessment:** For each funding block, the level of fund flows was estimated to determine their relative importance (volume) and, as far as possible, allocation and utilisation. However, this information was not always easy to obtain
- **Analysis of local budgets:** This includes an assessment of budget processes and related decision-making, and expenditure analysis in terms of equity and efficiency. About five representative water service providers were surveyed in each LG area to estimate their income and expenditure.

Information constraints

Sector monitoring and information systems are possibly the weakest link in the water and sanitation sector. Thus, there were significant difficulties in collecting up-to-date and accurate information for this research. While the list is long, the main difficulties faced were:

- Information on sector projects by donor partners. Often, disbursements under the donor projects were not aligned with the country's own fiscal calendars. Direct disbursements by donors to suppliers, rather than using the national treasury route, made it difficult to get this information at the local level or even consolidated information at the national level.
- Getting information about the off-budget projects was the most difficult. In most countries, consolidated off-budget expenditures are simply not available. Even NGO associations (such as in Uganda and Ghana) have found it hard to collect this information.
- Getting consolidated information related to "planned and actuals" of budget information for local governments. This is because the final income and expenditure statement is available after an independent audit, which is often never done.
- Information on location of capital investments at the local level was almost impossible as the budgets or the related project documents did not report this in detail. This made it very difficult to do an assessment of equity implications of investments.
- Information on unit costs was not easy to obtain. Very few studies are available at the country level to compare unit costs of various technologies in different geographical settings. As a consequence, it was difficult to calculate local level financing gaps in most countries in this study. This also has implications for planning and budgeting at local and national levels.
- Probably the most critical difficulty has been in getting adequate separate and detailed information for sanitation. To a great extent, this has limited the analysis

of both national, but particularly local, expenditure on sanitation in the study. A separate study is needed for sanitation to focus attention on this neglected area.¹²

¹² See, for example, studies on sanitation financing in Uganda commissioned by the Water and Sanitation Program in Africa which were able to do the analysis due to the separation from water supply: Thomas (2004), Mehta et al (2004) and Buhl-Nielsen (2006).

3. Assessing decentralisation experience

This section reviews decentralisation experiences in sample countries related to implementation and delivery of water supply and sanitation (WSS) services. Decentralisation has been ushered in most countries in some form or the other during the 1990s. However, in most of them, the balance of fiscal power and distribution of functions between national/provincial and local governments is still evolving. There have been many reviews of this experience (see, for example, Afzhar et al (1999), Boex et al (2005), Steffensen and Trollegaard (2000) and Shah (2006)). One common point in these reviews is that decentralisation by itself is no panacea but holds greater promise for better resource allocation in service delivery.

To assess decentralisation, all countries are mapped on the overall commitment to political decentralisation in the country and the extent of devolution of water and sanitation to local governments. The political dimension determines *democratic decentralisation* with elected governments at various levels in a hierarchy of LGs. This needs to be supported by *functional decentralisation* (devolution of water and sanitation) through expenditure mandates to LGs and *fiscal decentralisation* that determine the availability and access (or control) to resources at local level through transfers, own resources and borrowing. The countries are mapped on these three aspects.

This section also focusses on an analysis of the composition of local government revenues. Revenues are analysed in terms of level and share of inter-governmental transfers (IGTs), own sources, and project funds. The issues of predictability of funds and quality of accountability mechanisms at the local level are also addressed in this section.

3.1 Assessing decentralisation

All the 15 countries in this 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 legislations exist for decentralisation. These legislations prescribe the functions and fiscal powers of local governments at each level. Table 3.1 provides brief highlights of these provisions.

Table 3.1: Decentralisation in sample countries

Country	Decentralisation Policy	Democratic decentralisation
Bangladesh	Powers of local government enshrined in the Constitution, Local Government (Union Parishads) Ordinance, 1983; the Upazila Act, 1988; the Zila Parishad Act, 1988; Local Government Commission in 1997	Rural: Direct elections for Union Parishad level local government; Urban: elected local government for large cities (Elections in Bangladesh have been indefinitely postponed since January 2007)
Burkina Faso	Constitution in 1991; administrative reforms in 1998; new legislation introduced in 2002 for administrative regions	Rural: New Local Law in 2004 for elected government to rural communes not implemented yet; Urban: Elections in April 2006 for 49 urban communes

Country	Decentralisation Policy	Democratic decentralisation
Ethiopia	Federal structure recognised in Constitution , nine regions have autonomy – second wave of decentralisation in 2002 to <i>woredas</i> (districts)	Elected governments at all levels of decentralised local government
Ghana	Local government recognised in 1992 Constitution; Local Government Law, 1988 (also referred as PNDC 207)	70% elected members in District Assembly. Partially elected in Unit Committees (suspended now)
India (state of Madhya Pradesh)	Federal structure – one of the 27 states; Constitutional amendment in 1994 recognises tiers of rural and urban local governments; states have their own legislations for rural and urban local governments	Elected governments at state and local level; elected council at district level, sub-district level and village level
Madagascar	Decentralisation policy since 1957; many reforms, latest in April 2007	Mayors and council members of the rural and urban communes elected; Elections also at the <i>fokontany</i> (village/urban neighbourhood) level
Malawi	In 1998, Decentralisation Policy approved and the Local Government Act enacted. Devolution of administrative and political authority to local government level begun in 2001	Provision for elected assemblies at district level and in urban assemblies (no election since 2004)
Mali	Decentralisation started in 1993 with the adoption of Law number 93-008; amended by Law number 96-056 of 16 October 1996	Mali recognised as a successful example of democratic decentralisation. Initially elected local government in 19 urban communes; now elected local governments at all the three levels of government
Nepal	Constitution in 1991, detailed policy in Local Self Governance Act, 1999	Democratic decentralisation – elections held in 1999 for all levels, local governments’ election suspended since 2002
Nigeria	Federal structure – 32 states; democratic decentralisation established in Local Self Governance Act 1999	Election at state level held in April 2007 (local level suspended (announced in September 2007)
Philippines	Local Government Code in 1991	Elected local government at all levels, till the lowest level (<i>barangay</i>)
South Africa	Constitution: Three spheres of government; Inter-government Relation Act	Elected local government at all spheres
Tanzania	Constitution in 1996; 1998 Local Government Reform Programme, greater autonomy to district governments	Local Government Acts in rural areas (Districts) and Urban Areas with elected councils
Uganda	Constitution in 1995; Local	All local government councillors,

Country	Decentralisation Policy	Democratic decentralisation
	Government Act, 1997	including the Chairpersons, are elected (since 2006, on multi-party system)
Zambia	Decentralisation policy in 2002	Elected local government Proposal for directly elected mayors

Source: Based on country reports in the study.

Structure of local government

Table 3.2 provides details of structure of local governments in sample countries. In most countries, the rural local governments have a hierarchical structure, whereas the urban local government structure is usually based on population size. Some countries have fewer layers of rural local governments (for example, Malawi has only one level; South Africa, the Philippines and Zambia have two levels), while others have many layers of local government (for example, India, Bangladesh, Tanzania). The most common level where both administrative deconcentration and political decentralisation has taken place is at district level, with populations of 100,000 to 300,000. In some countries, the administrative offices of central governments are located at this level.

As a part of the study, it was expected that the local government area chosen for the study would be comparable across the countries. However, in a few countries (Bangladesh, Mali) the local government chosen is much smaller in size.

Table 3.2: Decentralisation and structure of local authorities

Country	Local authorities – rural		Local authorities – urban	
	Type and number	Population	Type and number	Population
Bangladesh (135 million)	i) 64 districts with proposed elected councils ii) 463 sub-districts with proposed elected councils iii) 4,470 union parishads with existing elected councils iv) 5 to 15 villages per union	2 million 0.2 million 20000 na	i) 6 city corporations with elected councils ii) 254 municipalities with elected councils	6 million 0.14 million
Burkina Faso	i) 13 administrative regions, ii) 45 provinces iii) rural communes	0.8 million 0.2 million	49 municipalities (two large ones) – urban communes are elected	50,000
Ethiopia	Federal structure: i) 11 regions – some regions have zones (66) iii) <i>Woredas</i> (556)	na 50,000 3,000	i) 85 urban administrations ii) 863 municipalities (under <i>woredas</i>)	0.1 million 14,000

Country	Local authorities – rural		Local authorities – urban	
	Type and number	Population	Type and number	Population
	and <i>kebeles</i> , both of which have elected councils			
Ghana	i) Regional coordinating councils (10) ii) Metropolitan/municipal/district assemblies (130) – 70% elected members in district assemblies iii) Unit committees (16,000)	2.1 million 0.1 million 1,400	Zonal, town and area councils (1,300)	8,000
India	Federal structure – 27 states i) 593 districts ii) 5,463 sub-districts Three tiers – Village councils (elected), block and/or district councils	0.99 million 0.1 million	i) Municipalities ii) Municipal corporations	30,000 300,000
India (state of Madhya Pradesh)	i) 48 districts ii) 313 sub-districts or janpads iii) 22,029 gram panchayats iv) 55,392 villages with gram sabhas	1.5 million 0.2 million 20,000 600	i) 237 nagar panchayats: ii) 86 municipalities; iii) 14 municipal corporations: iv) 6 city corporations	10,000 40,000 100,000 400,000
Madagascar	i) 22 regions ii) 1,557 communes iii) 17,433 <i>fokontany</i>	na 10,232 na	i) Large urban centre (GCU)-7 ii) Provincial main towns iii) Secondary urban centre (CUS) Fivondronana main towns: 96	more than 80,000 inhabitants na 10,000 to 80,000 inhabitants
Malawi	30 rural district assemblies; each district further sub-divided into Traditional Authority Areas (Development Areas)	0.3 million	i) 3 city assemblies ii) 1 municipal assembly (next to city-level) iii) 6 town assemblies (next	na

Country	Local authorities – rural		Local authorities – urban	
	Type and number	Population	Type and number	Population
			to municipal level)	
Mali	i) 9 regions ii) 42 districts iii) 684 rural communes	1.1 million 0.1 million 14,150	19 urban communes	0.2 million
Nepal	i) 75 district development committees ii) Village Development Committees (3,915)	0.3 million	58 municipalities	74,000
Nigeria	i) 36 states ii) 774 local councils (no tiers of local government)	3.7 million 0.1 million		
Philippines	i) 80 provinces ii) 41,945 <i>barangays</i>	0.3 million 738	114 cities, 1,496 municipalities	0.4 million 34,800
South Africa	i) 9 provinces ii) 283 district municipalities No rural-urban distinction	na na	i) 6 city councils for large cities ii) local municipalities	na na
Tanzania	i) Regions: 21 ii) Local government authorities (districts, municipalities, town councils): 127 iii) 15-40 wards per district iv) 4-10 villages per district (rural)	1.0-2.5 million 0.1-0.5 million (avg 0.25 mn) Ward: 10,000 Village: 2000	i) 1 city council ii) 21 municipal councils iii) 4 town councils iv) Urban wards v) Mitaa or streets/wards	900,000 na na 10,000 2,000
Uganda	i) 80 districts ii) 863 sub-counties (rural) iii) Parish	0.4 million na na	i) 13 municipal councils ii) 92 town councils	
Zambia	i) 9 provinces; ii) 54 (rural) district councils	0.8 million 0.12 million	i) 4 city councils ii) 14 municipal councils	1 million 0.5 million

Source: Compiled from the country reports prepared for the study.

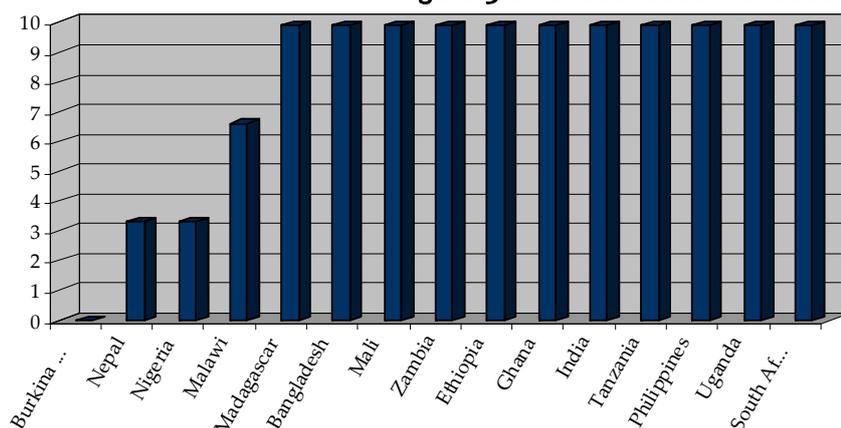
Political decentralisation

In most of the above countries, the decentralisation process was initiated (or strengthened) in some form in the 1990s. However, in each country decentralisation has taken its own course. In some countries, early gains of decentralisation were lost through greater centralisation (Burkina Faso, Madagascar and Nigeria). In others, the pace of implementing the policies has been slow and the central government is unwilling to devolve greater power and authority.

Democratic decentralisation, that is, having an elected local government, is necessary for ensuring its accountability to the people. It is a necessary first step to bring the government 'closer to the people'. The elected representatives at the

local level have an important role in budget formulation and monitoring expenditures. The extent to which people's priorities are reflected in the local budget depends on the consultative process adopted during budget formulation. In the sample countries, most countries have fared well on political decentralisation score (see figure 3.1). Only four countries have a score of less than 10. In these countries, elected rural local governments are absent, either because of suspension (for instance, in Nepal, Malawi, Bangladesh and Nigeria), or that the provision in the law is very recent and no elections have taken place yet (Burkina Faso). In absence of elected local governments in these countries, administrative units of sector departments and local administrators make all the decisions.

Figure 3.1 Political decentralisation



Devolution of water and sanitation at local levels

There is a general tendency of central governments in developing countries to proceed with caution in devolving responsibilities to local governments. The subsidiarity principle is often overlooked by the national government when decisions on functional devolution are made and many functions are not devolved to local governments that are listed in the Constitution (or the legislation). This is due not only to central government perception of devolution as a 'weakening' of its power, but also in part to the perception of lack of capacity at local level. (See box 3.1 on devolution in Ethiopia.)

Water supply is one of the last functions to be devolved, usually after education and health. Often, the argument of the 'technical nature' of water services delivery is used to delay devolution. In the absence of devolution to local levels, there is a predominance of project finance of water. But the financing channels are fragmented – with resources coming from various sources at local levels to different institutions. These often result in duplication and conflicting policy rules and implementation guides. In several countries,

there is considerable dependence on external funds, from central governments or donors – each with its own terms, conditions and implementation modalities.

Local capacities will improve only when the local governments are given discretionary powers and resources.¹³ In countries where such powers are devolved, local governments have increasingly taken up responsibilities for water and sanitation services (for example, South Africa, Ghana, and Uganda). In a few countries, where devolution is limited (often referred to as deconcentration where local offices of line departments are in charge, as in Zambia and Malawi), the role of local government in service provision is limited. Studies in sub-Saharan Africa have shown that many functions have been transferred as unfunded mandates, thus creating problems in the implementation of service provision at the local level.¹⁴

Table 3.3: Devolution of water and sanitation and institutional arrangements

Country	Nature of functional decentralisation	Devolution of water and sanitation
Bangladesh	On the whole highly centralised administration. Deconcentration (at district level). Proposed devolution (at sub-district and union)	Water supply and sanitation devolved at sub-district level, sanitation devolved at local (Union Parishad level). Major responsibilities for implementation of local-level infrastructure investments are assigned to large central government agencies, notably the Local Government Engineering Department and Department of Public Health Engineering (DPHE). In urban areas, water and sanitation devolved, large urban local governments manage on their own (a few have Water and Sanitation Authorities), smaller one supported by the DPHE
Burkina Faso	Deconcentration to the administration regions for rural devolution to urban communes	Water supply in urban areas devolved to communes. In rural areas deconcentrated constructed by national agency under Ministry of water and agriculture, rural water supply managed by community groups as water service providers. Public utility ONEA in 25 urban communes
Ethiopia	Two waves of decentralisation – first wave of devolution to the regions; second wave devolution to <i>woreda</i> level in 2002	<i>Woredas</i> are tasked with providing support to communities to administer water schemes; develop springs; build hand-dug wells; handle minor and moderate maintenance of water schemes; and promote indigenous irrigation schemes. Actual management of rural schemes by community groups as water service providers. In the capital, the Addis Ababa Water and Sewer Authority provides water and sewer services. In other cities and small towns Town Water Boards are responsible for service provision. They are expected to contract out service provision to private operators

¹³ Chaudhury and Devarajan (2006)

¹⁴ Steffensen and Trollegaard (2000), op cit.

Country	Nature of functional decentralisation	Devolution of water and sanitation
Ghana	Deconcentration to regional councils; devolution to district assemblies, who are also planning authorities	District assemblies have the mandate to deliver services including water and sanitation to their people. Community Water and Sanitation Agency (CWSA) as the facilitating and financing agency for rural areas and small towns. Community groups are water service providers in rural areas. Ghana Water Company Ltd for a few major urban areas
India (Madhya Pradesh)	Devolution at state and local level specified in the Constitution, not fully implemented in the state of Madhya Pradesh	Water supply and sanitation devolved at local level. Government of India (GoI) provides national project funds directly at local level; however, in practice, still implemented by Public Health Engineering Department (PHED). In rural areas community groups formed as sub-committees of rural local government (gram panchayats) are 'water service providers' under GoI reforms. In urban areas municipal corporations and municipalities are water service providers
Madagascar	New law has devolved many functions to regions and communes, yet still highly centralised	According to the current law, communes are in charge of making decisions on investments for water services in their constituency. However, still being delivered by national agencies. JIRAMA, state owned commercial utility in 58 cities; 22 communes leased to private agencies
Malawi	Decentralisation being implemented gradually – health, agriculture and education devolved to district level. Some progress towards full devolution of powers of all sectors to local government is being made	Water supply not yet devolved. The Ministry responsible for water still implements and owns gravity-fed schemes. Community groups manage water points. Regional water boards implement capital works. Separate service providers for two large cities
Mali	Devolution – Malian legislation provides that “any transfer of powers to a local authority must be accompanied by the concomitant transfer from the state to the latter of the resources and means required for the normal exercise of such powers”	The water sector has made the most progress as regards transfer of powers. Since the early 1990s, a process has been under way within the National Water Supply Department ¹⁵ CREE (Water and Electricity Regulation Board). EDM (Energie du Mali) – semi-private company – in 16 urban centres. User associations in rural areas

¹⁵ SNV Mali (2004).

Country	Nature of functional decentralisation	Devolution of water and sanitation
Nepal	Decentralisation at district level. Few sectors devolved. However, state agencies still active in the absence of elected local government	Water and sanitation sector is not devolved
Nigeria	Decentralisation from state to local level	Water devolved at local level. Water boards, small town units, sanitation agencies and community water boards. Urban water vendors and community based vendors for low income areas. Limited funding at local level and limited local capacity
Philippines	Decentralisation, province to municipal and <i>barangay</i> level	Water devolved at local level- water districts created as service providers funded by Local Utilities Water Administration (LUWA)
South Africa	Devolution of all services to local level	Water managed and regulated by DWAF at provincial level – at local level Water Services Authorities (often the municipalities) created
Tanzania	“D by D” policy: decentralisation by devolution. Practiced at local level	Water and sanitation devolved at local level, for rural areas only. Each Local Government Act has a District Water and Sanitation Team. Separation of service provision. Community owned water service organisations (COWSO) in rural areas. Water supply and sewerage authorities in urban areas report to the Ministry of Water
Uganda	Devolution – WSS included under the Local Government Act (1997)	The local governments are empowered to provide water and sanitation services. Directorate of Water Development (DWD) for rural areas, National water and sewerage corporation for 23 urban areas
Zambia	Deconcentration largely; devolution in a few sectors	Commercial utilities in urban areas – independent service providers, Community managed services in rural areas

Source: Compiled from country reports prepared for the study.

Devolution of water supply to local levels covers two aspects: first, the mandate given to local governments to ensure access to water supply services which covers planning and regulation, and secondly the actual operation and maintenance activities to provide water supply services – the role of water service providers. In most countries reviewed, this separation of roles in rural areas has been achieved through community-based water service providers.¹⁶

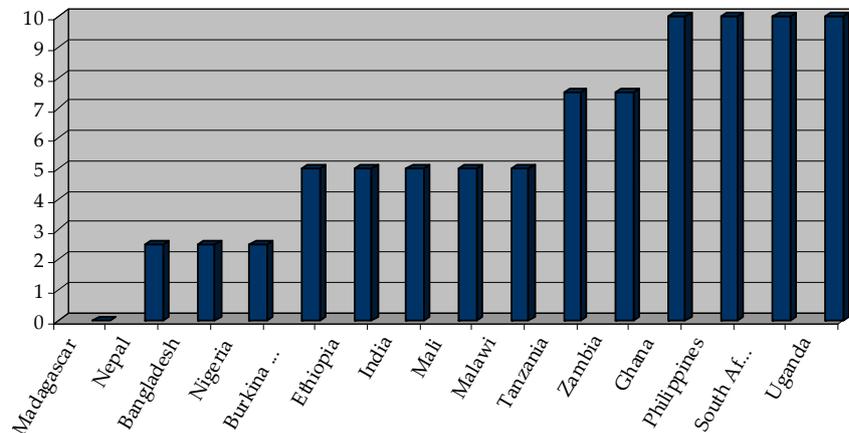
The experience of devolution of water supply and sanitation at local levels in sample countries is mixed. In some countries, the devolution of water and sanitation is only on paper, and the state agencies continue to be the service providers (Bangladesh, Burkina Faso, India, Madagascar, Malawi). In other countries, not only is water devolved to local levels, there is also a separation of policy, regulatory, and service provision (Uganda, Tanzania, the Philippines, South Africa). For the benefits of decentralisation related to

¹⁶ See the studies referred to in the next footnote for more details of such community-based service providers in rural areas.

allocative and productive efficiency to accrue, devolution of water and sanitation to local governments is a minimum condition. Unless this happens, local governments are not truly empowered to serve their communities. Despite this general understanding, the water and sanitation sector has not been accorded adequate priority in local development agenda.

In countries where the sector has been devolved to a local level (for example, Ethiopia, India), the local government are still 'governed' by national and rural targets rather than local needs (see Box 3.1). In some countries, where devolution of water is practised, there is an attempt to separate policy-making, regulation and service provisions (for example, South Africa, the Philippines, Mali). Given the diversity of devolution and service provision arrangements of water and sanitation, it is surprising that there are very few studies that have attempted to map the institutional and resource flows in the sector at the local level.¹⁷

Figure 3.2: Devolution of water and sanitation



Box 3.1: Devolution in Ethiopia

At the *woreda* level, many argue that there is much less autonomy and decision-making power. A recent report by Oxfam found that “decision-making power is not yet adequately devolved”, expanding on this statement as follows:

- *Woreda* decisions are often largely based more on “sectoral guidelines from regions and party leadership” than on the *woredas*’ “constitutionally enshrined powers and duties”.
- Plans are based more on “regional targets” than on “community needs”, and *woreda* capacity is largely measured by the degree to which the former are implemented. Capacity limitation is then “taken as an excuse for not devolving power to *woredas*”.
- Local governments are often “more accountable and responsive to higher authorities (regional and party) than to local constituencies”.

The reality appears to be that, while there has been some devolution of autonomy and decision-making powers to *woredas*, there is still a long way to go in this. This is not surprising, given the short amount of time that has elapsed since decentralisation began to be implemented to the *woreda* level; this process started only in 2002/03.

Source: World Bank (2006).

¹⁷ The exception being a series of studies by the Water and Sanitation Program in Africa that focussed on institutional mapping and resource flows assessment: Mehta and Ondari (2004), Palmer (2003), Thomas (2004), Mehta et al (2004), Chiwele (2005) and Savage (2004).

Fiscal decentralisation

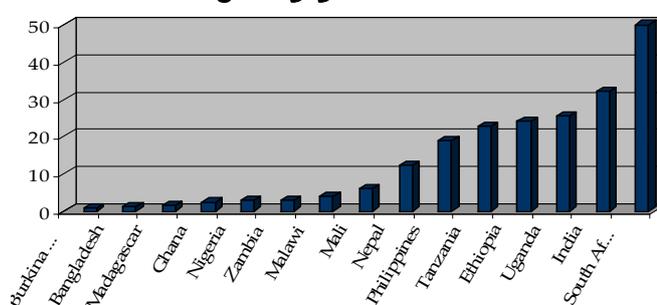
Fiscal decentralisation is an important component of decentralisation policy. It relates to the assignment of fiscal decision-making powers and functional responsibilities to local governments. Although fiscal decentralisation covers a broad policy area, it can be looked at in terms of four basic building blocks or ‘pillars’: (a) the assignment of expenditure responsibilities (devolution of functions and spending related to these functions) to different government levels; (b) the assignment of tax and revenue sources to different government levels; (c) inter-governmental fiscal transfers; and (d) sub-national borrowing. In this study, the first three aspects are examined. (Rural local governments in most countries do not have access to market borrowing.)

When specific expenditures are assigned to local governments, they need financial resources to carry out these expenditures. However, ‘Finance follows function’ is one of the rules of fiscal federalism that is not often followed in practice. Often, the assignment of taxes and revenue sources at local levels are insufficient to carry out the expenditure assignment. The ‘gap’ is generally met by IGTs. The term ‘transfer’ is often used interchangeably with ‘grants’. It is provided as unconditional (block) grants, or conditional (for specific purpose) or as matching grants. Often, this is provided as revenue sharing, where local governments receive a share of taxes collected in its jurisdiction. The principal purpose of IGT is to enable local governments to meet the gap between expenditure and revenue assignments. In principle IGT ensures ‘vertical’ fiscal balance, (that is, balance between fiscal needs and resources available to different levels of governments), and ‘horizontal’ fiscal balance (that is, balance in resource allocation among governments at same level). The design of IGTs should ensure that it meets both efficiency and equity criteria. Formula-based transfers ensure predictable revenues and can be designed to give local governments, which serve the poor or disadvantaged, a higher level of per capita funding.¹⁸

Fiscal decentralisation is usually measured as the share of sub-national governments in total public expenditure. However, this is only a partial measure of fiscal decentralisation. Fiscal decentralisation is not only a question of transferring resources to the different levels of local government. It is also a measure of the extent to which local governments are empowered, about how much authority and control they exercise over the use and management of devolved financial resources.

On political decentralisation that began in the 1990s, most countries have made some progress. However, the experience on fiscal decentralisation has been mixed. In most countries, fiscal decentralisation has not been very strong. The sub-national government expenditures in the countries studied (figure 3.4 and table 3.5) range from 1% in Burkina Faso to nearly 50% in South Africa).¹⁹ In over half the

Figure 3.3: Fiscal decentralisation



¹⁸ Boex (2004)

¹⁹ The information on fiscal decentralisation was not available for all the sample countries from country reports. For a few countries, estimates have been taken from other sources – India: Rao (2003); South

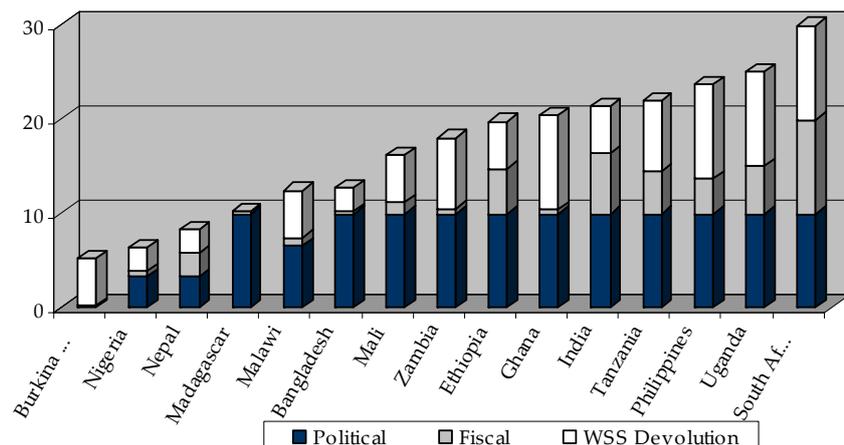
countries, the sub-national public expenditure is less than 10%. This is in part due to the fact that many national governments are unsure of the local capacities and accountability. While efforts are being made in these countries to build local capacity and develop accountability mechanisms, the transfers have been gradual. There are five countries in the sample (India, Uganda, Ethiopia, Tanzania and South Africa) where this ratio is over 25%. Two of these countries (India and Ethiopia) have a federal structure of government and many functions are in the exclusive domain of sub-national governments, as a result of which the share of sub-national expenditure is high. In the remaining three countries (South Africa, Uganda and Tanzania), the political will for decentralisation is matched by the fiscal empowerment of, and transfer of significant resources to, local governments.

Findings: Overall decentralisation performance

The overall decentralisation performance is measured on three fronts – political decentralisation (related to elected local governments), fiscal decentralisation (measured as percentage of sub-national expenditure), and functional decentralisation (measured as devolution of water and sanitation at local levels).

Figure 3.4: Decentralisation performance

Figure 3.4 shows some interesting results. Overall, South Africa, Ethiopia, Uganda, Tanzania, the Philippines and India score reasonably well on all the three facets of decentralisation. But even in these countries, more effort is needed on devolution of water services at the local level (India and Tanzania).



The mismatch of functional devolution and fiscal decentralisation is also clearly brought out in Ghana, Zambia and Malawi, which score higher on devolution than on fiscal decentralisation. In these countries, greater resources will need to be transferred at the local level, for the devolved function to be carried out.

It was expected that all federal countries would score high on decentralisation. However, Nigeria is much lower down the order. More explorations are needed on why the scores on devolution and fiscal decentralisation are low in Nigeria.

Africa: Yemek (2005); Malawi: Malawi Economic Justice Network, or MEJN (2006); Tanzania and Uganda: World Bank (2007); Burkina Faso: field interview; Zambia: Steffensen and Trollegaard (2000).

3.2 Assessing local revenues, predictability and accountability in local governments

In the pilot phase of this study, one local area from each country was selected by the WaterAid country offices (see table 2.3-a). It is not always that the selected local area is representative of all the local areas in the country. In most countries, WaterAid offices (or partners) have selected an area where they have active projects. These areas usually happen to be the poorer regions of the country. At the outset, it needs to be stated that it has not been easy for the WaterAid country offices to collect information on local finances. Such information is not readily available, and what is available is mainly meant for higher levels of government, rather than as financial planning and budgeting.

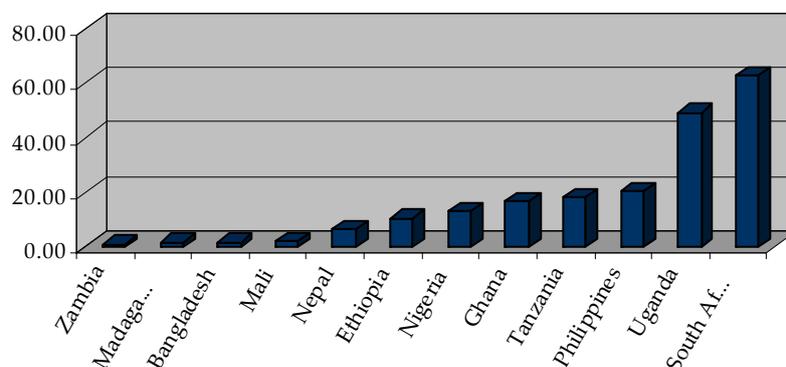
Low income of local governments

The financial base of rural local governments consists of: (i) Inter-governmental transfers; (ii) revenue from own sources; (iii) specific project funds. The aggregate revenue of local governments in some countries is quite low. With this low revenue base, there is very little that the local government can actually do to perform all the assigned functions. The range of income varies from \$1.1 per capita in Zambia to \$77.0 in Uganda.²⁰ (See figure 3.5.)

The local governments' per capita revenues are not necessarily linked to the income levels of the country. For example, Zambia, and Nigeria have higher national per capita income than Uganda, yet the local government revenues are lower.

Figure 3.5: Per capita local governments' revenue

In general, most countries in the sample have per capita local income under \$20. Most of these countries are classified as low income countries. The high local government revenue in Uganda is probably due to donor funds coming as direct budget support, passed on to local governments through IGTs.



Composition of the local government revenue

Local government revenue sources are shown in Table 3.4. The category of IGTs represents all transfers (block grants, conditional grants and special grants) from the national (and state government in federal countries). The category of own sources represents a set of revenues from local taxes (usually on land), fees and, in some cases, user charges. As the key interest of the study is on water financing, we have included the

²⁰ The local government revenues were available from the country reports for two or three years. For the purpose of this analysis, they have been averaged. For comparison across countries, the nominal exchange rates are used for the estimates, as many country reports have provided information in nominal dollars.

specific water sector project funds that are on the local government budget separately. The others category represents miscellaneous local government revenues.

Figure 3.6: Composition of local government revenue

IGTs represent just over 50% of local government revenues in the sample countries. Own sources and project funds through local governments have also emerged as significant components of local government revenue. Countries that score high on decentralisation (South Africa, Uganda, the Philippines and Tanzania) also have a high share of local government revenues from IGT.

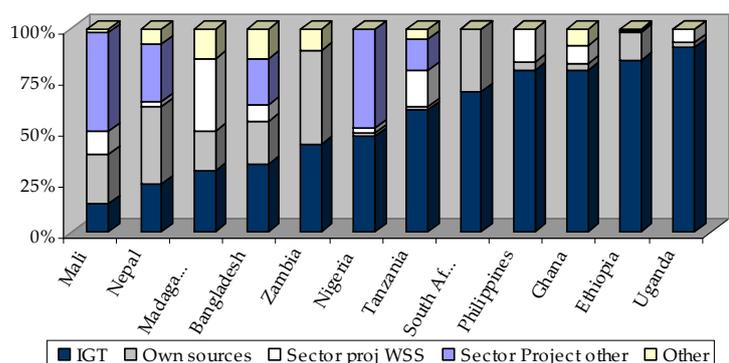


Table 3.4: Level and composition of local government income – Average for 2004 to 2006

Country	Share to total local government income (%)					Total	Per capita income (\$) Actual
	IGT	Own sources	Sector project WSS	Sector project other	Other		
Bangladesh	33.7	20.6	8.3	22.9	14.6	100.0	1.9
Ethiopia	84.2	14.1	0.0	0.6	1.0	100.0	10.6
Ghana	79.7	3.3	8.9	0.0	8.1	100.0	16.6
Madagascar	29.9	19.5	35.8	0.0	14.8	100.0	1.6
Mali	13.6	24.3	11.5	48.6	2.0	100.0	2.2
Nepal	23.5	38.2	2.8	28.2	7.3	100.0	6.6
Nigeria	47.1	1.7	2.4	48.8	0.0	100.0	12.9
Philippines	79.3	3.9	16.8	0.0	0.0	100.0	20.4
South Africa	69.1	30.9	0.0	0.0	0.0	100.0	62.7
Tanzania	60.0	2.0	17.3	15.7	4.9	100.0	18.0
Uganda	90.8	2.4	6.7	0.0	0.0	100.0	49.2
Zambia	43.3	46.1	0.0	0.0	10.6	100.0	1.1
Average	54.5	17.3	9.2	13.7	5.3	100.0	17.0

Notes: Based on information from country reports. As far as possible, actual income has been used.

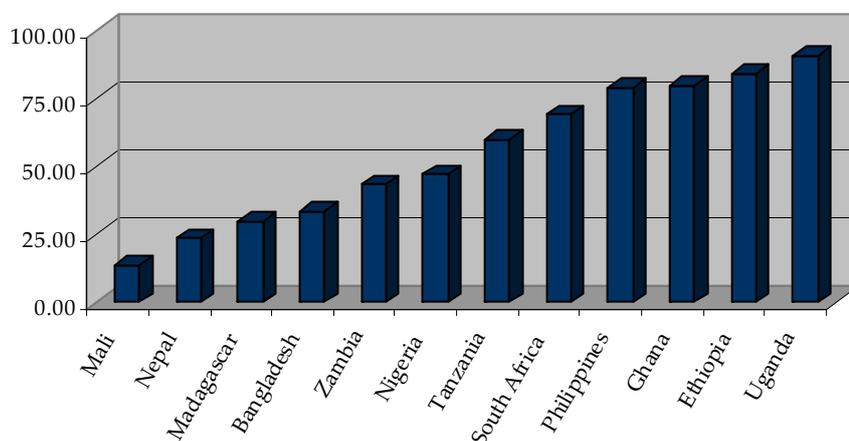
Inter-governmental transfers

IGT constitute a major plank of the decentralisation framework. The design of these transfers is of critical importance for efficient and equitable local service provision as well as the fiscal health of local governments. This is seen in Uganda, Ethiopia, Ghana, the Philippines, South Africa and Tanzania, where IGT accounts for more than 50% of local government revenue. In these countries, local governments are largely dependent on transfers from higher levels of government; it is critical to have predictable and assured transfers each year. In other countries, despite a set of agreed norms and formulae, IGTs

are ad hoc and local governments do not always know the total volume of transfers (for example, Nepal, Malawi, Bangladesh, Mali and Nigeria). Predictable revenues can help local government plan service delivery, but when they have to depend on unpredictable and irregular transfers, they are often unable to carry out their mandate.

Figure 3.7: Share of inter-governmental transfers in local revenues

In the sample local governments, IGT share in total revenues ranges from a low of 14% in Mali to 90% in Uganda, with an average at 60%. In each country, a ‘divisible pool’ of resources is identified for IGT in decentralisation legislation. The allocation of this



divisible pool to local governments is decided on the basis of some agreed criteria. In countries that have below-average share of IGT, the transfers are ad hoc, despite attempts to rationalise the transfers to local governments. In some countries this is due to the existing political situation (Nepal, Madagascar, Bangladesh), where national governments are going through major transition. On the other hand, in countries that have a higher share of IGT, the decentralisation process is well entrenched. The funds transferred from national governments come under various categories, but the most common among them is the block grant (meant largely for local government’s recurrent expenditure). Capital expenditure is usually funded from special project funds or a pool of fund, such as District Development Fund.

Table 3.5 shows the policy and institutional framework of IGT in sample countries, which use a range of instruments for transferring resources to local governments.

Table 3.5: Inter-governmental transfer mechanism

Country	Special commission/ committee for FD/IGTs	% share of sub-national entities	Block grants (name, formulae, transparent)	Conditional Grants (name, formulae, transparent)	Special WSS IGTs
Bangladesh	Ministry of Local Development	1.3%	Annual Development Grant + special relief funds released on discretionary basis	Union Parishad Development Fund	No
Burkina Faso	Ministry of Finance and Ministry of	1.0%	Grant released for the first time	No	No

Country	Special commission/ committee for FD/IGTs	% share of sub-national entities	Block grants (name, formulae, transparent)	Conditional Grants (name, formulae, transparent)	Special WSS IGTs
	Local Government		in 2006, based on per capita allocation		
Ethiopia	Ministry of Finance (Bureau of Finance and Economic Development , or BOFED) determines the transfer formulae	34%	'Federal subsidy' (block grants from centre to regions). Block grants from region to <i>woredas</i> (80% to 90% of <i>woreda</i> budget) tied to monthly reports	No	No
Ghana	Ministry of Finance and Ministry of Local Government	2.5%	District Assembly Common Fund (about 5% of national revenues) + Ceded Revenue (collected by IRS and transferred at local level)	No	No
India (Madhya Pradesh)	National Finance Commission (NFC) and SFC (at state level)	32.0%	National Finance Commission recommends allocations to the central government, and the State Finance Commission to the state governments	Project specific grants from central governments to local governments	Small funds under water (Swajal-dhara) and sanitation (Total Sanitation Campaign)
Madagascar	Ministry of Decentralisation and Regional Development	1.5%	Grants for operations (fixed sum to all communes),	'Exceptional Grants' for small projects	

Country	Special commission/ committee for FD/IGTs	% share of sub-national entities	Block grants (name, formulae, transparent)	Conditional Grants (name, formulae, transparent)	Special WSS IGTs
			plus additional sums to large communes		
Malawi	Yes, National Local Government Finance Committee constituted in 2004	4.0%	Based on formula per capita + development indicator	Local Development Fund has been developed – to begin soon	
Mali	ANICT (Local Government Investment Agency)	6.2%	Formula based, also linked to capacity	Matching funds for some economic activities	No
Nepal	Yes, local bodies fiscal commission	12.3%	District Development Fund, Village Development Fund, based on formula.	Matching and non-matching grants	
Nigeria	National Revenue Mobilisation, Fiscal and Allocation Commission	3%	Federal Account shares fixed among federal, state and local governments		No
Philippines	No, but IGT mandated in local government code	19%	40% of IRA funds	Municipal Development Fund – revolving fund	
South Africa	No, but mandated in the Constitution	50%	Equitable share – unconditional Constitution allocation	Municipal Infrastructure Grant – formula based on service backlogs, capacity	Special grants from Transfer Grant from Department of Water Affairs and Forestry (DWAF) to Water Service Authorities (Municipalities) for

Country	Special commission/ committee for FD/IGTs	% share of sub-national entities	Block grants (name, formulae, transparent)	Conditional Grants (name, formulae, transparent)	Special WSS IGTs
					taking over the function
Tanzania	No, but a Prime Minister's office for Regional Administration and Local Government	19.4%	Local government capital development grant, WSS share is specified	Urban Development and Environmental Management Grant	District WSS grants; water block grants for recurrent funds
Uganda	Local Government Finance Commission	25.5		Local Government Development Project, District Development Plan, Poverty Action Fund	Technical Support Units funded by central government
Zambia	No, Ministry of Finance	3.0%	District Development Plan		No

Source: Based on Country reports. Refer to Footnote 14 for sources of % share of sub-national entities.

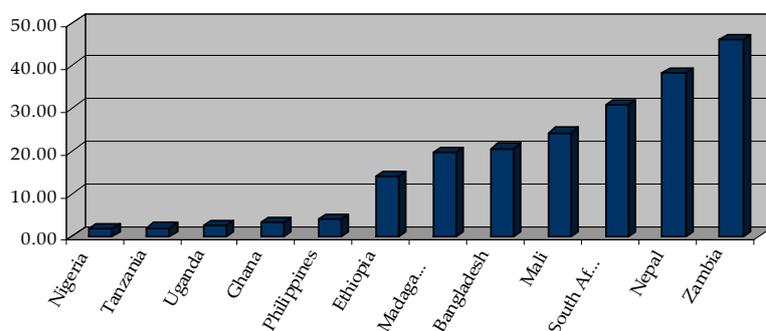
Own sources of revenue

The local governments' own sources of revenue represent their 'fiscal independence' from higher levels 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 its own sources.

Ideally, local governments should move towards raising a large proportion of their revenue from the local area that it is supposed to serve. This brings in greater downward accountability in using local government resources. However, in rural areas of low income

countries, the potential for raising revenues from local areas is limited. It is also argued that in countries that have high IGTs, (Ethiopia, Uganda), there are fewer incentives for local government to collect local taxes and fees. With IGT, the major concern of central government is on financial accountability. The accountability structure is thus geared towards upward accountability.

Figure 3.8: Share of own source of revenue



3.3 Accountability and predictability of resources

For local governments to function efficiently, they must have predictable resources and be accountable on the use of resources to the higher levels of government and the people.

Predictability of revenue

Predictability is assessed on the timely provision of funds and on the amount provided (whether it is equal to amount budgeted or not). From the country reports, information on planned and actual revenues was received only for seven countries. This shows just how poor the information base on local level financing is. Bangladesh is an exception (with actual receipts more than planned receipts).

Figure 3.9: Predictability of planned resources (Actual versus planned revenues)

In all other countries, the actual receipts are lower than planned. In Bangladesh, the sector project receipts on local government were not planned in advance. There are various reasons for this. In both situations, local governments face serious problems in fulfilling commitments.

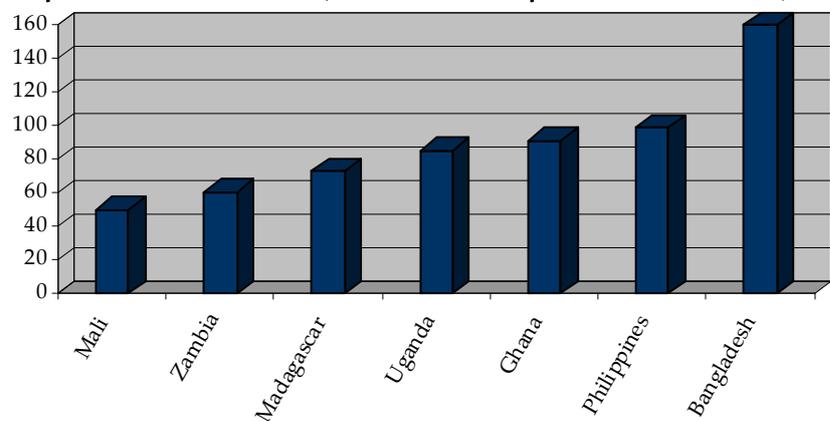
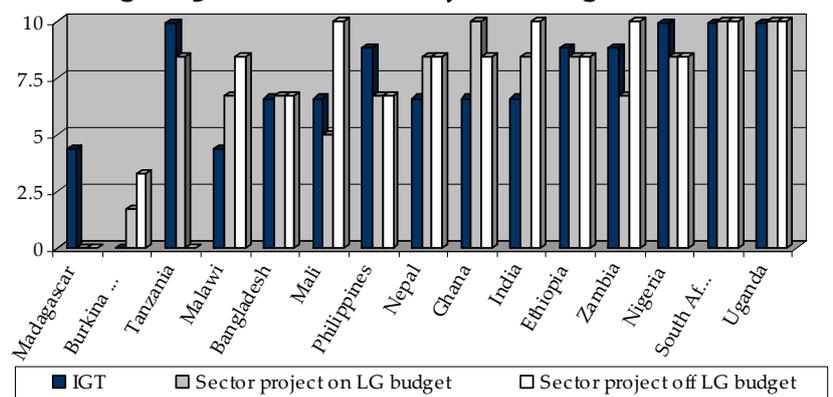


Figure 3.10: Predictability of local government funds

Predictability of funds on IGT and sector projects was assessed by the WaterAid country offices. IGTs were assessed on: (a) use of transparent formulae; (b) funds transferred as planned (on-time); and (c) equal to the amount budgeted. Sector project funds were similarly assessed as: (a) transferred as planned (on-time); and (b) equal to the amount budgeted.



The results show that in most countries, predictability of resources in terms of timeliness is not a major issue, except in Burkina Faso and Madagascar. These two countries have only recently embarked on their decentralisation programme. In all other countries, the issue relates to the amount of funds. The national governments budget for large amounts but provide lesser amounts. This, predictably, leads to difficulties in local government decision-making as many projects do not get completed in time due to reduced funding.

Accountability at local government levels

Decentralisation holds a lot of promise, but whether it improves public service delivery depends on the accountability arrangements.²¹ For decentralisation to be effective, local governments need to have the authority to respond to local demand. There is also a need to have adequate mechanisms for accountability, because granting authority without accountability can lead to corruption and lower productive efficiency. Democratic decentralisation is seen as an important means for the accountability relationship between the people and elected local government. However, representative democracy is not always a participatory democracy. People should also have other channels to communicate their preferences and get their voices heard in local governments.

Most decentralisation framework design shows a great deal of concern with the upward accountability framework related to rules and regulation on transfers, use of funds and management of funds, rather than on effective delivery of services. National governments exercise control through accountability mechanisms, typically through rules and regulations related to expenditure and procurement. Often, permission of a higher level of government is necessary for all expenditure (or procurement) above a certain size. Formal audits of public accounts are undertaken. (In some countries the local governments are even suspended for improper financial management.) “Moving from a model of central provision to that of decentralisation to local governments introduces a new relationship of accountability – between national and local policy-makers. This alters existing relationships, such as that between citizens and elected politicians. Only by examining how these relationships change can we understand why decentralisation can, and sometimes cannot, lead to better service delivery.”²²

The framework for accountability used in this study was evolved at a workshop of WaterAid country offices. The framework relates to accountability of local governments and the water service providers on two parameters that relate to downward accountability:

- 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 and posted?

There is one parameter for upward accountability:

- Hold to account – are there effective mechanisms for auditing, regulating or scrutinising expenditure?

The accountability mechanisms were rated and then standardised on scale of 0 to 10.

²¹ See Azfar et al (1999), Boex et al (2005), Steffensen and Trollegaard (2000) and Shah (2006).

²² Ahmad et al (2005), op cit.

Figure 3.11: Upward accountability of local government (Hold to account)

Upward accountability as shown in figures 3.11 and 3.12 is based on the responses of ‘hold to account’. This is based on effective mechanisms for audits and scrutiny of public expenditure. As expected, most countries, except Nigeria and Madagascar, have fairly good mechanisms for upward accountability of local governments. This is to be expected, as the decentralisation process has focussed a great deal on developing upward accountability mechanisms for local governments.

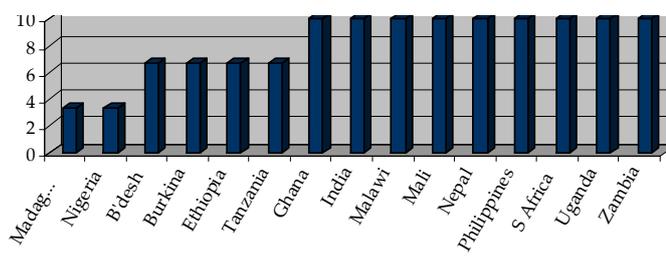


Figure 3.12: Upward accountability of water service providers

However, this is not the case for water service providers. (Note that in most countries the service providers are community groups.) In some countries, water service provider accountability mechanisms to local governments and higher levels of governments are not fully developed. This aspect is usually overlooked in national decentralisation programmes. It is, however, important to address this and build capacity of water service providers and local governments.

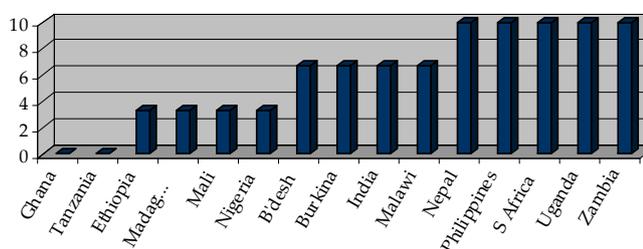
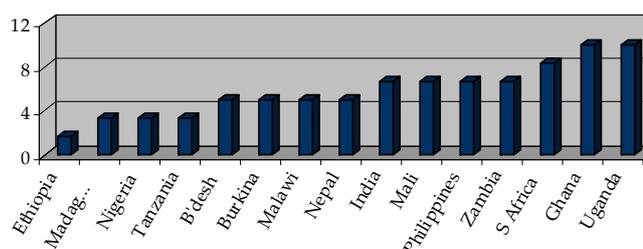


Figure 3.13: Downward accountability of local government

Downward accountability measures accountability of the local government and service providers towards the people. In some sense, this is a key to ‘successful’ decentralisation as it measures how responsive the local government is to the people that it is supposed to serve. The downward accountability figures show some interesting results. Only two countries – Ghana and Uganda – appear at the top; in the other countries, the local governments’ accountability to the people has some shortfalls. In discussions involving democratic decentralisation, it is assumed that ‘ballot box’ accountability would keep the local government responsive to the people’s needs. However, what is seen from this study is that democratic decentralisation does not necessarily result in accountable government. More efforts are needed to create an enabling framework that encourages and ensures downward accountability. This would include, for example, laws governing transparency.

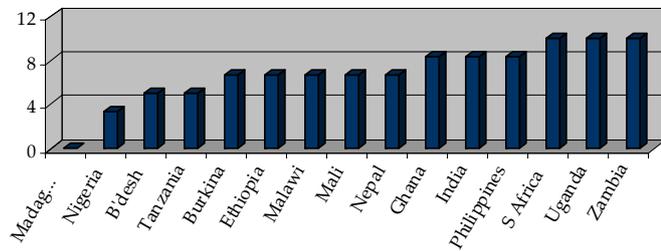


Support by donor agencies and by international non governmental organisations is also needed to develop the capacity of local governments to become more accountable to the

people. Further, it is important to also ensure political will on the part of governments to become open and participatory. The media and active citizen groups should also be engaged in the process to increase downward accountability.

Figure 3.14: Downward accountability of water service providers

As expected, the accountability of water service providers to the people they serve is relatively higher than the local governments. This is due, in part, to the fact that many service providers are community organisations and are created by the very community that they serve. In



this sense they are closest to the people they serve. Most of these service providers also receive monthly contributions or user fees from the community.

4. Local financing of water and sanitation – control and adequacy

Local control of resources for water supply and sanitation (WSS) is influenced by both the level of decentralisation and the composition of sector finance in a given country. The underlying premise is that greater local control on resources will enable improved financing decisions that are more equitable and efficient and thus will result in sustainable financing of local service operations. Local control, however, needs to be combined with adequate resources to achieve the service delivery objectives and reach the Millennium Development Goals (MDG) targets.

As reviewed in the previous section, water and sanitation is often one of the last sectors to be fully devolved. WSS sector financing often tends to be dominated by project funding that bypasses local government budgets. In many African countries it is also a common practice for donors and non governmental organisations (NGOs) to fund investments directly bypassing local government budgets. These practices affect local government control and, combined with the lack of reliable and transparent information, make it difficult for local governments to plan and budget efficiently and effectively. Local government control is further weakened by often inadequate sector funding in relation to not only targets but also relative to other competing sectors at the local level, such as education and health. Inadequate funding also creates a situation where WSS does not receive due attention at the local level.

Using the analysis framework outlined in section 2 for determining the extent of LG control, the level and composition of local capital financing is assessed in one 'local area' in each study country. Local control is assessed across different funding blocks; also analysed is the nature of influence local governments have on the use of these resources. Links between local control and adequacy of resources, with levels of decentralisation (from the previous section), are also traced. To assess adequacy, a comparative assessment of per capita capital expenditure is done across 12 countries.²³ Adequacy of funding is assessed in terms of funding gaps.

It has been very difficult to get the necessary information on local finances – especially for the funding blocks related to sector projects, off-budget funds and water service providers. Consolidated information across local governments is extremely rare even for local government budgets.

4.1 Local government control of capital expenditure on water and sanitation

Local government control and influence on local WSS capital investments is determined by the composition of funding as well as the practices adopted for coordination and local government inputs. Even for on-budget resources, donor or national government conditionalities often determine the level of freedom and flexibility for the local governments. However, in general, transfer of resources to the local government budget

²³ Refer to table 2.3-a for a description of local area characteristics. Detailed analysis for local area finances was received only from 12 of the 15 countries in the study.

gives them greater responsibility and, over time, a chance to influence equity and efficiency in the use of resources.

Local control and influence are measured through:

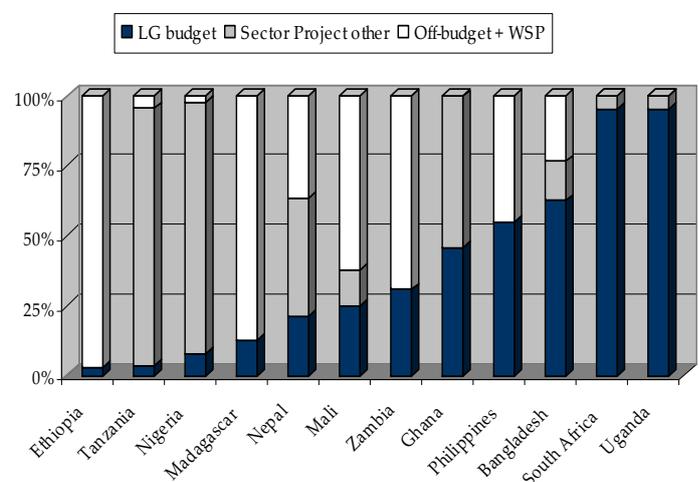
- a) Composition of local capital expenditure on water in terms of share of resources:
 - i. that are within the direct control of the local government by having these resources as a part of the budget; this may include funding through inter-governmental grants (IGTs), own sources or through central/door sector projects – but all passing through the local government budget and the local government being directly accountable for these resources;
 - ii. over which the local government has some indirect influence; this may be through local government participation in decisions such as selection of project locations or beneficiaries, deciding on service standards and technology, or participating in the choice of contractors, or permissions for operating in its jurisdiction; and
 - iii. over which the local government has no influence at all as the projects are implemented and operated completely outside the its realm.
- b) Weighted index of local influence (quality of influence weighted by the share of total resources) –Quality of influence is measured in terms of level and nature of involvement of local government, its regularity and the ability of local governments to make or influence decisions – assessed for all funding blocks including those funds that are routed through local government budgets.

Composition of capital expenditure

The research revealed that only a little over a third of total capital expenditure is on LG budgets, and nearly two-thirds of the capital expenditure is through either sector projects (27%) or off-budget resources (32%). Nine out of 12 countries reported expenditures through off-budget funding. Analysis of funding blocks for capital expenditures suggests a grouping of countries in three categories:

Figure 4.1: Composition of local capital investments by funding blocks

- **Local government budget dominant**, that is, a significant proportion of funding is through local government budgets. In **Uganda** and **South Africa** this is largely through IGTs, whereas for **Bangladesh** and **the Philippines** it is through sector projects that are routed through the local government budgets.²⁴
- **Sector project dominant**, that is, a significant proportion of funding through donor projects as in



²⁴ In Tanzania also, under the proposed Water Sector Development Project (WSDP), funds will be routed through the local government budgets.

- **Ghana, Nepal and Tanzania**, or national government projects as in **Nigeria**.
- **Off-budget dominant**, that is, a significant proportion of funding is through donor/NGO projects (including share of water service providers) as in **Zambia, Mali, Madagascar and Ethiopia**.

At least five countries also reported capital investments by water service providers²⁵ – though this is generally in terms of contribution to capital costs. This is worth exploring further as in countries that have achieved nearly full basic service coverage (as possibly in the Philippines, South Africa, Uganda and India) the role of water service providers becomes important in improving service levels. While this is more common for urban utilities, recent examples such as from Kenya suggest possibilities of using non governmental resources for rural water supply.²⁶

Table 4.1: Level and composition of local level estimated WSS capital expenditure – 2006

	Country	Share to capital expenditure (%)							Per capita capital expenditure (\$)
		LG (IGT & own)	LG (sector project)	Total LG budget	Sector project other	Off-budget	Community water service provider	Total	
1	Bangladesh	22.6	39.8	62.4	14.1	23.5	0.0	100.0	0.3
2	Ethiopia	3.4	0.0	3.4	3.1	63.5	33.1	100.0	0.8
3	Ghana	45.7	0.0	45.7	54.1	0.3	na	100.0	8.8
4	Madagascar	12.6	0.0	12.6	0.0	86.4	0.9	100.0	0.2
5	Mali	24.9	0.0	24.9	13.0	55.9	6.1	100.0	4.3
6	Nepal	21.2	0.0	21.2	42.4	30.3	6.1	100.0	9.7
7	Nigeria	8.1	0.0	8.1	89.5	2.5	0.0	100.0	2.1
8	Philippines	28.5	26.5	55.0	0.0	20.5	24.5	100.0	16.8
9	South Africa	95.0	0.0	95.0	5.0	Na	na	100.0	17.5
10	Tanzania	3.7	0.0	3.7	91.7	Na	4.6	100.0	9.1
11	Uganda	95.0	0.0	95.0	5.0	na	na	100.0	7.2
12	Zambia	30.8	0.0	30.8	0.0	69.2	Na	100.0	1.4
	Average	32.6	5.5	38.1	26.2	29.3	6.3	100.0	6.5

Sources and Notes: (1) Per capita expenditure for WSS includes data from all sources and is estimated for the latest available year, generally 2006; (2) For the Philippines and Ghana estimates for resource availability for capital investments have been used; (3) Information for WSS expenditures – other sources such as sector projects and off-budget projects by NGOs were also used.

Local control and influence on capital investment resources

As much as 30% of capital investment resources at the local level are from off-budget sources and remain outside the purview of local government control or influence. It is not

²⁵ Water service providers are those that operate and maintain the facilities to provide services to its customers. Such providers may be community-based agencies in rural areas and local authorities or public utilities in urban areas.

²⁶ Mehta, Virjee and Njoroge (2007).

necessary that all resources should go through the local budgets. It is seen that on average about 38% of the WSS resources are through local budgets. But in addition, local governments are able to exercise some influence on the sector level budget (nearly 25% of total expenditure). However, that still leaves nearly 40% of WSS capital resources in the local area totally out of local government influence. One-third of the local areas studied have no influence over 75% of resources in their local areas.

There are two clear patterns of local control and influence:

- **Local control through local budgets:** In a group of countries, there is increasing local control through budgets, generally considered to be the best way forward. This includes a move towards routing both central government and donor resources through IGTs (as evident in South Africa, the Philippines, Uganda and more recently in Tanzania) or by having sector project/schemes that allow resources to be transferred to local governments that have the authority to take decisions with the signing power on capital expenditures (as evident in Bangladesh and to some extent in the Philippines). Table 4.3 and box 4.1 provide some details.
- **Influence through local government participation in sector/off-budget projects:** A few countries, particularly Nepal, Ghana, Tanzania and Ethiopia, manage to also use other means to influence the use of resources from other project-based funding blocks (sector projects and off-budget projects). It is necessary to further examine and evaluate these influences for possible use in other countries. Such measures are well suited as interim measures for countries that are at early stages of decentralisation. Box 4.1 provides brief highlights from some countries.

Table 4.2: Local government control on capital investment resources – 2006

	Country	Share of total capital expenditure (%)				Estimated per capita capital expenditure (\$)	Weighted index of influence* (0 to 3)	Decentralisation score
		Direct control through local government budget	Influence on other resources	No influence	Total			
1	Bangladesh	62.4	37.6	0.0	100.0	0.3	2.5	12.7
2	Ethiopia	3.4	96.6	0.0	100.0	0.8	1.9	19.7
3	Ghana	45.7	54.3	0.0	100.0	8.8	1.5	20.4
4	Madagascar	12.6	0.0	87.4	100.0	0.2	0.3	10.2
5	Mali	24.9	0.0	75.1	100.0	4.3	0.7	16.1
6	Nepal	21.2	72.7	6.1	100.0	9.7	1.8	8.3
7	Nigeria	8.3	0.0	91.7	100.0	2.0	0.2	6.4
8	Philippines	55.0	20.5	24.5	100.0	16.8	2.1	23.7
9	South Africa	95.0	5.0	0.0	100.0	17.5	2.7	29.9
10	Tanzania	3.7	91.7	4.6	100.0	9.1	1.0	22.0

	Country	Share of total capital expenditure (%)				Estimated per capita capital expenditure (\$)	Weighted index of influence * (0 to 3)	Decentralisation score
		Direct control through local government budget	Influence on other resources	No influence	Total			
11	Uganda	90.0	10.0	0.0	100.0	7.2	2.7	25.0
12	Zambia	30.8	0.0	69.2	100.0	1.4	0.9	18.0
	Average	37.4	32.0	29.9	100.0	6.5	1.5	17.7

Sources and Notes: (1) The index for local influence is based on qualitative assessment of the extent of influence the local government has on each source of capital funding, but does not include the funding by water service providers; (2) Per capita expenditure for WSS includes data from all sources and is estimated for the latest available year, generally 2006; (3) For the Philippines and Ghana, estimates for resource availability for capital investments have been used; for South Africa: Palmer (2003); for Uganda see footnote 21; (4) Information for WSS expenditures – other sources such as sector projects and off-budget projects by NGOs were also used; (5) for decentralisation score see 'Overall decentralisation performance' in section 3.

Box 4.1: Practices for increased local government control

In the sample countries, a number of practices were observed by which local government (LG) exercised influence on local water supply and sanitation (WSS) resources. These range from funding through LG budgets to practices that enable LGs to influence other funds not on their budget. In this case, the initiative is by LGs themselves, donors, non governmental organisations (NGOs) or through an association of NGOs. Further examination is necessary to improve the impact of these initiatives.

Direct use of LG budgets for fund flows: In South Africa and Uganda, most capital funds are available through inter-governmental transfers (IGTs) and flow through the local government budgets. In **South Africa** the Municipal Infrastructure Grant (MIG) introduced in 2004 consolidated a number of different capital grants into one. It is formula based but does have conditions regarding share of resources to be used for different sectors as well as technical guidelines to be followed. Funds are routed through the Department of Provincial and Local Governments and are linked to project development by the LGs. For water, the LGs receive capacity support under the Masibambane Program for water supply. In **Uganda** a large number of sectoral conditional grants have been clubbed together into a block grant for capital works. However, sectoral shares and guidelines are mandatory. Funds are routed directly from Treasury to LGs. Unlike South Africa, however, Uganda still continues with selected additional conditional grants including those for water in small towns. A common LG monitoring framework is being implemented in both the countries.

LG initiatives: In **Malawi**, **Uganda** and **Mali** local governments take the initiative of coordinating their plans with inputs from off-budget resources. In Malawi the District Commissioner in Salima District arranges for a coordination meeting where all the donors and NGOs who have projects in the LG jurisdiction are invited to share their plans and proposals. In Uganda, at the district level, NGO efforts are coordinated by the District Water and Sanitation Committees. In Mali, the local government of Kalanbancoro

prepared a WSS plan with community inputs and marketed this successfully to potential off-budget donors – moving towards a local government Sectorwide approach (SWAp).

Donor/project initiatives: In **Ghana**, through donor funded projects, the Community Water Supply Agency has helped create local government capacity to take on water supply projects. In **Malawi** the Malawi Social Action Fund, through three World Bank projects, has played a similar role. In both cases, over time, the LGs have taken increasing responsibilities in project preparation and implementation and some of the funds are routed through the LG budget. It is important to draw lessons from these experiences while designing IGTs for WSS capital funds.

NGO initiatives: Through its country programmes, WaterAid has attempted to improve LG links and coordination. For example, in **Ethiopia** WaterAid’s project in Tenna *woreda* represents almost the only capital investments. However, this has been done through the intense involvement of the *woreda* government and community groups. In *Malawi*, WaterAid’s involvement in Salima district is likely to lead to the funding being routed through the LG budget.

NGO associations: In two countries (**Uganda** and **Ghana**) associations of NGOs working in the water and sanitation sector have been formed (that is, UWASNET in Uganda and CONIWAS in Ghana). Both have worked on coordinating NGO activities with central government for policy issues and with local governments for coordination.

Source: Based on country reports and mission notes from visits to study countries; for Mali LG initiative see ‘Marketing of the WatSan plan: Pilot experience of Kalanbancoro (Mali)’, presentation at the WaterAid conference in Burkina Faso, March 2007.

Table 4.3: Nature of local government influence over capital expenditure in different funding blocks

Funding block	Nature of influence	Countries	Average score on influence (scale of 0-3)
Local government budget (including inter-governmental transfers and own sources)	<ul style="list-style-type: none"> ▪ Generally full control over own resources including selection of beneficiary, location and technology choices ▪ For inter-governmental transfers (especially conditional grants) often guidelines need to be followed, and local governments are dependent on amount of resources and allocations suggested by the central government ▪ In some countries, such as Tanzania, inter-governmental transfers are often pre-allocated even to specific budget lines 	<ul style="list-style-type: none"> ▪ All 12 countries, though in many the share of own resources and inter-governmental transfers for water supply and sanitation is limited 	2.5

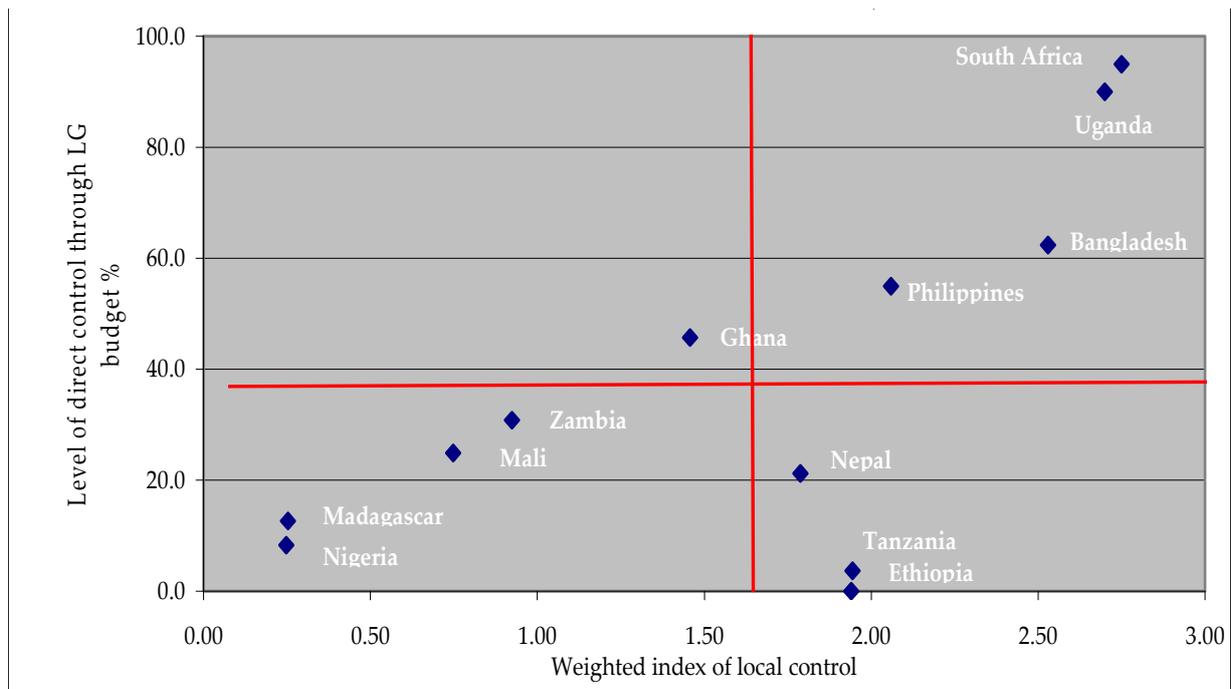
Funding block	Nature of influence	Countries	Average score on influence (scale of 0-3)
	<p>within sectors</p> <ul style="list-style-type: none"> ▪ In Mali, on the other hand, when are available they can be used as per local governments' plans and priorities 		
Local government budget (on-budget sector projects)	<ul style="list-style-type: none"> ▪ Local government involvement is generally in planning processes and the extent of influence during implementation determined greatly by the project design: in Bangladesh s have full control; in Ghana under World Bank project some control on beneficiary selection though more under CIDA supported Sectorwide approach (SWAp) ▪ Local government dependent on sector agencies/donors for amount of resources 	<ul style="list-style-type: none"> ▪ Only four countries have indicated sector projects on the local government budgets (Bangladesh, the Philippines, Uganda and South Africa) 	2.8
Other sector projects in local area that are not on Local government budget	<ul style="list-style-type: none"> ▪ Local government influence essentially comes from “its ability to exert pressure on other actors in the district” (Tanzania) or collaboration and advice as in Ghana and Uganda (both have association of non governmental organisations involved in water supply and sanitation) ▪ Sector agencies/donors determine amount of resources without any influence 	<ul style="list-style-type: none"> ▪ Six countries reported such projects (Bangladesh, Ghana, Mali, Nepal, Nigeria and Tanzania) ▪ Tanzania plans to shift entirely to inter-governmental transfers 	1.2
Off-budget and non governmental organisation resources	<ul style="list-style-type: none"> ▪ Some countries reported no influence (for example, Mali, Madagascar, Nigeria) though Bangladesh reports influence on electing beneficiaries ▪ Presence of a non governmental organisation committed to participation can secure inputs – for example, by WaterAid in Ethiopia and Malawi 	<ul style="list-style-type: none"> ▪ Nine countries reported some off-budget expenditure and the other three expressed measurement problems 	0.9
Community water service providers (CWSPs)	<ul style="list-style-type: none"> ▪ This expenditure is generally in the form of contributions to capital expenditures (ranging from 1% to 15%) often required under public or donor funding 	<ul style="list-style-type: none"> ▪ Six countries reported expenditure by CWSPs ▪ Likely to be 	1.0

Funding block	Nature of influence	Countries	Average score on influence (scale of 0-3)
	<ul style="list-style-type: none"> CWSPs often registered entities. In case of disputes, local governments play a mediator role (Nepal) 	prevalent in South Africa – but details not available	

Source and notes: Based on country studies under this research. Qualitative scores are as per WaterAid staff in country programmes. See Annex 1 for an explanation of this score

Figure 4.2: Relationship between local influence and direct control through local budgets

There is a strong link between the extent of direct control through local government budgets and the overall index of local control (figure 4.2). Three outliers are Nepal, Ethiopia and Tanzania – all suggesting use of other measures for influencing capital investment resources as also illustrated in Table 4.3.



Decentralisation and local control

There appears to be strong relationship between the level of decentralisation and extent of local control of WSS capital investment resources.

Figure 4.3: Relationship between decentralisation and index of local influence²⁷

Local government control and influence are not linked closely to the level of decentralisation as suggested by the correlation coefficient of 0.46. Figure 4.3 shows that in countries that have a higher decentralisation index, the local governments do not always have a higher index of influence on WSS resources. For example, the two South Asian countries of Nepal and Bangladesh have a high level of influence by local governments despite overall low levels of decentralisation scores. The emerging lesson may be to find interim measures to improve local government influence.

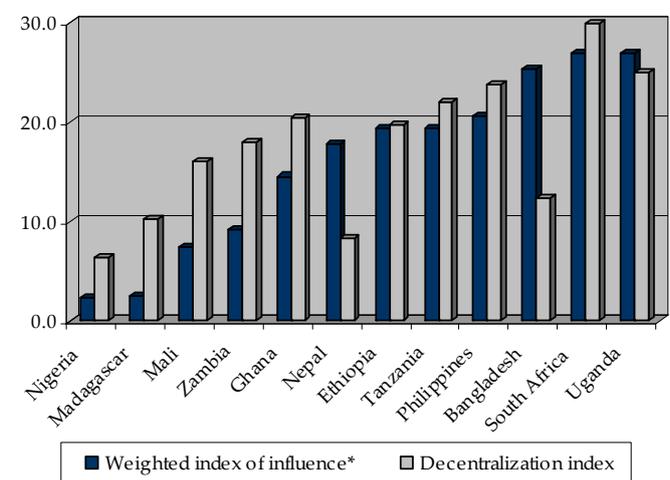
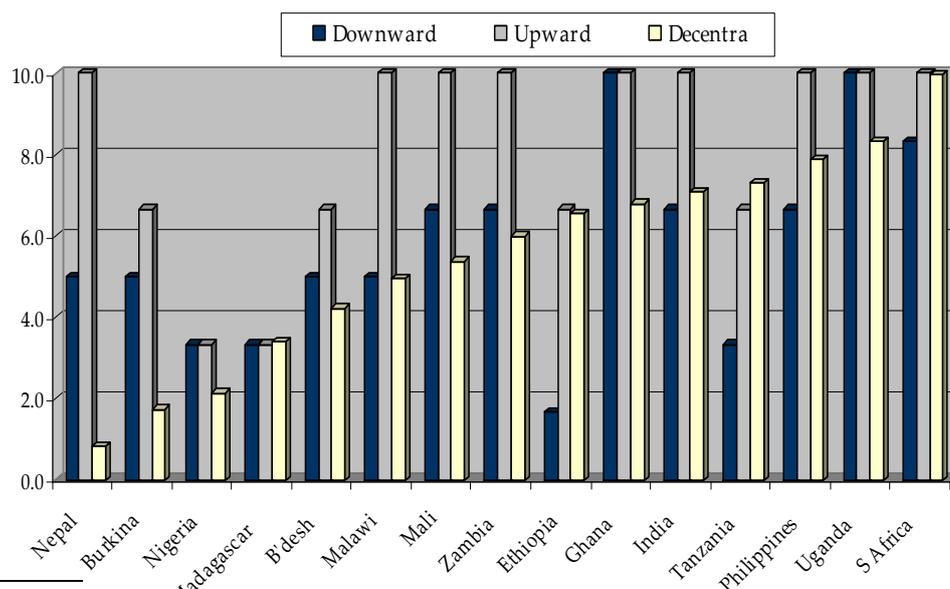


Figure 4.4: Comparative assessment of accountability and decentralization

A key constraint in promoting greater local control relates to the lack of adequate accountability mechanisms. While the study did not focus on a detailed assessment of local government accountability mechanisms, a more qualitative assessment was carried out by the local researchers using a simple framework of both upward and downward accountability.²⁸

Mapping the accountability and influence/control indices again suggest an expected trend, though a few outliers such as Ghana, Zambia and Mali indicate the need to increase the local governments' role in these countries. The high level of influence in Ethiopia, despite low



²⁷ Note: Index of influence is multiplied by 10 for comparability.

²⁸ See Annex 1 and section 2.3 for details.

³⁰ This needs to be further assessed as the study report for Uganda did not provide expenditure estimates. This estimate is based on Directorate of Water Development (2006). Estimates for the district are modified further by applying the rate of increase in national resources to the selected district.

local government accountability, is probably due to the positive role played by WaterAid in this particular local government. However, the sustainability of such efforts is not assured unless local government accountability measures are strengthened and the continuity of capital investment resources is ensured.

4.2 Assessing adequacy of local level WSS capital expenditures

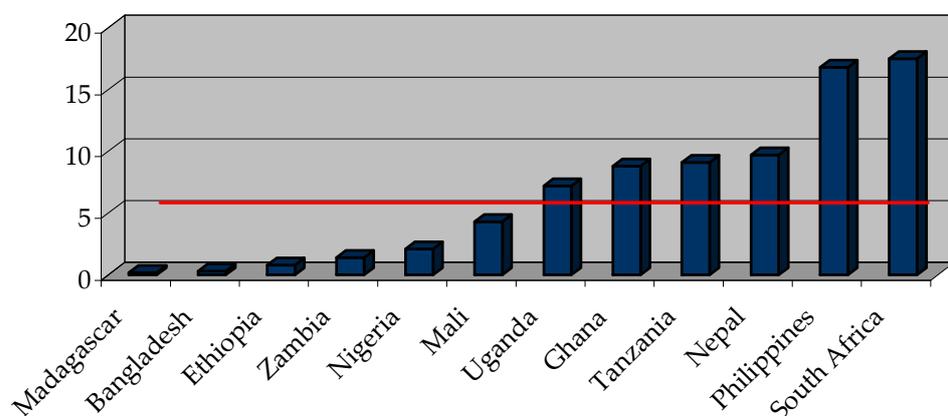
Increasing capital expenditure at the national level to ensure adequacy of funding to meet the MDG targets has been a subject of most policy and advocacy efforts. In practice, it has been very difficult to assess adequacy of capital resources at the local level as in many countries specific plans are not prepared at local levels. Many local governments lack the knowledge on unit costs of water and sanitation using different technologies. In addition, local governments do not always know of total resource availability for WSS in their jurisdictions. This results in some local governments preparing ambitious plans, while others do not prepare any plan at all. Local WSS plans are usually prepared in countries where local governments have a clear idea on resource availability.

Adequacy is reviewed through per capita annual expenditures across study countries as well as through an assessment of funding gaps for a few countries. The implications of addressing equity and efficiency issues on adequacy are also discussed based on the evidence from a few countries.

Comparative assessment of per capita capital expenditure

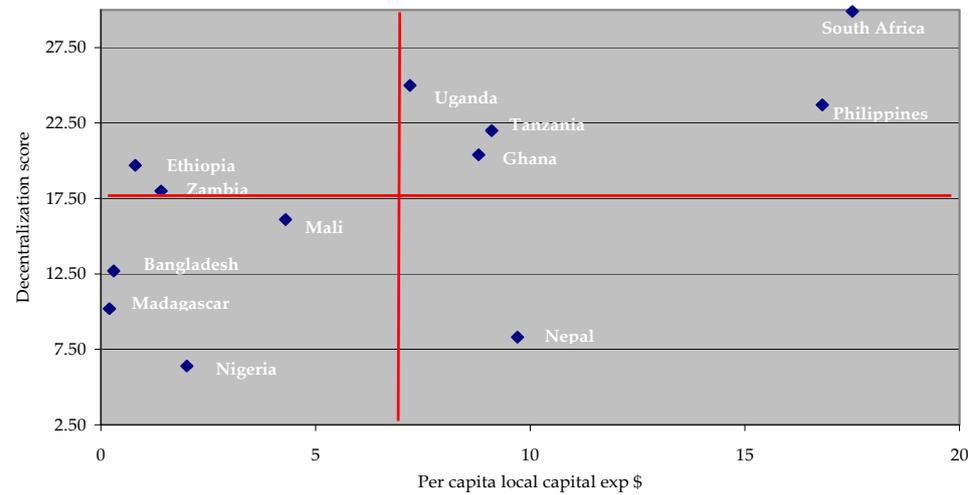
The significant variations in per capita capital expenditures in local areas across the sample countries seem more closely related to the level of decentralisation and local government income rather than national incomes.

Figure 4.5: Comparative assessment of annual per capita expenditures (in \$)



There is considerable variation in the level of total capital expenditures as measured by annual per capita investments in the selected local area – ranging from as low as \$0.2 in Madagascar to an estimated \$17.5 in South Africa (refer table 4.1 and figure 4.5). Though South Africa and the Philippines have higher levels of per capita expenditures, there does not appear to be any close link between levels of capital expenditures with national incomes in other countries.

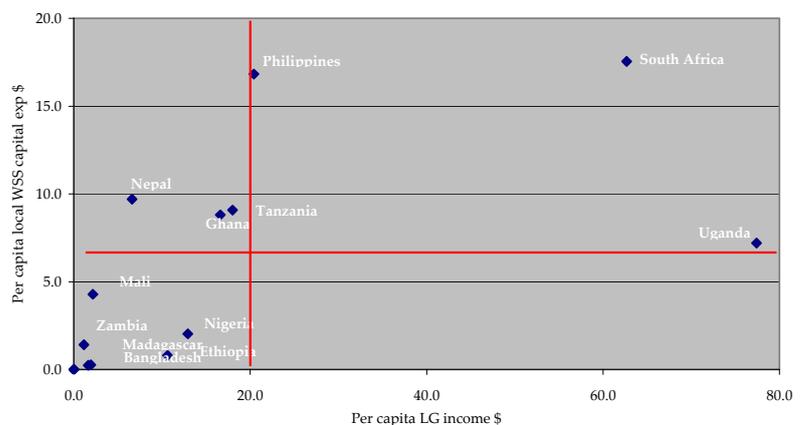
Figure 4.6: Relationship between decentralisation and local expenditure levels



Per capita expenditure is also related to the country’s overall decentralisation context as shown in figure 4.6. The three outliers are Zambia and Ethiopia with lower than expected expenditure levels, and Nepal with higher levels despite performing very low on its decentralisation score. Uganda, on the other hand, has a relatively lower expenditure level possibly reflecting the continued emphasis on basic service levels in rural areas.

Figure 4.7: Relationship between local government incomes and local expenditure levels

The capital expenditure on WSS with local government income is expected to be positive – with higher local government income, there is likely to be higher expenditure on WSS (if the priorities are well reflected in the budget decision). In addition, the capital expenditure on WSS is also a



reflection of the local government’s capacity to plan and attract investments from sector projects and off-budget investments from NGOs and donors (because the average share of local government budget in total WSS capital expenditure is only 37%). Uganda is an interesting outlier with only a moderate level of WSS expenditure despite high local government income.³⁰ Nepal, Ghana and Tanzania seem to benefit from sector projects,

though these may fail to build sustainable local government capacities to plan and implement.

Local and national assessment of resource requirements and funding gaps

While national level estimates on funding gaps are available (see WaterAid (2005)), they represent aggregate funding gaps. There are very few estimates at the local level. Estimation of such gaps at local levels can enable local governments to work within their budgets and develop local programmes to meet locally agreed targets. More inquiries are needed to draw lessons from local governments that have prepared local plans in the context of local financial constraints and capacities.

Estimating funding gaps at local levels requires clear assessment of the local resource availability from all funding blocks as well as estimating the requirement. The ‘Nepal Methodology’ developed by WaterAid for national estimates was modified to estimate local funding gaps. Only seven out of 15 countries made an effort to estimate the local level gap, and they present two contrasting scenarios (refer to table 4.4): one where the likely availability of resources is considered adequate to meet targets (Bangladesh, Ethiopia and Tanzania); and in others significant increases are needed (Ghana, Madagascar, Mali and the Philippines). In the first case it appears that the resource requirements considered are for very basic levels of services whereas in the others it reflects higher service levels.

Table 4.4: Local level estimates of funding gaps

US\$ per capita per annum

Country	Per capita capital WSS resource requirements	Per capita capital WSS resource availability	Per capita funding gap	Per capita capital expenditure (\$)
Bangladesh	0.21	0.26	-0.05	0.3
Ethiopia	0.51	0.78	-0.26	0.8
Tanzania	2.92	2.84	-0.66	9.1
Ghana	7.89	1.55	6.33	8.8
Madagascar	2.37	0.24	2.14	0.2
Mali	10.21	3.46	6.75	4.3
Philippines	33.93	16.83	17.10	16.8

Sources: Resource requirements, availability and gaps are based on estimates suggested by the WaterAid country programmes, and in some cases are based on local government plans. For per capita capital expenditure, see table 4.1.

There is also a need to focus both on appropriate national policies that enable and encourage flexibility to respond to local priorities as well as on building local capacities to develop plans and local priorities – as evident from the example of Amatole District Municipality in South Africa (see box 4.2). Estimates of funding gaps for WSS at national levels vary a great deal (see table 4.5). Most national estimates show significant funding

gaps³¹ (refer Table 4.5). There is a need to apply tools (such as the Nepal methodology) at the local level, and develop national estimates of funding gaps through these local estimates. This would make national estimates more realistic since it would reflect local realities.

Table 4.5: Adequacy of resources to meet the Millennium Development Goals
In US\$ million/year

Country	Country's own estimates			WaterAid estimates		
	Total	Urban	Rural	Annual requirements	Current annual spending	Funding gap
Bangladesh	na	na	na	125	83	42
Ethiopia	1,859.4	888.4	971	96	65	31
Ghana	na	110	68	85	17	68
Madagascar	na	na	na	117	20	97
Mali	80	56	23	46	12	34
Nepal	43	na	na	73	50	23
Nigeria	3,200	2,800	400	320	54	266
South Africa	1,970	na	na	na	na	na
Tanzania	na	91	82	96	12	84
Uganda	na	na	na	110	53	57
Zambia	na	na	9	10	15	-5

Sources: For country's own estimates, country studies and for WaterAid estimates – based on country assessments done for the global study on 'Boiling Point'; for WSP estimates: WSP et al (2006) 'Getting Africa on Track to Meet the MDGs'.

Box 4.2: Local plans to meet WSS targets: Amatole District Municipality in South Africa

Amatole District Municipality (ADM), with a population of about 1.7 million, is located in the Eastern Cape Province. ADM includes Buffalo City Municipality (BCM) and seven other local municipalities covering small towns and rural settlements. Both were accorded Water Service Authority (WSA) status in 2003. ADM's jurisdiction as a WSA includes the other seven local municipalities, and local municipalities are represented on the ADM Council. Unemployment in ADM is at 49% and 77% of the population is below the national poverty line. BCM's status as a WSA effectively removes the only significant urban centre from ADM. With this, its only meaningful source of income generation from levies/rates (90% of levies for ADM came from the Buffalo City area). ADM has prepared a Water Sector Development Plan and has integrated its key findings and requirements into the recent review of its Integrated Development Plan. These address some of the key issues faced by the local government in meeting its WSS targets and service delivery obligations.

³¹ The only exception was WaterAid's estimate for rural water supply in Zambia where current funding levels are estimated to be more than that required to meet the targets.

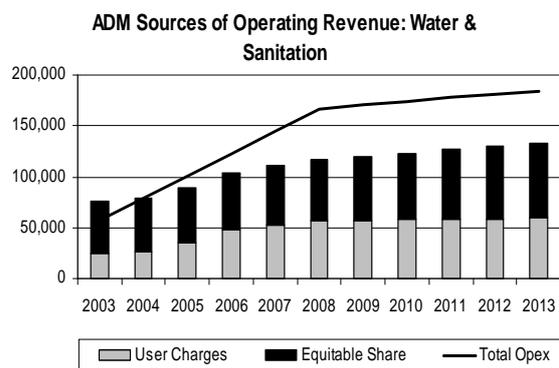


Figure 4.2-a: ADM sources of operating revenue for water and sanitation

Two key issues are:

O&M sustainability – Implication of Free Basic Water policy on O&M financial sustainability in ADM: The Government of South Africa has adopted a policy of free basic level of services including water and sanitation. Financially the provision of free services is supposed to be covered either through the S-grant component of the Equitable Share, or locally raised through cross-subsidies within the sector or by allocating other municipal general revenues. Though the Equitable Share³² over the past years has increased significantly, given the current allocation formula, it may not be sufficient to meet WSS O&M costs in many rural local authorities, which do not have a strong local resource base and lack any cross-subsidisation potential. For example, figure 4.2-a illustrates this for ADM. It is worth noting that the district municipality has been seriously discussing the need to reduce or even stop new infrastructure investments based on such financial assessments.

Feasibility of service standards: Amatole DM has decided to adopt a ‘safe water strategy’ that focusses on basic standards that are lower than those prescribed as minimum by Department of Water Affairs and Forestry (DWAF) at the national level. Given the backlog and poverty, this approach would make it possible to achieve universal access to water and sanitation. The safe water strategy also visualises refurbishment of old schemes rather than always building new schemes to higher standards. Such local decisions need to be supported by the provincial and national spheres to allow the local contexts and priorities to be reflected.

Sources: Mehta (2004) and Fugelsnes (2005). For the chart: Palmer Development Group (2004).

³² Equitable Share is part of the inter-governmental transfer system in South Africa and is a block grant for local governments without any conditions. However, in view of the national government policy of free basic services (FBS), there are concerns about equity in distribution, especially as rural district municipalities have only limited scope for cross subsidies for implementing the FBS.

The variation in per capita capital expenditures also needs to be assessed in relation to varying unit costs across countries and regions. It is generally agreed that unit costs are lower in South Asia as compared to countries in Africa³³ – and even higher in West Africa. However, given the weakness of monitoring and evaluation systems in the WSS sector, it is difficult to measure the outputs achieved through these capital investments to assess unit costs. In some countries such as Uganda, where such efforts have been made, concerns have been raised at both measurement problems and the rising unit costs with increased investments.³⁴

4.3 Equity and efficiency in local government capital expenditures

Any discussion on local planning and adequacy of resources needs to also take into account issues related to equity in allocations, expenditure priorities and efficiency. In supporting local governments to improve their local plans to meet WSS targets, there is also a need to assess expenditure priorities related to operational sustainability, enabling rehabilitation when cost effective.

Equity in allocations – Moving to SWAp, harmonisation and informed decision-making:

Equity of allocation decisions need to be considered for both national and local levels. It has been very difficult to capture analysis of equity in local government investment decisions – partly because such information just does not exist readily at the local level.

Allocations of national government or donor resources across different local governments in the country can be addressed by improved IGT designs. For example, in Tanzania, a formula-based IGT for WSS capital grants dramatically increased the number of local governments with sufficient funds to meet their MDGs (see box 4.3). The availability of reliable and transparent information that can be regularly updated is critical for such IGT designs. In South Africa, for example, the national treasury is unable to implement designs for more equitable distribution due to the lack of such information.³⁵

Such IGT design necessitates that a majority of the funds being allocated to local levels are within the national government purview. This is clearly difficult when the WSS resources are fragmented across different sector projects, each with own rules and allocation principles. This is possible only when a Sectorwide approach (SWAp) is adopted for water supply. Several governments have implemented SWAp (for example Uganda and South Africa) or have now initiated a move towards it (for example, Tanzania, Zambia, Malawi, Ethiopia and several states in India). In some other countries (for example, Nepal, Mali and Ethiopia) similar efforts are being initiated to bring greater harmony among different donors and national governments who provide sector project based resources to local governments. This is a good first step that may later help move

³³ While it was not possible to collect this information in detail in this study, the reported per capita cost of piped surface schemes ranged from US\$35 in Nepal to US\$100 in Madagascar and US\$150 in Tanzania.

³⁴ Various Annual Sector Performance Reports by the Ministry of Water, Lands and Environment, Government of Uganda – 2004, 2005 and 2006.

³⁵ Mehta (2004).

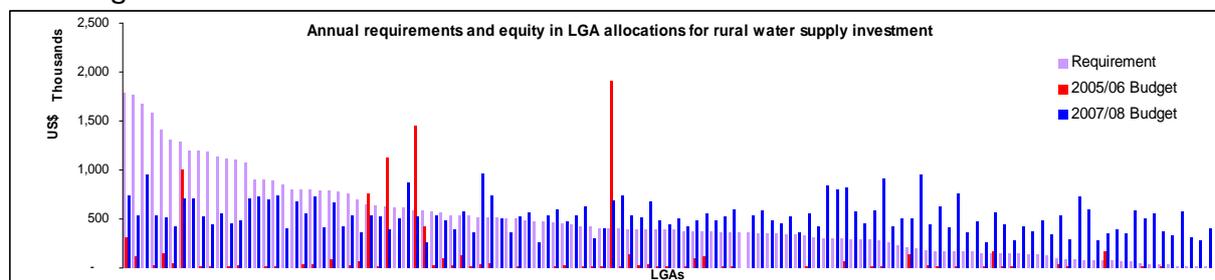
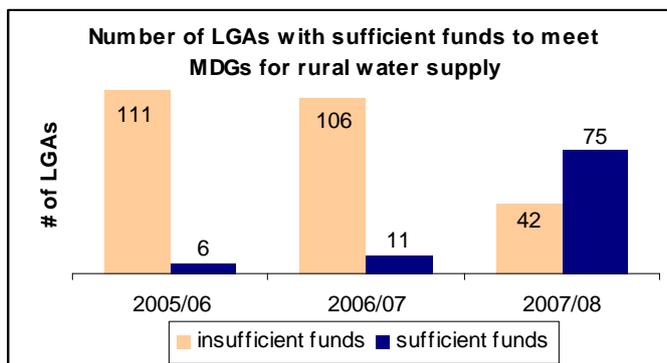
to IGT linked budget support, a sectoral budget support or basket fund type arrangements.³⁶

Even in those countries where national equity concerns have been addressed, local equity often does not receive adequate attention. At the local level such considerations need to be applied by local governments in deciding on the allocation of capital resources to villages. While the political process is expected to bring in this dimension, such decisions need to be based on more informed analysis than currently being done. However, as noted earlier, most local governments do not have control over more than half the resources in their jurisdiction and at least five local governments had no control over more than 75% of resources. To address this, a move towards local SWAp is required, as discussed above.

At the local government level, this may be addressed by having tools for more informed decisions, such as water point mapping, that allows an analysis of current distribution of water facilities across villages. While water point mapping is being done in several African countries (for example, Malawi, Zambia, Ethiopia and Ghana) and does provide such information, its use in decision-making by local government has not been forthcoming, possibly due to the lack of community/village involvement in the mapping exercises and use of technology that requires regular use by local governments. It would be useful to adapt this approach by addressing these concerns.

Box 4.3: Using inter-governmental transfers to improve equity in allocations

In 2006, the Government of Tanzania introduced a water block grant where the funds flow directly from the Ministry of Finance to the local government authorities. This built on the local government capital development grant, which was also formula-based, by adding specific WSS considerations. This has resulted in a dramatic improvement in the number of local government authorities – from six to 75 over two years – that will have adequate resources to meet their Millennium Development Goal targets.



Source: Tanzania country report, based mainly on Tanzania’s local government information website at www.logintanzania.net

³⁶ A basket fund approach allows pooling of funds for a specific jointly evolved programme.

Assessing expenditure priorities

At the local level, adequacy is also affected by expenditure decisions related to technology choices and policies on service standards. There are also issues around building new facilities versus rehabilitation as both affect costs and investment sustainability.

- **Service levels – dynamic nature of priorities:** Often, in many countries an emphasis is placed on using public funds for basic service levels to ensure that everybody gains basic access (for example, in many African countries basic service level is defined as ‘point based sources within an acceptable distance’; in India it is ‘the quantity of water supply fixed at 40 lpcd). However, such standards are dynamic and as countries achieve full access to basic service levels (and as average per capita incomes rise) it becomes necessary to meet demands for improved standards and service levels. In Uganda for example, there have been efforts to reduce the maximum distance to a water point and, in India, improvements in terms of quantity of supply are now being targeted to cater to house level water connections. It is also possible that as Uganda reaches the more or less full basic coverage it will review the possibility of improving its level of services to piped water supply.

Such considerations may also create an imbalance between national and local priorities unless the national policies are flexible and allow for local priorities, or the IGT designs are sophisticated enough to address the equity issues adequately (see box 4.2 for an illustration of this issue in the discussion of Amatole District Municipality in South Africa).

- **Using resources for new facilities versus rehabilitation:** In most countries public resources are used for building new facilities, whereas often rehabilitation of existing and non-functional services may be a more cost effective solution. This may, however, require policy changes as highlighted by the South African case study (see box 4.2) or a change in local mindsets and priorities as evident from Malawi where new and expensive borehole-based systems are taken up despite the more cost effective and environmentally appropriate options of rehabilitation of old gravity schemes.³⁷
- **Adequacy of resources for O&M expenditures:** Any assessment of adequacy should also assess the adequacy of resources to meet O&M expenditure of new facilities to ensure sustainability. The limited information from community-based rural service providers from about four countries suggests that almost all meet their O&M costs through user charges with an operating ratio of less than one. More detailed inquiries are needed to assess the nature and level of recurrent expenditure necessary and regular availability of funds to meet these.

In some countries there may be explicit subsidy policies (for example, in South Africa and India) in part driven by IGTs to be used to meet recurrent expenditure. In such cases, the national policies may adversely affect sustainability unless the overall divisible pool for the IGTs is large enough to absorb subsidies. The design of inter-governmental grants needs to address the issues of equity and inadequate

³⁷ Based on field notes of a visit to Malawi in February 2007.

local fiscal capacity. Box 4.2 illustrates this for Amatole District Municipality which has taken a decision to curb its investments. This is because of the potential future operating losses that will be incurred to implement the free basic water policy and the difficulty in using cross subsidies from other customers

- **Resource utilisation levels:** It has been difficult to get details of clear patterns of utilisation levels for local authorities. Of the 12 local areas, only four local areas reported these details. For the ongoing sector and off-budget projects, it was even more difficult to get this information. This is an area of concern as it suggests the lack of credible budget formulation and lack of good expenditure control by the local governments. An analysis of local government income and expenditure over three years for Zambia suggests that there may be a tendency for the local government to project high incomes which are not realised. This affects the expenditure management as only 40% of planned amounts were actually available.³⁸
- **Issues around sanitation:** It has been very difficult to have any detailed analysis of sanitation because of the lack of data availability. However, a key point that emerges is the need to have clarity for type and nature of activities to be funded for sanitation at the local level. Often the problem lies not so much in lack of funds as in “not knowing what to do”, as suggested by the study in Tanzania. In addition, sanitation expenditure is also included in many budget heads and also receives emphasis from off-budget donors, which adds greater complexity.

Project funding and design of IGTs for WSS capital expenditures

The continued project funding for water supply is partly due to the lumpy nature of capital investments. It also requires considerable inputs in project development including the necessary community mobilisation, technical assessment and design. Project funding through sector projects (by national government or donors) or off-budget donors create an artificial surge in capital receipts without continuity or predictability. For example, expenditure profiles for local areas that have significant share through project funds, such as in Zambia, Madagascar or Tanzania, show such patterns – those with very low expenditure moving to very high expenditures for a few years. This makes it difficult to build local capacity as it is not economical to create a pool of staff with the necessary capacities.

This problem can be addressed by routing capital expenditure support to inter-governmental grants rather than through discrete project funding. 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, or MIG, in South Africa). While this makes access to capital funding more predictable for local authorities, some problems still persist. First, a number of conditions still apply for the use of these funds and there may be a need to gradually introduce greater freedom for local authorities (for example, use of funds for rehabilitation or the

³⁸ Other studies (cf. Mehta et al 2002) suggest that such practices result in the expenditure control at the local government level becoming ad hoc, with select local government officials gaining control. It also affects equity and transparency in actual budget allocations.

standards for services as illustrated by the case study of Amatole District Municipality as discussed in box 4.2). A second problem relates to the lumpiness of investments for WSS projects as compared to the thin spreading of resources under IGT designs which makes it difficult to take up a package of projects easily. Also, under the IGT system there is likely to be less focus on a solid project development, which may drive up costs or result in less sustainable facilities.

An option to be considered for addressing these issues would be to have a hybrid transfer design with a Local Development Fund approach that starts with a formula-based allocation under an IGT but actual disbursement of funds is dependent of appraisal of project proposals by local governments. Such designs are being developed in Ethiopia, Malawi and Ghana, and have been used in India (for its rural water supply and sanitation funding from the central government), in Uganda and Tanzania in the World Bank-funded Local Government Development Programmes in Uganda and Tanzania. There is also considerable experience to be drawn from the new Social Development Funds, which gradually move towards greater local government control, as in Malawi.

In the longer term, and particularly in those countries where there is a reasonable level of financial sector development (for example, the Philippines, South Africa, India, Mali, Burkina Faso, etc), these issues can be addressed by creating better links with the financial markets through commercial borrowing as is already being done by urban local authorities or utilities in India and South Africa and being explored in the Philippines, Uganda and Burkina Faso. Such efforts will need to be linked closely with utility and local government reform agenda in each country.³⁹

³⁹ See for example Mehta, Cardone and Fugelsnes (2007).

5. Key findings and directions for action

*“Freedom is not worth having if it does not include the freedom to make mistakes.”
Mahatma Gandhi*

The study of financing water and sanitation services at the local level across 15 countries provides findings that will help to improve the performance of local governments. The findings are drawn from the understanding of country experiences in increasing the resources for water and sanitation and enabling local government control and influence in the effective use of these resources. The findings provide useful directions for other countries in improving their performance and to break the vicious circle in which many of them are trapped.

This section first traces the triggers to break the ‘vicious circle’ and identifies an approach for country level actions. It concludes with a summary of actions at the country and global levels.

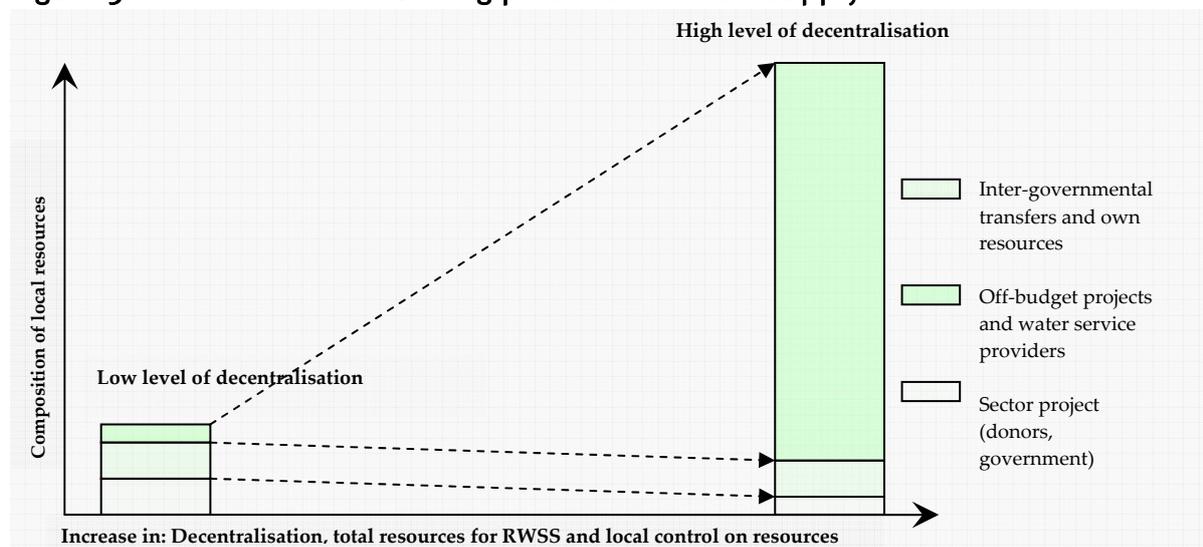
5.1 Emerging findings – triggers for breaking the vicious circle

The ideal conditions of adequate local financing and greater local control may not always materialise. Many countries are caught in a vicious circle that perpetuates low local capacity and continued central control on resources. Several key lessons emerge from the better performing countries in the study for triggers to move from a vicious to a virtuous circle.

Trends in composition of local funding

Based on the analysis presented in previous sections, there are some distinct patterns evident in terms of composition of local finances in countries at the two ends of the performance spectrum, as illustrated schematically in figure 5.1.

Figure 5.1: Trends in local funding patterns for water supply



In countries with low levels of decentralisation (those on the left hand side in figure 5.1) the overall funding level is very low and is mostly through sector projects or off-budget routes used by several non governmental organisations (NGOs) and some large donors. The share of inter-governmental transfers (IGTs) is limited or even non-existent. The sample countries in this group receive, on an average, 20% of resources through IGTs or own resources, while 80% are through sector projects or off-budget routes.

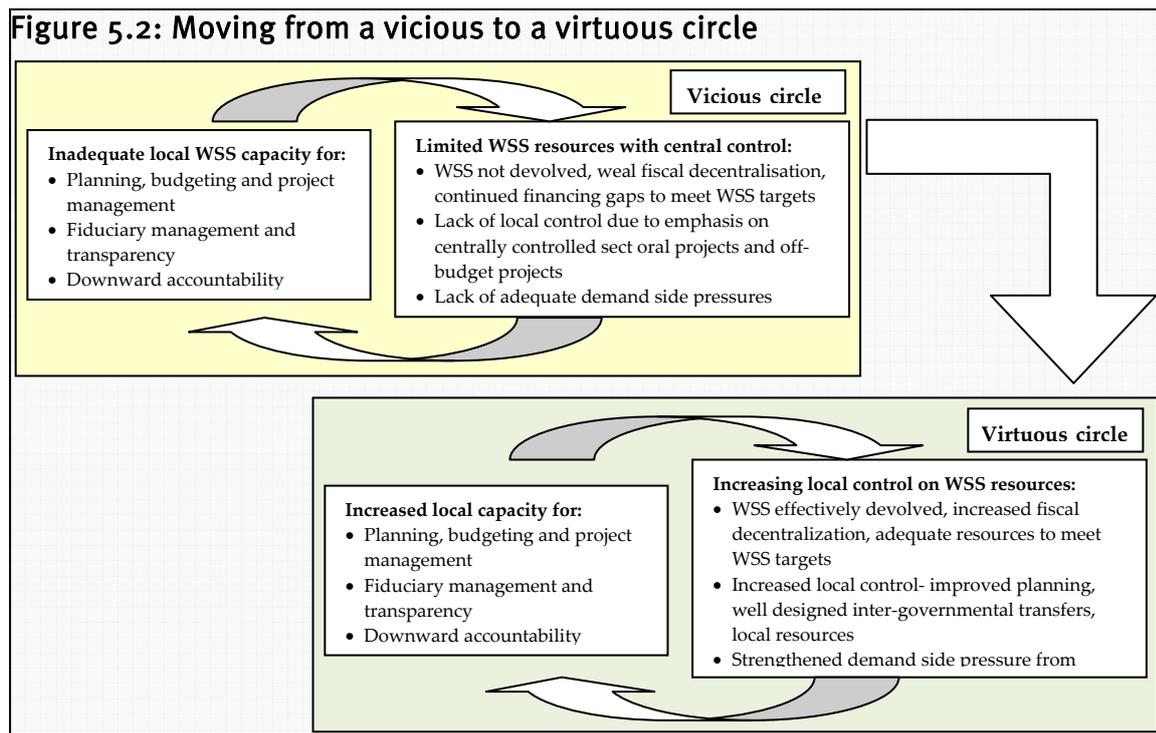
On the other hand, countries with high levels of decentralisation (on the right hand side in figure 5.1) have a high level of resources (nearly eight times the lowest group). IGTs and own resources account for 80% of resources, 15% is through water service providers and only 5% is through sector project funds. IGTs are an important source 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, local priority for water determines the extent and type of investments that are demand responsive.

From the low to higher levels of decentralisation, there is a gradual change in the IGT design – starting with conditional grants for water supply and moving to block grants with complete local control and, in some cases, to capital development funds.

Countries caught in a vicious circle

In many countries, the movement towards greater local control of resources and increased local total funding of water is hampered by the unwillingness of many donors and higher levels of government to trust local governments. Even in countries where policies related to decentralisation – political and fiscal - are implemented, there is some reluctance to devolve water sector to the local level. There has been a tendency by the central government to remain in control. The usual argument is to cite low capacity for planning, financial management and implementation that impede transparency and accountability. Funds provided for sector projects are retained by the central ministry and projects implemented through the line department. There is little effort to provide funding to local governments or to build their capacity to implement water sector projects. This results in further erosion of local capacity. This ‘vicious’ cycle continues and the local government does not get a chance to be involved in capital investment projects for water service delivery (figure 5.2).

Figure 5.2: Moving from a vicious to a virtuous circle



The analysis of country experiences in this study suggests a number of key findings for improving local level financing of water and sanitation services, which can be used as triggers to move from a vicious to a virtuous circle.

Triggers for breaking the vicious circle – lessons from country experiences

A number of countries have found ways to break this vicious circle through their decentralisation programme, Sectorwide approaches (SWAp), design of innovative financing mechanisms and capacity building support.

Effective decentralisation in the water and sanitation sector requires both political and fiscal empowerment, which in turn can lead to greater local control on investment resources. From the experience of some countries in this study (for example, Uganda, South Africa, Tanzania and the Philippines), it is seen that local control on resources enables improved financing decisions by local government that is more equitable and efficient in resource use. It can also lead to sustainable financing of local service operations, as local governments can plan ahead. Devolution of water at the local level may face initial difficulties, but over time local governments build their capacity to manage investments. For national governments, involving local government in the water sector releases administrative burdens and enables the sector ministry to focus on sector reforms and mobilisation of financial resources. Donor agencies and multilateral agencies see their aid being used more effectively. In these countries, water service providers have also managed to improve their financial situation. On the whole, when resources are controlled locally, there is a greater chance of their being used more efficiently, resulting in improved service delivery.

The analysis presented in previous sections suggests a number of directions for global actions to improve local level financing of water and sanitation services. These are framed within the underlying premise that local government control (and influence) on local finances is critical, and that a minimum base of resources is needed at the local level to make a meaningful impact on water and sanitation services.

1. Full decentralisation is a necessary minimum step for improved local control and adequate resources.
2. It is necessary to have a 'predictable critical mass' of water supply and sanitation (WSS) resources to ensure credibility within local governments and evolve meaningful plans to meet local targets.
3. Local control can be increased through the greater use of IGTs, but other measures are also needed to increase local government influence on the WSS sector and off-budget projects.
4. Efforts are needed to improve downward accountability of local governments and upward accountability of water service providers.
5. Capacity-building efforts at the local government level are needed to improve water and sanitation sector information base, planning and implementation.

These are elaborated further below:

- 1. Good progress on decentralisation in terms of the political and functional devolution of WSS, and the extent of fiscal decentralisation, emerges as a necessary minimum step for improved local control and adequate resources.**

Decentralisation (political, fiscal and functional) is necessary for local governments to influence and control capital expenditure. Central governments need to go the full distance and devolve the water sector at local levels. This will need to accompany larger allocation of funds to local governments through IGTs. Local governments that have larger resources at its command are better able to respond to local needs. The greater the empowerment of local government on each of the three dimensions of decentralisation, the greater will be its influence on all capital expenditures in the local area. Progress on decentralisation also seems to result in increased WSS resources at the local level which would, in turn, enable local governments to meet WSS targets.

- 2. It is necessary to reach a 'critical mass' of WSS resources at the local level to ensure credibility of local governments and to undertake planning to meet local targets.**

The overall resource base of local authorities is quite low – the average per capita local government revenue is \$ 17.0 and the median revenue stands at \$11.5. With a significant portion of this revenue allocated for salaries and other recurrent expenses, the local governments' capacity for capital investment in the water sector is limited. In addition, low priority accorded to the sector at the national level is reflected in limited sector project funds. The average per capita capital expenditure at the local level on WSS from all funding blocks is \$6.5. Such a low resource base leads to low credibility of local government with the people. In addition, very little developmental work in the WSS sector gets done in the local government area. With a low resource base, planning for resource utilisation and future investment decisions does not get priority by local officials.

In the Philippines and South Africa, the high level of local resources has made preparation of Water Sector Development Plans at the local level an important participatory process. From the Philippines, Uganda, Tanzania and South Africa, it clearly emerges that for decentralisation to be functional at a local level, the overall resource base of the local government needs to be increased significantly. Unless the local government has a 'critical mass' of resources at its disposal, efforts of national governments and donor agencies at making decentralisation work will not yield the desired results of improved water service provision.

3. Local control can be increased through an increased use of IGTs as well as other sector project funds and off-budget funds.

With increasing decentralisation, the relative importance of different funding blocks is expected to change so that there is greater local control on investment resources through local governments and water service providers. Local governments can usually exercise control over the IGT, especially the block grants. However, conditional grants, as the name suggests, are not totally within the control of local governments. For example, in Tanzania, IGTs are often pre-allocated to specific budget lines within sector allocations.

The ideal route would be to increase IGTs and own resources that are on the local government budget. When funds are not on local government budget, the extent of influence and control is determined by local government involvement in the planning processes and the extent of influence during the implementation stage. In these situations, local government influence essentially comes from "its ability to exert pressure on other actors in the district" (Tanzania) or through collaboration and advice (Ghana and Malawi). In some countries, associations of NGOs working exclusively on water and sanitation sector issues have facilitated local government influence on investment decisions of off-budget resources. For example, WaterAid in Malawi has used its small funds as a lever to help the district council to influence other donors – UNICEF and MASAF – decisions on fund allocations within a district.

In terms of IGT design, it is important to recognise that the quantum of transfer is important, but it is even more important to enable local influence on the decisions related to use of this transfer. In many countries, attempts have been made to create a pool of resources, often known as the District Development Fund or District Capital Development Fund. It is important that this fund remains within the purview of the local government. Such a pool, when used through participatory and consultative processes, can work well in meeting local needs. There may also be a case for a special fund for the water and sanitation sector. For example, in India and Tanzania, the central government transfers block grants to a local government for the water sector. The grant is based on local needs and, in case of Tanzania, is built on the local government capital development grant.

4. Efforts are needed to improve downward accountability of local government and upward accountability of water service providers.

In a qualitative assessment, local governments have scored well on upward accountability. This is partly a result of the current emphasis in most countries on improved public financial management (PFM), procurement, etc – though there may be many avenues for improvement as more detailed PFM assessments in some countries suggest.⁴⁰ However adequate attention has not been given to developing local

⁴⁰ See, for example, the Joint Assessment for Tanzania in World Bank (2006).

government capacity for downward accountability related to open and transparent budgeting and participatory process of decision-making. As a consequence, many local governments in this study show poor accountability to the people. In the absence of government efforts, the NGO sector has taken up this challenge in some countries, for instance, UWASNET in Uganda. However, this important task should not be relegated to the NGO sector alone. More concerted efforts are required as a part of the decentralisation efforts of the central government to make the local government adopt participatory processes of decision-making and be responsive to the people.

The question of downward accountability is also equally linked to giving adequate space to local governments for making appropriate decisions and learning from their own mistakes too. It also requires civil society organisations and NGOs to, by and large, support citizens. As regards the water sector, consumers should create demand pressures on the political and executive wings to make better and more equitable decisions.

Downward accountability is usually better for water service providers, given their community based nature. However, there are very few efforts to build their capacity for financial management. This absence renders community-based service providers unable to recognise the financial needs for maintaining adequate service standards. They are often unable to sustain these services, especially when large capital repairs are needed. Community water service providers need to review the user charges or community contributions to generate some surplus, and build safeguards for major repairs. At present, they depend on central government funds for rehabilitation. In most countries, however, there is an overt focus on building new facilities rather than ensuring sustainability of existing water facilities. Community water service providers have an important role at the bottom of the service ladder that is closest to the people, and they need to be strengthened. There are a few good practice examples to draw on, including from Senegal and Mali, which focus on monitoring and technical support to rural community-based water service providers.⁴¹

5. Capacity building efforts need to focus on improved planning, monitoring, project development and implementation for water and sanitation at the local level.

One of the critical challenges at the local level is to articulate appropriate needs for the water and sanitation sector. This is essential for local level actors to prepare plans and projects to meet local needs. Often, this is hampered by lack of adequate information. In carrying out this study at the local level, information on capital expenditure on water and sanitation at the local level was extremely difficult to obtain. In many countries, information regarding the status of water services at village and community level is also not easily available. Where available – for instance, in Malawi through WaterAid efforts of Water point mapping – it is used extensively for planning, both at the district and national levels. Efforts are needed to support the establishment of information systems at local levels, systems that do not remain a ‘one-off’ activity but are updated regularly. In the absence of such information, investment decisions on where to locate a new water point become ad hoc and often inequitable.

There also some concerns regarding the lack of knowledge on the use of sustainable water and sanitation technology that is appropriate for the local area. While national

⁴¹ See, for example, Direction Nationale de l’Hydraulique du Mali (2003).

programmes often have a ‘one size fit all’ approach on technologies, at the local level the decision on appropriate technology needs to combine traditional knowledge and skills with the imperatives of financial and technical feasibility. In most countries, local knowledge exists on what works and what does not. However, information on life-cycle costs of various technology options at local levels is never assessed. Even more important, there is generally inadequate 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 allocations become difficult. As a result, decisions made at the local level may not be able to adequately address equity and efficiency considerations. If decentralisation is to lead to improved service delivery, the information base at the local level needs to be improved. This will strengthen local governments’ capacities in planning and investment decisions.

There are several good practice cases of capacity support to local governments and local water service providers, such as local government support for WSS planning and projects through the Technical Support Units in Uganda, integrated support through the Masibambane Programme in South Africa, the Local Water Utilities Administration in the Philippines and several donor funded rural water supply and sanitation (RWSS) and decentralisation projects in Africa and Asia.⁴² There are some useful lessons from demand responsive approaches used in many donor funded rural water supply projects as well from the second and third generation Social Fund projects such as in Ethiopia and Malawi. These lessons need to be adapted for capacity-building support for local governments.

5.2 Country level actions – grounding in country contexts

Country level actions need to be identified on the basis of a country’s performance on the three key parameters: progress on decentralisation; local control of WSS resources; and adequacy of local WSS resources. To be realistic, actions need to be derived from the experience of countries that have achieved better performance.

Mapping the countries by performance levels

All the countries in the sample were mapped to assess local control and local expenditure levels in relation to decentralisation (see figures 5.3 and 5.4). The parameters include:

- **Level of decentralisation** as measured by the extent of political, administrative and fiscal decentralisation (refer section 3).
- **Level of local influence on resources** as measured by the index of influence on all capital investments (refer section 4).
- **Adequacy of resources at local levels** to meet the agreed targets as measured by per capita capital expenditure (refer section 4).

⁴² For example: Rural water supply and sanitation project using a demand responsive framework in India, Ethiopia and Ghana; and decentralisation projects in Uganda and Tanzania (Local Government Development Programme).

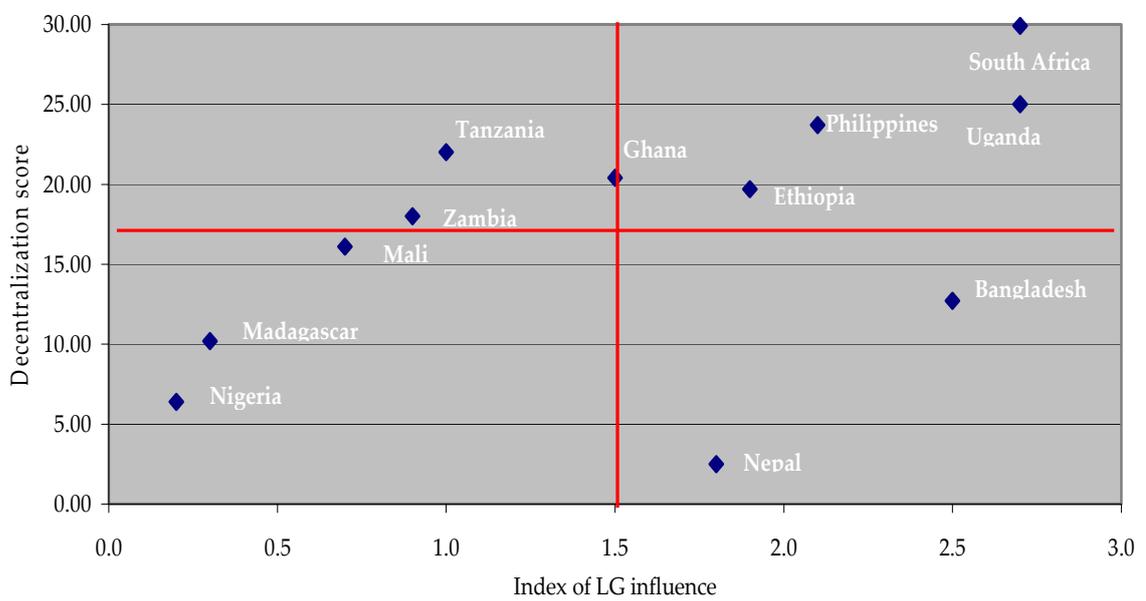


Figure 5.3: Mapping countries by decentralisation and local control

Figure 5.3 shows the relationship between **decentralisation and local control**. In general, the relationship is clear – the greater the decentralisation, higher is the local government influence on all expenditures on water services. (Nepal and Bangladesh are exceptions, largely due to the current political situation in these countries.) Control by local government is exercised not only on the local government budget but also on the sector project and off-budget projects in the local area.

Figure 5.4: Mapping countries by decentralisation and level of local expenditures

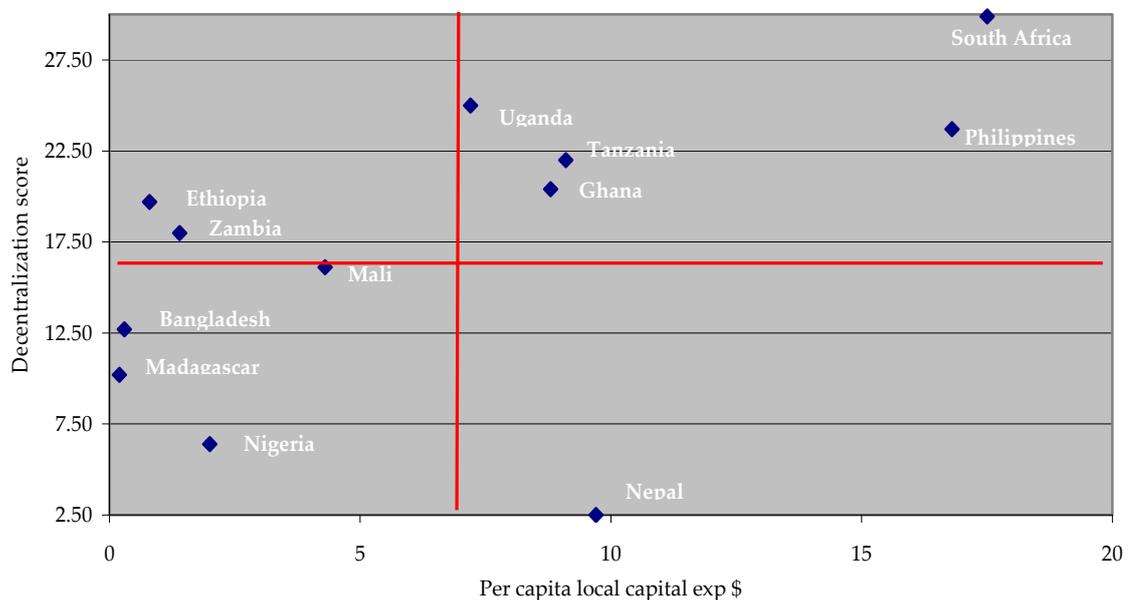


Figure 5.4 shows the link between **decentralisation and expenditure on water**. In all countries, except Nepal that has the lowest decentralisation score, expenditure on water is closely related to decentralisation levels. With greater decentralisation, local governments are able to make appropriate budget decisions and allocate funds where needed. In countries that are in ‘above average’ quadrant – South Africa, the Philippines, Tanzania, Uganda and Ghana – IGTs play a key role in local finances. A clear pattern emerges from the above mapping of countries, as shown in table 5.1. A group of countries emerge as well-performing countries – South Africa, Uganda and the

Philippines – across all the three parameters.⁴³ 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 5.1: Grouping of countries by performance levels

	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

Notes: Grouping based on analysis in Figures 5.3 and 5.4. The position of Tanzania is for the situation before the recently approved Water Sector Development Program (WSDP) within a SWAp framework as the data provided for this study was for the period before introduction of WSDP. This table excludes India, Malawi and Burkina Faso.

Country actions to improve local WSS financing

For each group of countries, specific actions are needed for the water and sanitation goals and targets to be met at local levels. These country-specific directions and actions are illustrated in Table 5.2 for each group of countries. These have been derived from experiences in countries that have performed well and several good practice cases noted in sections 3 and 4.

Table 5.2: Country actions to improve local WSS financing

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, the Philippines	Focus on improved design of IGTs to ensure equity in national allocations; improve downward accountability of local governments	Sustaining local capacity to meet ‘high’ national standards (for example, South Africa and the Philippines)
Low in all three parameters	Lower than average decentralisation, local control and	Nigeria, Madagascar	Focus first on ensuring progress on decentralisation,	Work towards improving local control using a variety of

⁴³ As noted earlier, the Philippines and South Africa were selected as ‘reference countries’ for this study.

Group	Characteristics	Countries	Nature of actions required	
			First priority	Next priority
	per capita expenditure		especially ensure effective WSS devolution	measures (see table 4.3)
Others	Higher than average decentralisation, but lower local control	Tanzania, 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 good control through better IGT designs and using other measures (see table 4.3)
	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

Country level actions identified in table 5.2 are indicative. More specific actions for each country will be in country advocacy reports. The key in developing these is to ‘get the basics right’ and draw on experiences of better performing countries and adapt to local realities.

There are a few common areas on which actions are needed in most countries:

1. Sector reforms

- At the country level, the sector ministry needs to take the leadership role in developing a sector programme and moving to a SWAp, just as in the health and education sector. Aid harmonisation and donor coordination can be strengthened through such efforts. These measures are important for creating an enabling environment for increasing the use of IGTs for water and sanitation systems.
- Joint sector reviews, better prepared Sector Investment Plans and sectorwide monitoring systems will help to improve WSS priority in national budgets, as is evident from the experience in Uganda and South Africa.

2. Strengthening decentralization

- Devolution of water and sanitation at the local level is a must. Donor support for water sector should be directed to build on decentralisation efforts in the country.
- Central governments need to improve the design of IGTs to provide more freedom at the local level, and enable efficient use of capital funds. One possible way is to

move from conditional to consolidated block grants and local development challenge funds for capital funds.

- Enabling policies to encourage and ensure downward accountability by local governments are needed.

3. Information and capacity building

- Efforts are needed urgently to build information systems for the water and sanitation sector. This is critical for both good local planning as well as implementation.
- With better information, it is possible to refine IGT designs to take into consideration equity and efficiency issues. Sector information has to be regularly updated, be reliable and acceptable to all stakeholders, and must be from a legitimate source (examples from Tanzania and South Africa).
- For decentralisation efforts to work well, it is also critical to increase local capacity for i) financial management, ii) local planning for water and sanitation development and iii) improving downward accountability.

5.2 Global actions – reaffirming known truths

At the global level, advocacy efforts in recent years have led to increased funding by the donor community. It is now required that such funds are used effectively at the local level. For this to happen, the global community needs to:

1. Promote aid effectiveness by linking water sector funding to decentralisation

- SWAs need to be supported at the national level and need to be aligned with decentralised service delivery
- International support is necessary to develop an appropriate package for creating local development challenge funds for capital funding of water and sanitation at the local level

2. Promote south-south learning and experience sharing

- From the range of country experiences analysed in this study, it is apparent that there are many opportunities for sharing experiences among countries, especially from the better performing countries such as Uganda, South Africa and the Philippines. Support is needed for such south-south learning. Officials from Uganda and South Africa are already providing such services, either on demand or under South Africa's Masibambane Programme. An innovative arrangement exists in Uganda where the National Water and Sewerage Corporation has set up a special cell to provide such services on a fee basis. Donor support to provide more incentives for such activities is critical

3. Continue to support local innovation

- With SWAs and better designed IGTs, one casualty may be local innovation. In the past, this has been supported through targeted funds from NGOs. It is essential to find financing mechanisms (such as partnership basket funds) for

specific technical assistance support that can continue to support innovation that is better integrated with, and does not distort, the fiscal decentralisation efforts

4. Focus on sanitation

- Greater efforts are needed to focus attention on sanitation-related activities. It is usually difficult to find any detailed analysis of sanitation delivery at the local level. There is a need to have clarity about the type and nature of activities to be funded for sanitation at the local level. Often the problem lies not so much in lack of funds as in ‘not knowing what to do’, as suggested by the study in Tanzania

5. Research and documentation

- Support for more research on financing water and sanitation at the local level is needed. The framework used in this study needs to be applied further
- Such local level financing studies should also focus on institutional frameworks for accountability as well as more detailed assessment of equity and efficiency in local expenditures
- A bigger challenge is to document cases where greater local government involvement and control has led to improved service outcomes

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Annex 1: Measurement of qualitative indicators

A research framework has been developed based on the outcomes of the Burkina Faso workshop. The qualitative assessment of the identified parameters was done through simple questions that were easily comprehended at a local level. The set of tables in this Annex should be read in conjunction with Table 2.1 that provides the overall framework of the research.

A. Decentralisation

National level

Political decentralisation		1 = yes, 0 = no
Does decentralisation legislation provide for elected local governments?		
Have local government elections been held in the country as per schedule?		
Do the local government council and committees meet regularly?		
WSS devolution		1 = yes, 0 = no
Has water supply been devolved to local governments as per Local Government Act?		
Is devolution of water supply effective in practice?		
Has sanitation been devolved to local governments as per Local Government Act?		
Is devolution of sanitation effective in practice?		

B. Predictability of funds

Parameter	3	2	1	0	Score (0 to 3)
Inter-governmental transfers					
Use of transparent formula	Exists and used regularly	Exists/used at times	Exists but not used	No formula	
Transferred as planned (on-time)	On-time	←3 months	←6 months	→6 months	
Equal to the amount budgeted	= budget	→75% of budget	→50% of budget	←50% of budget	
Sectoral project by national government or donors – on local government budget					
Transferred as planned (on-time)	On-time	←3 months	←6 months	→6 months	
Equal to the amount budgeted	= budget	→75% of budget	→50% of budget	←50% of budget	
Sectoral project by national government or donors – Not on local government budget					

Parameter	3	2	1	0	Score (0 to 3)
Transferred as planned (on-time)	On-time	↔3 months	↔6 months	→6 months	
Equal to the amount budgeted	= budget	→75% of budget	→50% of budget	↔50% of budget	

C. Accountability – Local government and community water service providers

Accountability index for local governments

Parameter	3	2	1	0	Score
Take into account – Are there mechanisms for involving citizens in planning and are citizens involved in planning?	Mechanisms exist and citizens fully involved	Mechanisms not well-defined but citizens are involved	Mechanisms exist but no involvement	Not taken into account at all	
Give an account – Are plans, reports, budgets or expenditures publicly available and posted?	Available and posted regularly	Available publicly if asked	Available but after effort	Not available	
Hold to account – Are there effective mechanisms for auditing, regulating or scrutinising expenditure?	Mechanisms exist and are effective	Mechanisms exist but not used very regularly	Mechanisms exist but used only rarely	No mechanisms exist	

D. Local control and local government influence

Total resources for capital investments in WSS (on and off local government budget) in the selected local area, and influence of local government on the way funds are allocated, spent, etc

Source of funds	Estimated total annual capital expenditure (indicate year and currency)	Influence – <i>0 = no influence, 1 = low influence, 2 = medium influence, 3 = high influence</i>	Describe the nature of influence very briefly
Local government budget (own			

Source of funds	Estimated total annual capital expenditure (indicate year and currency)	Influence – <i>0 = no influence, 1 = low influence, 2 = medium influence, 3 = high influence</i>	Describe the nature of influence very briefly
sources)			
Local government budget (IGTs)			
Local government budget (on-budget sector projects)			
Other sector projects in local area that are not on local government budget			
Off-budget and non governmental organisation resources			
Community water supply providers or Urban water supply providers			
Total			



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

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