

# Financial absorption in the water, sanitation and hygiene sector

## Ethiopia case study<sup>1</sup>



WaterAid/Anna Kari

WaterAid commissioned DFI to carry out analysis, through five country case studies, of financial absorption in the water sanitation and hygiene (WASH) sector, in order to identify the prevalence of low financial absorption, and to help to identify key steps and conditions for achieving higher future levels of absorption and effective spending. These studies will help shed more light on the paradox of why high levels of water and sanitation poverty and an under-resourced sector can co-exist with available but unused funds. The studies identify five countries – Ethiopia, Mozambique, Rwanda, South Africa and Uganda – all of which have had varying degrees of relative success in terms of improvements to absorption. The countries are also in various stages of decentralisation, which can help to frame lessons for future improvements across other countries. Addressing financial absorption constraints is an important part of the process to strengthen the WASH sector and provide a platform for achieving universal access by 2030. The studies, therefore, try also to identify key recommendations on which WaterAid can draw for future actions to improve financial absorption.

## Acronyms

|         |   |
|---------|---|
| AfDB    | African Development Bank                            |
| Birr    | Unit of currency in Ethiopia                        |
| BoFED   | Bureau of Finance and Economic Development          |
| CG      | Central Government                                  |
| CMP     | Community Managed Project                           |
| CWA     | Consolidated WASH Account                           |
| DAG     | Donor Accountability Group                          |
| DFID    | Department for International Development            |
| EFY     | Ethiopian Financial Year                            |
| ETB     | Ethiopian Birr                                      |
| IDA     | International Development Association (World Bank)  |
| JTR     | Joint Technical Review                              |
| LIG     | Local Investment Grant                              |
| MFI     | Microfinance Institution                            |
| MoE     | Ministry of Education                               |
| MoFED   | Ministry of Finance and Economic Development        |
| MoH     | Ministry of Health                                  |
| MoWIE   | Ministry of Water, Irrigation and Energy            |
| MSF     | Multi-Stakeholder Forum                             |
| NWI     | National WASH Inventory                             |
| OWNP    | One WASH National Program                           |
| POM     | Programme Operation Manual                          |
| SNNPR   | Southern Nations, Nationalities and Peoples' Region |
| UNICEF  | United Nations Children's Fund                      |
| UWASNET | Uganda Water and Sanitation NGO Network             |
| WASH    | Water, Sanitation and Hygiene                       |
| WASHCO  | Rural WASH Committee                                |
| WSS     | Water Supply and Sanitation                         |
| WWD     | Woreda Water Desks                                  |
| WoFED   | Woreda Office of Finance and Economic Development   |
| WIF     | WASH Implementation Framework                       |

## 1. Introduction and background

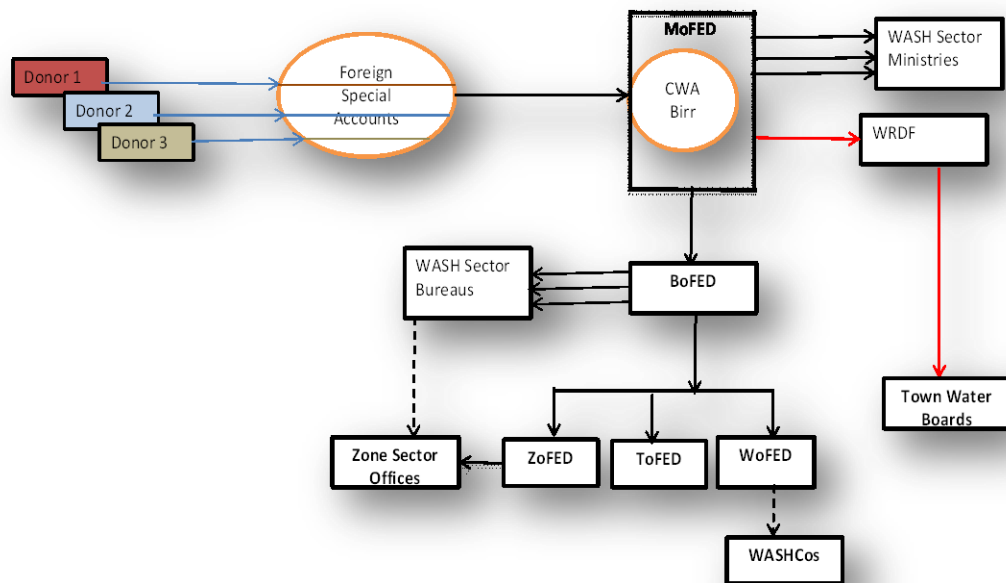
### 1.1 Institutional backdrop to water, sanitation and hygiene in Ethiopia

The objective of this case study is to identify the main causes of low financial absorption in the water, sanitation and hygiene (WASH) sector in Ethiopia, and the key steps and conditions for achieving higher levels of absorption and effective spending.

Ethiopia has made considerable progress in recent years in harmonising efforts behind a 'One WASH National Program' to tackle the fragmented activities of multiple Ministries and different donors. In order to overcome the problems arising from fragmentation, the Government has put in place coordinated institutional structures for government, donors and Non-Governmental Organisations (NGOs), with financial flows directed through three separate channels. As will be shown in this study, this has led to improvements in financial absorption in the sector.

This study largely analyses funds through Channel 1, which is further divided into two channels – channel 1a and channel 1b. Channel 1a refers to the allocations made by the government from domestic sources. Channel 1b refers to the pooled funds contributed by donors who work through the government structures and financial management systems into the Consolidated WASH Account (CWA).

Diagramme 1 below shows funding flows for channel 1.<sup>2</sup> This is the channel preferred by the Ethiopian Government, and it is used by the World Bank, the Department for International Development (DFID), the African Development Bank (AfDB) and UNICEF (for some of its funds).



**Diagram 1: Channel 1 WASH funding flows**

Note: The broken line indicates disbursement of funds, the black arrow shows fund transfers and the red arrow shows loan transfers.

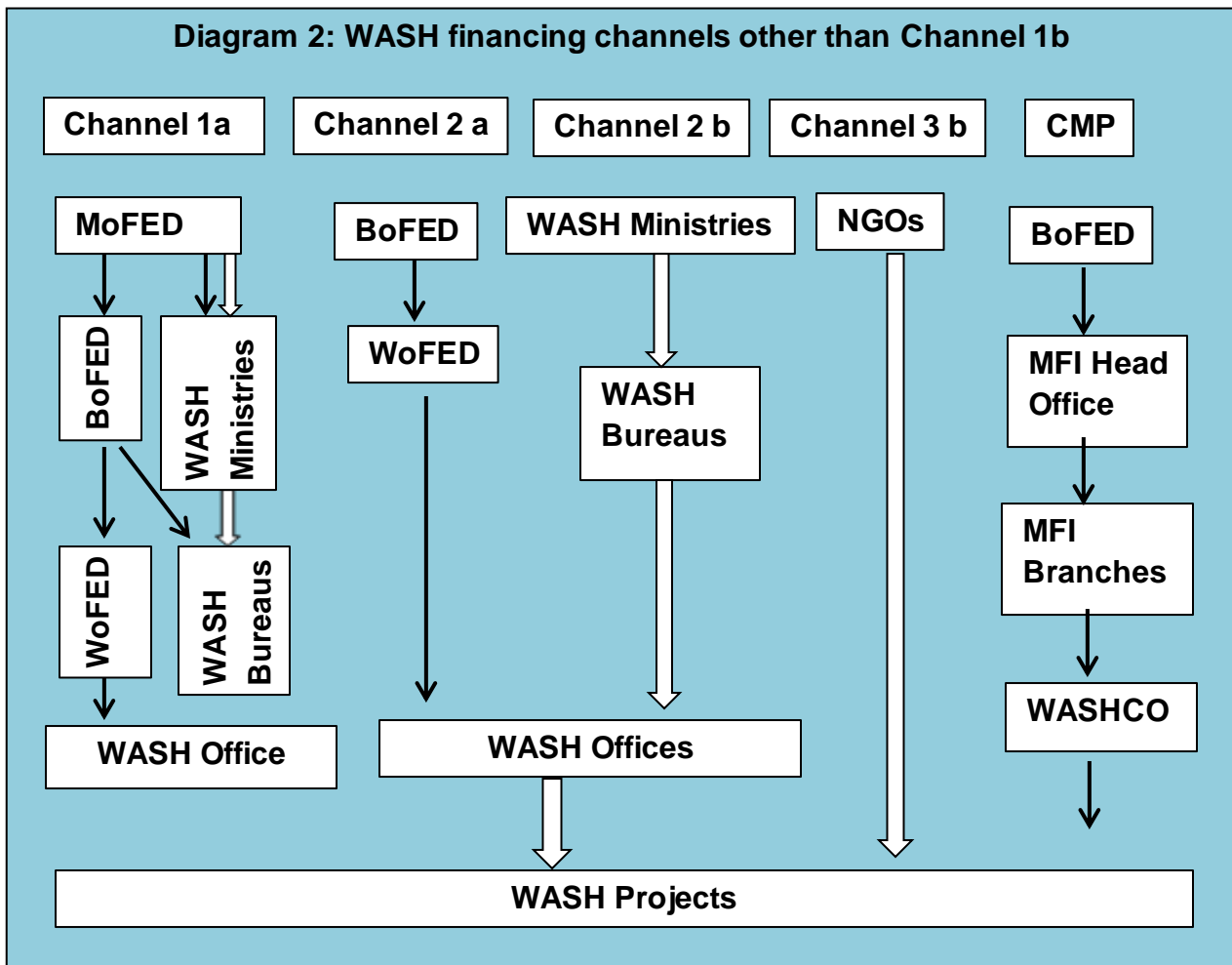
WASH funds outside of the CWA flow through Channel 2 and Channel 3. Channel 2 refers to WASH funds which are not ‘on-budget’, but are ‘on-plan’ and are channelled either through budget institutions or through implementing agencies.<sup>3</sup> Some donors use Government budget institutions, and therefore release funds to the regional Bureau of Finance and Economic Development (BoFED) and then to the Woreda<sup>4</sup> office of Finance and Economic Development (WoFED).<sup>5</sup>

Other donors use implementing agencies such as WASH sector Ministries, Bureaus and Offices. Channel 3 refers to NGO funding to the sector, which does not flow through the Government system, but is reflected in the regional and Woreda-level resource mapping. Channel 3 funding is included in consolidated WASH budgets, with results and spending shown in the WASH sector-wide report.

## 1.2 Methodology carried out for study

In order to conduct this report a **preliminary scoping study** was carried out which:

- (1) accessed data at national and local levels to analyse different trends from national through to local level financial absorption in Ethiopia, and
- (2) identified two local government districts for detailed local-level absorption analysis. These districts were chosen in order to analyse different patterns of absorption: Yabelo district was chosen for its good performance in terms of financial absorption and Konso for its weaker performance.



The choices were made on the basis of assessing four local governments with available data, and analysing budget utilisation rates: Burie from Amhara region, Yabelo from Oromia and Shebedino and Konso from Southern Nations, Nationalities and Peoples region. Budget utilisation during the last three years was 100% for Burie, Yabelo and Shebedino districts, whereas Konso absorbed only 33% of the capital budget allocated during 2012/13 (77% of the African Development Bank, AfDB, budget, 74% of the UNICEF budget and 24% of the Government budget). Hence, Konso district represented a district performing relatively less well in terms of financial absorption, while Yabelo district was selected to represent a better performing district (it is also located in a pastoral area, adding an additional perspective to the study).

(3) Utilised a combination of desk reviews of relevant documents<sup>6</sup>, key informant interviews<sup>7</sup> with government officials and donors, and analysis of budget versus actual expenditure at federal, regional and district levels.

Once this initial scoping phase was complete the following methods were used to carry out the research.

- Channel 1 WASH national budget and actual spending data was collected from the National WASH coordination office. The office captures the major funding to the sector, including matching funds from the Government. This data was collected for the national level together with the breakdown by region and by signatory ministries, namely the Ministry of Finance and Economic Development (MoFED), the Ministry of Water, Irrigation and Energy (MoWIE), the Ministry of Health (MoH) and the Ministry of Education (MoE).
- Relevant documents from the National WASH coordination office, MoWIE, MoE and MoH as well as from key stakeholders was analysed.
- Key informant interviews were conducted with signatory WASH ministries (mentioned above), selected donors (Water and Sanitation Program/World Bank, UNICEF), and Civil Society Organisations (CSOs) which are active in the WASH sector (SNV, Plan International Ethiopia).
- Budget and actual spending data on WASH from two selected districts (Yabelo and Konso) was collected; and interviews were conducted with relevant experts on the challenges of absorbing financial allocations to the WASH sector.

### 1.3 Challenges in carrying out the study: data gaps and institutional arrangements

One of the big challenges faced during this study was a lack of availability of comprehensive data on expenditure across all levels of spending and different actors for the WASH sector.

There is limited data on WASH national budgets and actual expenditures readily available in the public sphere. Even through non-public channels it is difficult to get a comprehensive view of financial absorption in the sector. This lack of data availability on actual budget expenditure, in a user-friendly format, proved a big hindrance to the study.

First, there was a lack of information on the financial performance of the WASH sector by local governments available at the national level. This made selection of local government for the study a difficult task, and required contacting four local authorities to select two districts (see step 2 above in the scoping research).

Second, accessing data from relevant ministries at national level was also highly problematic. The only comprehensive budget and actual data available is through

channel 1b funding. Although it is also possible to find budget and pre-actual expenditures for water supply financed through channel 1a, it is very difficult to find budget and actual expenditure for sanitation and hygiene by the Government, as it lacks specific budget lines, especially at different levels of government (federal, regional and district), and clear institutional arrangements. Moreover, since there are a large number of districts (835) and towns (945), finance flowing through Channel 1 does not cover all of them. In 2014/15, 365 districts and 125 small towns were included in the WASH programme Channel 1 funding. The remaining districts and towns are either financed through Channel 2 funding or through block grants allocated to districts and/or to towns. It should also be noted that donor-supported districts reported that they lack information on the annual allocations made by donors. Although, as expected, districts can provide data on funding released to them, they lack information on what can be expected in the following quarters and future years. This is often based on local government performance. They also have little or no data on funding committed by donors, including phasing across quarters or across years.

National level data on planned budget and actual expenditures for Channel 2-funded projects are not readily available. The Macroeconomic Policy and Management Unit within the MoFED consolidates regional budgets, but this does not include budgets and actual spending on sanitation and hygiene (which lack a specific public budget line).

The other challenge with the availability and accessibility of data is that WASH is implemented by multiple institutions – government and non-government – often with very different mandates and objectives in carrying out activities within the sector. Within the Government, there are three key relevant ministries: the MoWIE, the MoH and the MoE. The MoWIE at federal level leads on water policy, coordination and monitoring. Implementation is decentralised to regional, woreda and, in some cases, community level. The MoH leads on hygiene and sanitation policy, and the MoE leads on school sanitation and WASH clubs. The MoFED also has a critical role in terms of financing and financial management of the sector.

Each clearly has very different mandates, with varying degrees of focus and expertise aimed at supplying clean drinking water and providing sanitation and public health services. The Federal Ministry of Health (MoH) has an ambitious Health Sector Development Plan. The plan, which is implemented by the regional health bureaus, aims to scale up dramatically the provision of primary care services through the health extension programme and health clinics at district level. This includes trained extension workers working directly with communities to encourage behaviour change through promotion of improved sanitation and hygiene.

Under current policy, the MoFED is also responsible for managing WASH funds coming from donor partners. In addition, different NGOs are investing considerable resources in the WASH sector, but there is no mechanism to capture all of these investments at national and regional levels. This makes accessing WASH budget and actual expenditures difficult at all levels. Civil Society Organisations (CSOs) also play a key role in the sector. They deliver water and sanitation services, pilot new approaches, and support learning and knowledge sharing.

It was also noted that one of the main reasons given for a lack of easy-to-access expenditure reports was partly because of the frequent staff turnover – an issue which in the context of financial absorption which will be discussed later in the report.

#### **1.4 Improvements in institutional arrangements, budget planning and monitoring**

Coordination and collaboration amongst the sector's multiple actors has traditionally been weak, with no clear mechanism for joint actions (planning, budgeting, monitoring and reporting). Coverage figures vary from institution to institution, creating confusion among sector actors. For example, coverage figures reported by sector ministries and the Central Statistical Agency (both government bodies) were different; global reports like the Joint Monitoring Programs produced by UNICEF and WHO produced different figures again. Some of the reasons for the difference in coverage include differences in: (1) the definitions of improved WASH services, (2) the methods used for collecting data, (3) the methods of computing coverage figures, and (4) the differences in the data types (access versus coverage). It is clear that, if the coverage or access figures conflict or are not accurate, it is difficult to estimate with confidence the resource needs for the sector.

The other major challenge for the sector was the low level of financial absorption – donors used different modalities for channelling funds and their own specific financial management systems. This created difficulties in absorbing the funds flowing into the sector. The mismatch between the Ethiopian fiscal year and the donor calendar also adversely affected the level of financial absorption. Some regions were unable to allocate sufficient matching funds. A shortage of resources meant required matching funds surpassed available regional revenue. The mismatch between the government and donor calendars also affected the allocation of matching funds.

#### **The sector wide approach**

Since 2006, Ethiopia has made significant efforts to establish an effective sector wide approach (SWAp) to the WASH sector, and this has delivered improvements in the availability of data as well as significant progress towards establishing one WASH plan, one WASH budget and one WASH report. The SWAp has emphasised the need for: (1) a joint national sector platform that brings all stakeholders together



at least once a year, (2) a joint sector review mechanism, (3) establishing sector database (WASH MIS), (4) a national WASH inventory, (5) integration, alignment, harmonisation and partnerships.

A Multi-Stakeholder Forum (MSF) was established in 2006, which has brought all stakeholders together each year to discuss the major challenges and achievements for the current year and agree on the undertakings for the following year. The Joint Technical Review (JTR) is done bi-annually to feed into the MSF. Three major donor partners (the World Bank, DFID and Africa Development Bank) aligned their programmes with government policies and strategies and harmonised their financing management system with the government.

Considerable steps forward towards a sector wide approach have been seen, and, as a result, the country has achieved - or is in the process of implementing - the following.

- Key Ministries, including the MoWIE, the MoH, the MoE and MoFED, signed a Memorandum of Understanding (MoU) to work together to improve effectiveness of WASH services in the country. The same document was also signed at regional level by their respective bureaus.
- This MoU has clarified the ambiguity on the roles and responsibilities of different institutions. Accordingly, the MoWIE is responsible to provide WASH to communities; MoE is responsible to provide WASH services to schools whereas the MoH is responsible to provide WASH services to health facilities.
- Donor finances channelled to the sector through the Consolidated WASH Account (CWA) are managed by MoFED. Allocation of these funds among the three signatory ministries follows decisions made by the national WASH steering committee. The Joint WASH Action Plan informs budget decisions among the three signatory ministries and whether funds are allocated for community WASH provision, WASH in Schools or WASH in Health Facilities. During 2014/15 (EFY 2007<sup>8</sup>) 75% of the total WASH funds flowing through CWA was allocated to Community WASH services (coordinated by MoWIE), 17% to WASH in Health Facilities (managed by MoH), 12% to School WASH (managed by MoE) and the remaining balance 1% to the MoFED. This modality of financing was started in the current fiscal year. These finances are expected to follow government systems and the release of funds will follow interim financial reporting requirements.
- The WASH Implementation Framework (WIF), Program Operation Manual (POM) and Consolidated WASH Account (CWA) were approved and put into operation. Within MoFED there is a designated department – the Channel 1 Coordination Unit – to manage the CWA.

## Increased alignment and harmonisation of donor finances

In recent years, problems associated with the fund flow mechanisms and financial management modalities have been largely solved. Major WASH donors including the International Development Association of the World Bank (IDA), DFID and the Africa Development Bank (AfDB) have aligned their programmes and harmonised their finances with the government system, which has contributed towards the increase of financial absorption. UNICEF has also agreed to contribute a part of its funds to the CWA: this means that it has partly harmonised with the government's financial management system.

As a result of the movement towards a SWAp, the sector has achieved significant progress during the last seven years. The level of financial absorption has greatly increased because of the changes brought about by the process. As the analysis below shows this has led to considerable improvements in the absorption of funds through Channel 1.

In order to improve the operation of the One WASH National Program the Ethiopian government in collaboration with development partners, including donors and civil society organisations, developed the WASH Implementation Framework (WIF) in 2013. The WIF provides clarity over the roles and responsibilities of various government structures in the effort to deliver effective and efficient WASH services to communities and institutions. Although the WIF has only been in place for a short time, the early indicators are that it is already having an effect on financial performance, with 2013/14 showing a significant improvement on previous years.

These improvements will be built on in the coming years. In 2014/15 the country produced one WASH plan that also shows one WASH budget. This is believed to address some of the current limitations in achieving a comprehensive database for WASH.

In addition, acting through the water and sanitation forum, civil society organisations have produced an annual CSO WASH report since 2010. This should all help in the future to shed more light on the problems associated with financial reporting, especially at local level.

### 1.5 Lessons learnt and an emerging positive story

One important lesson is that change is a process that takes time to be realised. However, as is clear from the latest budget absorption figures - explored below – this change is starting to show real results, especially in the latest budget years (for which actual data is available). It took almost seven years for Ethiopia to establish a SWAp for the WASH sector. Even now issues still remain to be addressed, but the system has started to function. At the beginning of the process there were differing views among Government Ministries (including those for health, education and

water) and among development partners concerning the importance of the sector wide approach. It took considerable time to create sufficient understanding among the sector actors, including development partners. From this one can draw another lesson that development partners including donors and civil society organisations should be committed to provide consistent support for the government to lead the change process.

In Ethiopia, donors and civil society organisations were represented in the organising committee for the JTR, MSF, National WASH Inventory (NWI), Woreda Water Desks (WWD) and other sector events. Despite some resistance in the beginning, over time the Government has started to lead the process and to show increasing ownership, with financial support continuing from development partners.

A further lesson is that a functioning and vibrant SWAp has a positive impact in identifying and addressing financial absorption problems facing the sector. Every sector actor, including government, donors, civil society organisations and the private sector, has an equal opportunity to raise issues.

Discussions held with government officials at national and regional level indicated their preferences for funds flowing through the Consolidated WASH Account or the Channel 1 Coordination Unit compared to funds through an individual donor financing modality. This is because the Channel 1 funding modality uses the Ethiopian Government's own system. This creates an easy environment for implementation and reporting. Individual donor financing on the other hand creates additional complexity, especially for the lower levels of government.

## **Financial absorption in the WASH sector: a national level picture**

### **2.1 Overall financial absorption for the WASH sector**

The country has experienced a trend of increasing levels of financial absorption for the WASH sector through Channel 1 over the last three years.<sup>9</sup> As Figure One shows, the level of financial absorption to channel 1b has shown considerable improvement during the last three years going from 66% in 2011/12 to 98% during 2013/14.<sup>10</sup>

Findings from the key informant interviews with representatives from the Ministries of Water, Health, Education and their respective line bureaus in the three regions (Amhara, Oromia and Southern Nations, Nationalities and Peoples regions) indicated that this improvement in the level of financial absorption for the WASH sector in recent years is mainly due to the continued dialogue between the Government and donor partners. Each donor used to have its own specific requirements tied to the release of funds for the implementation of WASH projects.

As a result of continued and sustained dialogue among key sector actors (government, donor partners and civil society organisations) most donors supporting the WASH sector have agreed to use channel 1 and started to contribute to the pooled Consolidated WASH Account (CWA).

IDA, DFID, and the AfDB have fully aligned their programmes and harmonised their funds with the Government's financial management system. These donors use Channel 1b that flows through the CWA. UNICEF is also beginning to use Channel 1 funds - planning to release ETB 10 million through Channel 1b - although the majority of its financial support goes through Channel 2. In future, this might lead to disparities in financial absorption as the reporting requirements for UNICEF funds are more extensive than those for other donors (this impacts on regional and local government as well as NGOs). There is now a Program Operation Manual which acts as a guiding document for those donors channelling their funding through the CWA, which is fully managed by the Ministry of Finance and Economic Development.

Despite the progress there continue to be a number of barriers to the effective implementation of budgets and achievement of full financial absorption. Below is a summary of the critical issues identified as impacting on absorption. These are based on the interviews held with government representatives at various levels, from the Fiduciary and Risk Assessment, as well as from an analysis of the data used in this study.<sup>11</sup>

## 2.2. Variations in absorption across different ministries

The study shows that the level of financial absorption has varied significantly between the federal signatory ministries – MoWIE, MoH, MoE and MoFED. The level of financial utilisation was found to be the lowest for the MoH, followed by the MoWIE during 2011/12 and 2012/13. Table 1 gives an overall picture of financial absorption for the WASH sector in Ethiopia in the last three years. This includes IDA, DFID, AfDB, UNICEF and Finland (but does not include Channel 2 direct funding of sector ministries and Channel 3 off-budget funding through NGOs).

In addition, across different Ministries there is often a difference in the absorption of funds from the same donor. During 2011/12 the MoH absorbed only 15% of the IDA/DFID resources allocated for the year, followed by the MoWIE (39%) and MoE (44%). Similar trends in financial absorption were observed in 2012/13: the Ministry of Education used none of the committed IDA/DFID funds, the MoH used 14% of the funds and the Ministry of Water 42%. Absorption of AfDB funds by the WASH Ministries follows similar trends. The MoH used none of the committed funds during 2011/12 and 2012/13 whereas the MoWIE absorbed 55% and 62% during 2011/12 and 2012/13 respectively.

**Table 1: National level picture of financial absorption for WASH sector in Ethiopia, broken down by region and ministry<sup>12</sup>**

| Region                                     | 2011/12    | 2012/13    | 2013/14    |
|--|------------|------------|------------|
| Tigray                                     | 57%        | 64%        | 93%        |
| Afar                                       | 42%        | 61%        | 80%        |
| Amhara                                     | 72%        | 94%        | 96%        |
| Oromia                                     | 58%        | 88%        | 96%        |
| Somali                                     | 36%        | 62%        | 117%       |
| Benshangul                                 | 75%        | 89%        | 93%        |
| SNNP                                       | 92%        | 77%        | 89%        |
| Gambella                                   | 61%        | 63%        | 94%        |
| Harari                                     | 29%        | 91%        | 96%        |
| Dire Dawa                                  | 57%        | 84%        | 18%        |
| Addis Ababa                                | 55%        | 62%        | 99%        |
| Ministry of Health                         | 18%        | 20%        | 88%        |
| Ministry of Education                      | 67%        | 83%        | 105%       |
| Ministry of Water, Irrigation & Energy     | 39%        | 42%        | 100%       |
| Ministry of Finance & Economic Development | 100%       | 100%       | 100%       |
| <b>National level</b>                      | <b>66%</b> | <b>78%</b> | <b>98%</b> |

## 2.2 Low capacity of implementing agencies

At regional, district/town levels there is low capacity to implement WASH projects, including contract management. Staff lack the skills necessary to appraise bills submitted by the private companies for construction work and the provision of goods. This affects the efficiency of project implementation, causing lower financial absorption. Findings from the budget and expenditure tracking study conducted by the Water and Sanitation Forum also confirm this: it reports that this problem is more pronounced at district level.

The low capacity at district level is driven, in part, by a shortage of recurrent funds to allocate adequate salaries to hire qualified staff - at least to a comparable level with that of local NGOs operating in the same locality. Linked to the above, a shortage of recurrent expenditure and the low salaries of government staff in turn leads to high staff turnover, negatively affecting capacity building activities and the implementation of projects. This also contributes to low financial absorption in the WASH sector.

The low capacity of private drilling companies and the artificially-exaggerated prices of government-owned drilling companies also affect timely implementation of water

supply projects, causing low financial absorption. In addition, many private companies provide artificially low prices in a bid to win contracts, but request additional money in the middle of project, causing delays in the implementation and reduced levels of financial absorption.<sup>13</sup>

A lack of computerised accounting systems for programme financial management at local level affects timely financial reporting and the quality of financial management. This also leads to delays in fund transfers, further delaying programme implementation.

### 2.3 Variations in capital and recurrent spending, and trends in government spending

As noted above, in the WASH sector there is often a far greater allocation to capital rather than recurrent budgets. There are two issues to bear in mind in an analysis of capital versus recurrent spending: one is that WASH projects often tend to be financed by donors, who only allocate capital funding. The second is that where a project is fully financed by the Government Treasury, there will be a split between capital and recurrent funding.

Where WASH projects are financed by donors, this financing is almost universally capital expenditure. In this case, the Government tends to use matching funds to cover salaries of staff working on the project and operating expenditures (matching funds are usually 15%). However, since the salaries are very low and there are no other incentives, there is often a high staff turnover, as local governments often do not have financial capacity to employ staff at competitive rates. Compared to the government, NGOs are able to pay higher salaries and benefit packages and hire well-qualified staff. Recurrent budgets from the Government are often insufficient to provide competitive wages and salaries to employ well-qualified staff or build the capacity of existing staff. This can lead to the perverse situation where already low recurrent budgets - often below what is required – are not fully absorbed.

Where WASH projects are financed fully from the Government Treasury, and therefore there is a recurrent/capital split to analyse, the capital budget is often very low, and it is also frequently the case that *both* capital and recurrent budgets are underspent.

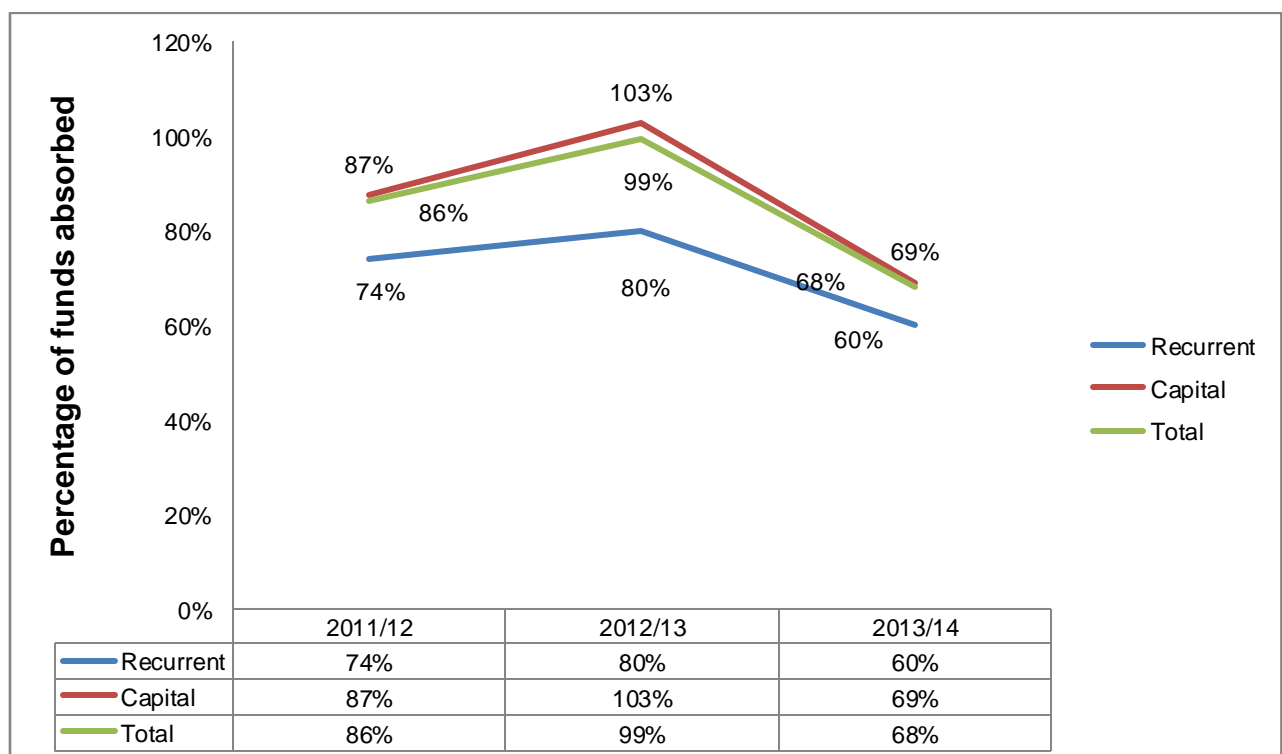
In most cases local governments allocate 5% of the government resources available to them as capital and the remaining balance as recurrent.<sup>14</sup> Moreover this 5% capital budget is subject to competing needs for capital and infrastructure projects from different sectors, including WASH. Even though the size of the capital budget is small, local governments sometimes register under spending because of a shortage of recurrent expenditure, which is required for site selection and supervision of construction works. Under such conditions local government cannot spend the

available resources because the money allocated may not be enough to purchase the required goods and services.

However, at national level the absorption of the capital budget allocated by government can be higher than that of the recurrent budget. Figure 4 shows the trend in the absorption of capital and recurrent budgets for water supply during the last three years. As can be seen from the graph, the level of absorption of government capital allocations is higher than for recurrent allocations.

If we compare the level of financial absorption for government and donor funding, it is evident that the highest absorption of government funding was capital spending, registered during 2012/13 (over utilisation of capital budget by 12% or 112%). In the same year the financial absorption of capital budgets for water supply projects from external resources was as low as 64%. This can in part be explained by very low allocations of capital budgets from the Government, but it is also due to less extensive procurement and buying procedures (more below) as well as a complex relationship between capacities to spend and recurrent/wage dynamics.

**Figure 1: Trends in national capital and recurrent spending for water supply**



Source: Author's calculations based on data collected from MoFED

## 2.2. Variations across government versus donor funding

Overall, there are far greater problems in the financial absorption of donor versus government funds. The basic reasons include: (1) Government funds can be flexible and can be transferred from one budget line to another with the approval of the head of the sector; (2) the Government's procurement procedures are less stringent and easier to implement, which facilitates a higher level of financial absorption compared to donor partners; (3) donor funds have a limited window of time in which to be implemented.

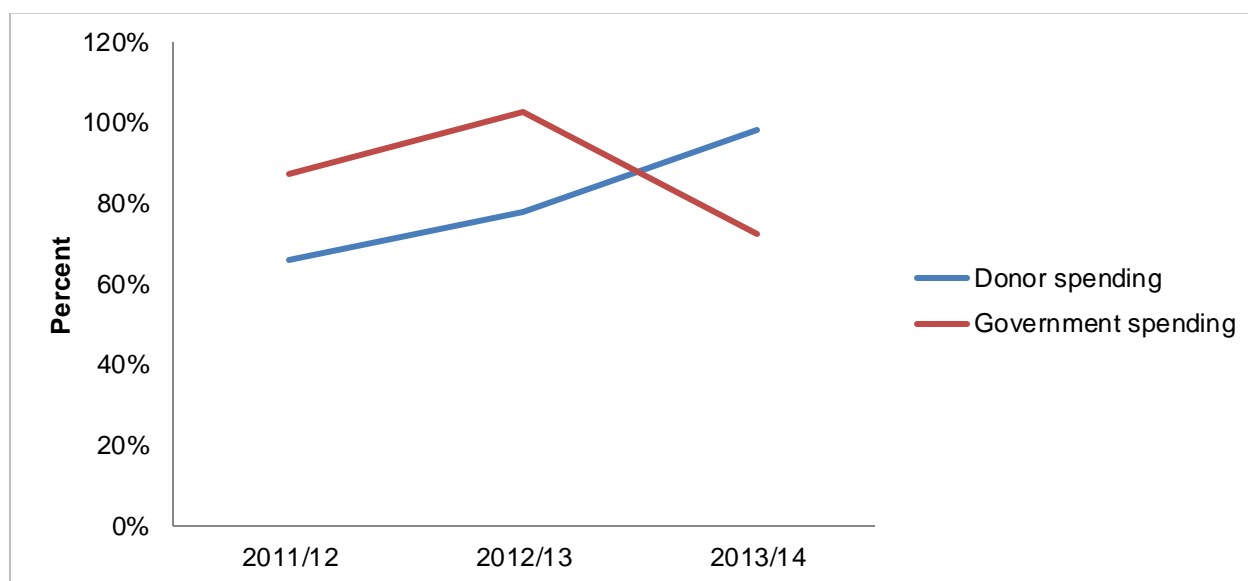
For example, in the 2013/14 annual health sector performance report a total of ETB 901.4 million was spent. However, only 14% of the allocated long-term grants were spent; 95.5% of the Government budget and 68.6% of donor funds were spent at federal level.

Additional reasons for the low financial absorption of donor funds include the absence of effective communication mechanisms to collect statements of expenditure from the regions and from health facilities. Staff turnover is a further factor.

In cases where donors use the government system, through pooled donor contributions, the difference in the level of financial absorption is principally due to the capacity of the implementing agencies – this could include a combination of issues, such as delays in transferring funds down to local governments, timely implementation and reporting of expenditures by regions. The following graph illustrates the trend in the financial absorption for donor and government allocations during the last three years. Government allocations flow through Channel 1a while donor spending flows through Channel 1b. Both follow government financial management procedures. Interestingly it appears that when an implementing agency increases its focus on one type of funding, this can lead to a reduction in absorption of other types.



**Figure 2: Trends in financial absorption of donor and government spending**



Source: Author's calculations based on data collected from MoFED

### 2.3 Challenges to absorption of donor funds

Unpredictability of donor funds can be a major hindrance to successful financial absorption. Local government officials often know the amount released in the first tranche but do not have sufficient information on the subsequent transfers. This negatively affects local planning, timely implementation and reporting of expenditures.<sup>15</sup>

One of the big challenges for financial absorption at local level is the lengthy and complex procurement procedures that are part of donor requirements. Local governments start procurement processes only when they receive funds from the upper structures of government. This consumes much of the time available for the implementation of the projects, leading to the delays in spending. The procedures followed at local level to procure goods and services include:

(i) the local water office prepares its procurement requirement and submits to the Office of Finance and Economic Development; (ii) the Office of Finance and Economic Development approves the procurement request after checking the availability of the budget; (iii) following approval, the water office processes the procurement through its tender committee; (iv) the water office then submits results of the procurement process to the Office of Finance and Economic Development; and (v) the Office of Finance and Economic Development carry out the procurement as per the procurement decisions. Local governments included in this study reported that they need a minimum of two months to complete a single procurement. This consumes the majority of the time allocated for the implementation of the project and

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thereby limits the capacity of local governments to absorb the funds allocated to WASH.

Delays in the release of funds from the donor account, coupled with the lengthy transfer mechanisms, along the tiers of the government, aggravates the problem of financial absorption. The first quarter is almost always passed without commencing construction work as the procurement process is time-consuming and highly bureaucratic. A study made by Tesfaye highlighted the fact that procurement processes are often too bureaucratic and consume much of the time allocated for the implementation of the project.<sup>16</sup>

Underspensing is generally more pronounced with donor funds compared to government. In the case of government allocations, procurement procedures are less strict and, if delays are caused as a result of it, implementing agencies can re-phase plans and use relevant budgets in the following quarters. This type of flexibility in the use of donor funds does not exist, especially for UNICEF funds.<sup>17</sup> If the region or local government fails to adhere to the reporting requirements during the first quarter, because of the delay of the fund and also the bureaucratic and lengthy procurement process, UNICEF will either cancel the next tranche or stop the remaining funds.

The final challenge noted in terms of absorption, is the low capacity of district staff to produce expenditure reports in line with the requirements made by donors. Both district and regional government officials interviewed for this study complained that financial reporting procedures and requirements of some donors are unmanageable. This is due to the time required to finalise contractual process and commence construction works, as their financial management procedures provide very limited time to submit reports and request subsequent disbursements.<sup>18</sup> For instance, some donors take a long time to sign agreements with the government at federal or regional level and release the first instalment. After the funds are transferred from the donor account to the government account at federal or regional level, it normally takes around 1 to 2 months to reach local government. This means that local governments only have one month to make a bidding process, implement and produce physical and expenditure reports. This negatively affects the level of financial absorption for the WASH sector.

## 2.4 Variations across urban versus rural

Finally, financing modalities vary between urban and rural. The water resources management policy<sup>19</sup> provides clear direction for financing water supply for the urban and rural communities. It follows full cost recovery principles for urban areas and partial cost recovery for rural areas. The Water Resources Development Fund, situated within the Ministry of Water, Irrigation and Energy, manages loans provided

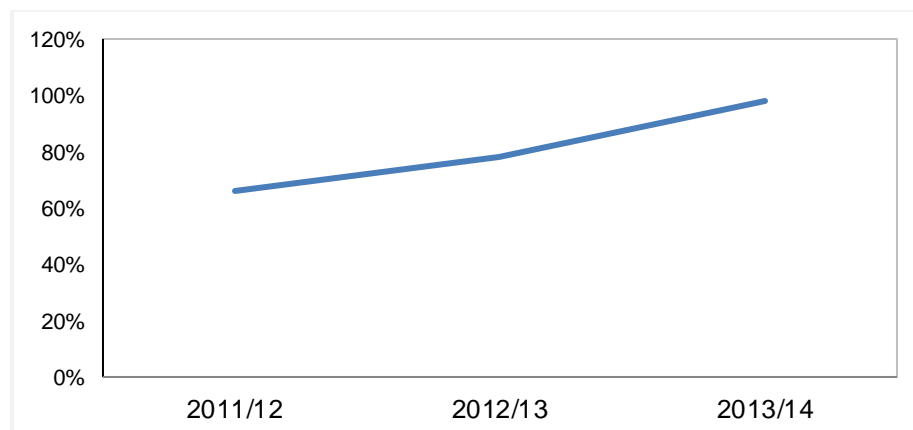
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to cities and towns. Some regional states, including Amhara, have started to provide loans to their cities and towns with the understanding that this will be repaid over the long run. Since this is a loan, the focus is on building sufficient capacity in the cities and towns to repay back the loan as stipulated in the agreement.

**Figure 3: Financial absorption of donor funds for the WASH sector at national level (IDAWB, DFID, AfDB, UNICEF, Finland Government – COWASH)**



### 3. Differences between water supply and sanitation/hygiene absorption levels

The level of financial absorption also varies across water supply, sanitation and hygiene. Absorption within water supply tends to be better than sanitation and hygiene, at least, in part, because sanitation and hygiene has no specific institutional arrangements. Given the differences in the levels and challenges faced by absorption for water supply and sanitation/hygiene these two areas are looked at separately below. According to the current Program Operation Manual, WASH funds for sanitation and hygiene are spent either by the MoH (in health facilities and community health promotion), the MoE (school hygiene and sanitation-related activities) and the MoWIE (responsible for supplying water for communities). The reliance on multiple agencies hinders delivery. However, the new institutional arrangements outlined above have had a dramatic impact in recent years in beginning to improve this situation.

The majority of funds for sanitation go through the MoH, as the main implementing agency for sanitation and hygiene. As can be observed from the above table, WASH funds within the MoH have historically been subject to low absorption. During 2011/12 only 18% of the funds available for sanitation and hygiene were utilised and in 2012/13 only 20% were absorbed. This was mainly due to the low priority attached to sanitation and hygiene and the tendency to focus on other health activities.

The reason behind the low utilisation of funds allocated to the MofH is two-fold. One reason is associated with the lack of specific budget lines and poor institutional

arrangements; the second reason is due to the low capacity of the hygiene and environmental sanitation teams within the MoFH and its line bureaus and offices.

The 2013/14 annual performance report of the MoH indicated that inadequate implementation of hygiene and environmental health in the health extension program is because of the low number of environmental health professionals at all levels. The absence of efficient communication mechanisms with sub-national governments (regions, zones, districts) are also reported to affect adversely the timely collection of statements of expenditures from regions and health facilities. This in turn affects financial absorption. Furthermore, as indicated in the national sanitation and hygiene strategy, only 1% of the health sector budget is spent on sanitation and hygiene. This leads to low prioritisation and low local capacity to deliver local level priorities. However, it should be noted that significant improvements in financial utilisation have been registered in 2013/14, with overall levels rising to 88%, at least in part due to priority measures taken to scale up local health services and extension officers which deliver these services.

Although the situation is improving, the fact remains that historically there have been an inadequate number of environmental health professionals at all levels. Environmental health professionals at federal, regional and local level are not sufficient to implement hygiene and environmental health packages in the health extension program (this is principally for sanitation and hygiene promotion among communities). This is important, as seven out of the sixteen health extension packages are directly associated with hygiene and environmental health.

Another problem affecting the implementation of sanitation and hygiene programmes (and related budget absorption) has been the limited communication mechanisms between federal ministries and regional bureaus: since regional bureaus are accountable to the regional president and do not have a direct accountability relationship with their respective federal ministries, it is difficult for the federal ministry to follow up closely and collect progress reports from the regions. This also affects financial absorption rates.

Sanitation and hygiene also lack a specific public budget line that can guide the allocation of resources to support the effective implementation of sanitation and hygiene projects. The lack of a specific budget line also creates additional challenges in gathering evidence on financial absorption in the sanitation and hygiene sub-sector, as well as enabling accountability for delivery.

Finally, financial absorption has been found to vary slightly between the sources of finance in sanitation and hygiene, emerging from the difference in the donor requirements attached to the release of funds. Financial absorption of IDA/DFID funds for sanitation and hygiene during 2011/12 and 2012/13 was only 15% and 14%, respectively, whereas it was 0% for Africa Development Bank (AfDB). The

difference in the level of financial absorption between IDA/DFID and AfDB is, at least in part, due to the difference in the reporting requirements, procurement issues (dealt with above in more detail), as well as uncoordinated support from donors and different requirements from implementing agencies (regional, zonal and district/town level government bodies). This is reported to consume much of the implementing agencies' time, leaving less time for implementation of the project.

#### 4. Summary of national-level challenges in WASH absorption

In summary, the challenges associated with financial absorption in the WASH sector include the following. This is based on consultations made with key government officials and donor partners.

- Delay in the release of funds and the time this takes to reach districts (sometimes it takes more than 2 months to reach local governments). This leaves less time to process procurements and implement the project, which in turn affects the timely reporting of expenditures.
- Procurement consumes a lot of time due to the bureaucratic procedures of BoFED or OFED. This is further complicated by the time it takes to get donor approval of the changes between the bid price and the available budget.
- Delay in the release of funds sometimes pushes back the timing of implementation, making it overlap with the rainy season, when it is not possible to carry out construction work. This further delays project implementation resulting in the delay of reporting expenditures, so creating its own vicious circle.
- Low capacity of private drilling companies (a local authority from the Southern Nations, Nationalities and People's Region, SNNPR, reported that private drilling companies purposely underestimate the cost to win the bid, but request additional money in the middle of implementation). Even though this might not be the case in most parts of the country, it is happening in some areas. This problem is also associated with low capacity of implementing agencies – low skills and knowledge to appraise the bid.
- Complex reporting requirements from donors – e.g. UNICEF releases funds for the districts through BoFED, which sometimes takes more than 2 months to reach the districts. This leaves only one month to implement and produce expenditure reports.
- Sometimes poor planning results in the shortage (over utilisation) or surplus (under-utilisation) of funds allocated to the WASH sector. Low planning capacity of district staff or regional staff in costing constructions (producing bills of quantity) either for water supply schemes or toilets sometimes results in under-utilisation of funds allocated for the year. Both the overestimation and

underestimation of budgets for a specific activity is the sign of poor fiscal discipline – associated with the problem of capacity.

- Low capacity of districts to produce timely expenditure reports for sending on to regional BoFED (this also affects the proper utilisation of funds allocated for the year). Also, poor communication mechanisms between the federal ministries and regional bureaus causes delay in financial reporting as the collection of expenditure reports from the regions consumes significant amounts of time.

## 5. Analysis of different absorption levels in regions

### 5.1 Degree and type of decentralisation

Decentralisation in Ethiopia is by devolution. The power and functions of the federal and regional national states are defined in the constitution enacted in 1995.<sup>20</sup> Regional national states promulgated regional constitutions in the same year and revised them in 2001. The second wave of decentralisation that transfers power further to districts was initiated in 2002. Accordingly, there are elected councils at each level and each tier of government has assigned revenue and expenditure obligations to exercise political, fiscal and functional roles and responsibilities.

WASH institutions are arranged in accordance with the decentralisation policy framework. At federal level, there are the WASH ministries (MoWIE, MoH and MoE), responsible for setting policy and the standardisation of services. The federal MoFED is responsible for managing WASH finance and expenditures. These WASH Ministries have their respective line bureaus at regional level and Offices at district/town levels. But, regional bureaus do not report directly to their respective federal ministries, rather they report to the regional president. This presents a challenge for federal ministries in collecting regional performance reports. Roles and responsibilities of WASH structures are indicated in Tables 2 and 3.

**Table 2: Institutional arrangement for delivering WASH services in Ethiopia**

| Institution   | Roles and responsibilities <sup>21</sup>  |
|---|---|
| <b>Federal WASH Ministries (Water, Health, Education)</b>                 | <ul style="list-style-type: none"> <li>• Policy setting: preparation and enforcement of policies, standards and regulations</li> <li>• Technical assistance to regional bureaus for big projects</li> <li>• National database development (coordinating national WASH Inventory; developing WASH Management Information Systems, MIS)</li> <li>• Coordinate and mobilise resources for the WASH sector; approve joint action plans and budgets</li> </ul>   |
| <b>Regional WASH Bureaus(Bureaus of Water, Health and Education)</b>      | <ul style="list-style-type: none"> <li>• Adapt national policies and regulations within the region</li> <li>• Study, design, supervision and regulation of water supply, sanitation and hygiene projects</li> <li>• Construction of large water supply schemes including gravity schemes, boreholes, shallow wells, motorised schemes and those projects covering more than one district/town</li> <li>• Sign contractual agreements with private drilling companies and oversee construction of WASH facilities</li> <li>• Build capacities of zonal and district/town WASH offices and provide the necessary technical supports</li> <li>• Set water tariffs</li> </ul> |
| <b>District/Woreda WASH Offices (Water, Health and Education offices)</b> | <ul style="list-style-type: none"> <li>• Construction and maintenances of small water schemes, including spring development, hand dug wells, institutional latrines (schools, health facilities), communal latrines</li> <li>• Education and promotion of improved hygiene practices by communities and institutions (schools, health facilities)</li> <li>• Monitoring construction by regional bureaus or private drilling companies contracted by regions</li> <li>• Operation and maintenance of WASH facilities which is beyond the capacity of WASH committees</li> </ul>   |
| <b>WASH Committees (Community representatives)</b>                        | <ul style="list-style-type: none"> <li>• Manage WASH facilities constructed for the community</li> <li>• Conduct simple operation and maintenance of WASH facilities</li> <li>• Take part in site selection for the construction of water and sanitation facilities</li> </ul>  |

**Source: Signed Memorandum of Understanding among signatory WASH ministries**

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**Table 3: Ethiopia WASH Implementation Framework**

| <b>Level</b>              | <b>Governance &amp; guidance</b>                                  | <b>Oversight &amp; management</b>   | <b>Programme implementation</b>                 | <b>Programme coordination</b>      |
|---------------------------|---|---|---|------------------------------------|
| <b>Federal</b>            | National WASH Steering Committee                                  | National WASH Technical Team  | Programme Management Units within each Ministry | National WASH Coordination Offices |
| <b>Regional</b>           | Regional WASH steering committee                                  | Regional WASH technical team  | Programme Management Unit within each bureau    | Regional WASH Coordination offices |
| <b>Special zones</b>      | Zonal WASH Management Team  |   | Zonal programme management units                | Zonal WASH coordination offices    |
| <b>Woredas/ districts</b> | Woreda/district WASH Steering Committee (Woreda/district cabinet) | Woreda/district WASH Technical Team (WWT). This includes water, health, education, finance and economic development offices plus other desks. |   |                                    |
| <b>Towns / City</b>       | Town/City WASH Steering Committee (Town/City Cabinet)             | Town/City WASH Technical Team – representatives from the municipality, health desk, education desk, town water board and town water utility.  |   |                                    |

Source: Signed WASH Implementation Framework

## 5.2 Levels of financial absorption among regions

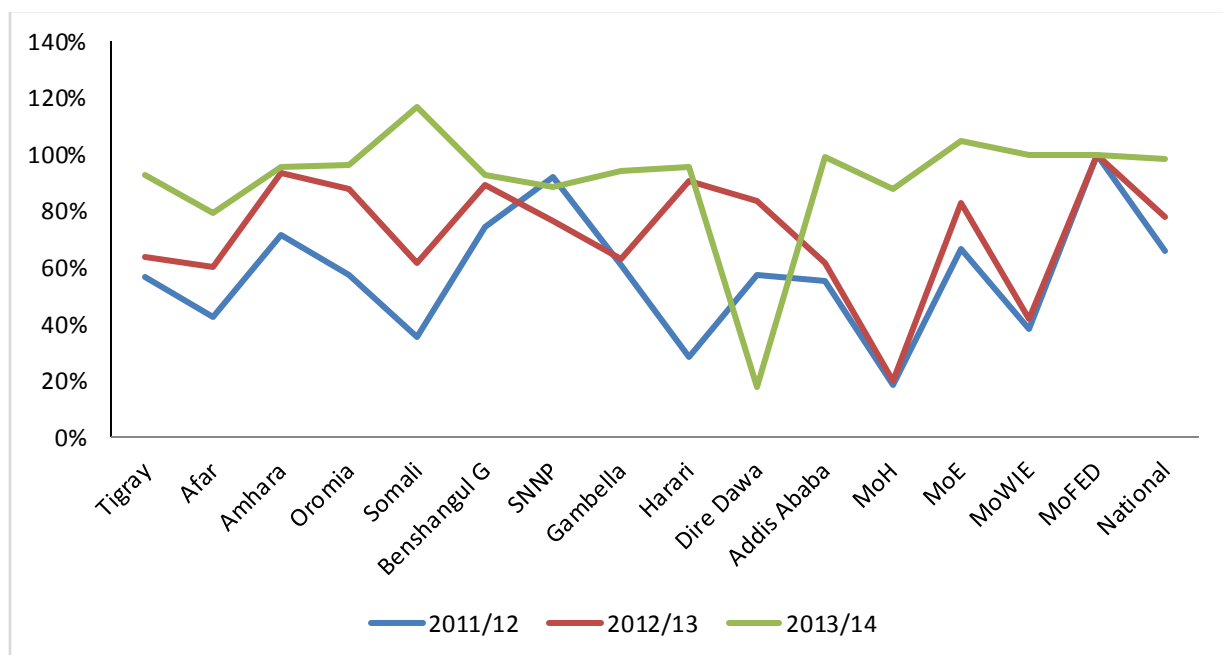
Trends in financial absorption for the WASH sector at regional level have witnessed improvements over the last three years, with the exception of Dire Dawa City Administration, which has experienced a mixed trend. There was significant variation in financial absorption during 2011/12, ranging from 29% in Harari to 92% in Southern Nations, Nationalities and Peoples region. The regional performance of financial absorption improved however in 2012/13 (ranging from 61% in Afar to 94% in Amhara).

From the financial data collected from the National WASH Coordination Office, it was observed that Afar region registered the lowest levels of absorption of IDA/DFID funds during 2011/12 (32%) followed by Harari (35%) whereas the Southern Nations, Nationalities and Peoples region was observed to absorb 97% of the IDA/DFID funds allocated for the year. During the same fiscal year the Somali region was able to



absorb only 2% of the allocations made by the AfDB, followed by Harari (21%) and Tigray (30%). These levels may be due to the delay in the release of funds as a result of the lengthy process to finish the preparatory works. However, continuous dialogue between the government and donor partners has led to improvements over recent years. Financial absorption for COWASH (Community Managed Projects) has followed a similar trend during the last two years. During 2012/13 financial absorption ranged from 27% in Tigray region to 81% in Amhara. Figure 2 demonstrates these trends.

**Figure 4. Trend in the financial absorption for WASH sector across regional states**



**Source: Author’s calculations based on data obtained from the National WASH Coordination Office.**

Similar trends in financial absorption have been observed with community managed projects financed by the Finland Government in four regional states – Amhara, Oromia, SNNPR and Tigray. Financial absorption during 2012/13 ranged between 27% in Tigray and 81% in Amhara regional state for the WASH projects implemented through the community management approach. The other two regional states, SNNPR (52%) and Oromia (58%) have also experienced lower financial absorption during the year.

### 5.3 Levels of financial absorption among districts

There are 835 districts and more than 945 towns in Ethiopia, and previous studies show that there are significant variations among the districts and towns in terms of financial absorption. The studies discussed below are instructive about some of the

key issues facing districts. This is followed by analysis carried out for this study around financial absorption in two specific districts.

### **Constraints around successful delivery**

Districts face various constraints in the successful delivery of WASH services under their respective jurisdictions. These include: (1) poor quality of planning, low technical capacity of local staff to prepare contract documents, appraise bids (including bills of quantities) or to manage contracts; (2) low capacity of private companies (which sometimes bid at a low price to win the bid and then request additional funds in the middle of project implementation); (3) staff turnover due to the low salaries and incentives offered (this leaves low or zero institutional memory, with no system in place for transferring knowledge, causing inefficiencies in capacity building initiatives); and (4) artificially high bids for contracts by government-owned drilling companies.

The following case studies also provide some evidence of some of the challenges experienced at local level.

#### **The case of Bako Tibe district<sup>22</sup>**

The highest variation between the water supply capital budget and actual expenditure was registered during 2011 (actual expenditure 44.7% less than the budget) followed by 2010 (18.3% less). During these years the district received a Local Investment Grant (LIG) aimed at addressing the shortage of capital investment at district levels. In 2010 the district allocated ETB 2,372,793 for the water supply capital budget, of which ETB 1,556,617 (66%) was allocated from the LIG. The district only managed to absorb ETB 278,188, however.

The reasons for the low level of financial absorption were the complex donor requirements to release funds and the challenges faced by the district in preparing specifications to award contracts on sanitation projects. The budget ceiling allowed for a specific project like the construction of school latrines was not sufficient to cover construction costs in compliance to the required specifications by donors. Consequently, specific projects were not smoothly implemented as envisaged and disbursements were significantly delayed.

#### **The case of Shebedino district**

The Shebedino district received an award for its performance in WASH. Most of its villages are declared open defecation free. Plan International Ethiopia, a Non-government Organisation (NGO), financed by UNICEF, has contributed significantly to the achievements registered by the district. During the last three years the district has utilised 100% of the budget allocated to water supply. The head of the district water office reported that they are facing shortages of recurrent budgets, which are needed for efficient supervision of construction works. The district allocated

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ETB10,000, ETB1,663,704 and ETB1,594,344 as water supply capital budget respectively for the fiscal years 2011/12, 2012/13 and 2013/14, and these were fully utilised as per the original plan.

One of the major plans faced during the last three years included the manipulated high bid prices from the regional drilling company, compared with the reduced bid prices of private drilling companies aiming to win the bid. Sometimes contractors purposely removed materials from the bill of quantity so that the total bid price was low enough to win the bid.

### The case of Burie district

Burie district is located 150 km from the regional capital, Bahir Dar. It has received financial support from UNICEF during the last three years (ETB 1,315,009 during 2011/12; ETB 1,386,974 during 2012/13 and ETB 354,247 during 2013/14). The government also allocated ETB 360,194 for 2011/12, ETB 458,259 for 2012/13 and ETB 879,112 for 2013/14. Reports from the water office indicated that they fully utilised the capital budget allocated to water supply in the last three years.

A study by Tesfaye Y. (2012), covering 8 districts, reported that financial absorption also varies with the modality of project implementation. For example, during 2009/10 Fogera district fully absorbed finance channelled through Community Managed Projects (CMP), while in the same year Finoteselam district only absorbed 46% of the funds allocated through Woreda Managed Projects (WMP). WMP fail to absorb part of the finance allocated to them mainly because of weak supervision of the construction work due to a lack of adequate recurrent expenditures; hence, local artisans and contractors fail to complete construction works within the deadline, adversely affecting the level of financial absorption.

Low recurrent expenditure is not only affecting the level of financial absorption, but also the quality of construction. This in turn has profound implications on the sustainability of the facilities. Finances flowing through CMP are relatively better absorbed mainly because of the fact that funds are directly transferred to WASHCOs through Microfinance institutions (MFIs) and it is the WASHCOs that carry out procurement and supervision. Local government staff also use the capacity-building fund to help finance technical support required during the construction work.

## 6. Local level analysis in two districts

As outlined in the introduction, two districts were chosen for more in-depth study: Yabelo district was chosen for its good performance in terms of financial absorption and Konso for its weaker performance.

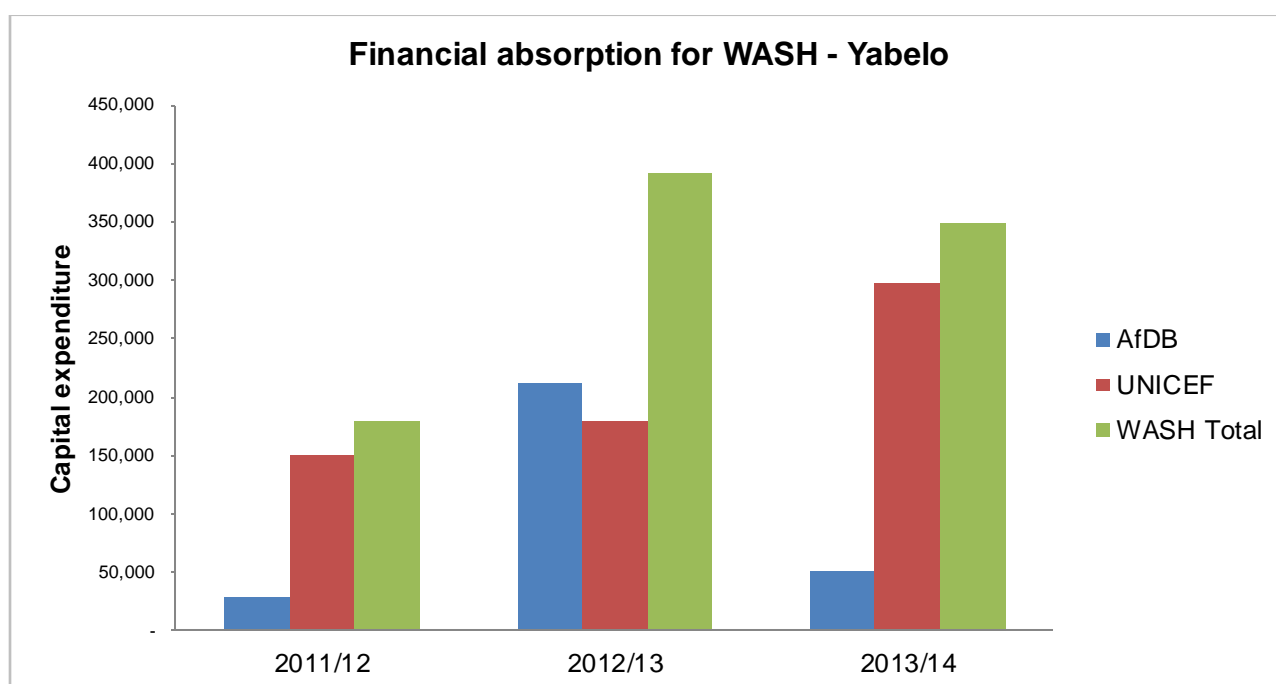
### 6.1 Yabelo district financial absorption

Yabelo district is located in Oromia regional state at a distance of 600 kilometers south of the capital, Addis Ababa. The district stands among the pastoral areas of Oromia where water is scarce.

The district has received funds from AfDB and UNICEF over recent years. The bar chart below shows that Yabelo district has experienced an increase in the financial absorption for WASH sector during the last three years. Key informant interviews with relevant persons from the district indicated that they have absorbed 100% of the funds allocated during those years. Local staff are not sure however of the total amount allocated, but their assumption is that the amount released is equivalent to the total fund allocated for the district. They have used the entire budget transferred to them during the period this report covers.

The district has not allocated a capital budget itself during the last three years because of the fact that the block grant allocated by the region was not sufficient to cover the salaries and operating costs. According to the discussion held with the local WASH experts, recurrent budgets (salaries plus operating costs) allocated during the last three years have been fully utilised. Figure 5 provides for more details.

**Figure 5: Financial absorption for the WASH sector in Yabelo district, Oromia**



### Constraints to delivery of WASH services

Despite the high financial absorption for WASH at district level, there are still a lot of challenges to the successful delivery of WASH services, which among other things, include the following.

- The district officials including the WASH steering committee do not know when funds will be released and how they should be reported. There is a lack of clarity about where the district can obtain more information on the requirements of donor partners. There is no proper and timely communication between the district and the region.
- The district officials and experts do not have clarity on the amount of the donor funds allocated for the fiscal year, nor its phasing across the months or quarters. In addition, district officials do not have clear information on the approved physical plan that they are expected to implement.
- There is a high turnover of the staff who have received capacity-building training under the donor projects, and there is no system for the transfer of knowledge. This means that when trained personnel leave the districts, they leave with the capacities created along with the materials developed for the organisation (great loss of institutional memory).
- The above challenges coupled with the delay in expenditure reporting lead to delay in the release of the next tranche of donor funding. This in turn delays programme implementation. Delay in the release of funds also causes delay in disbursement and replenishment.

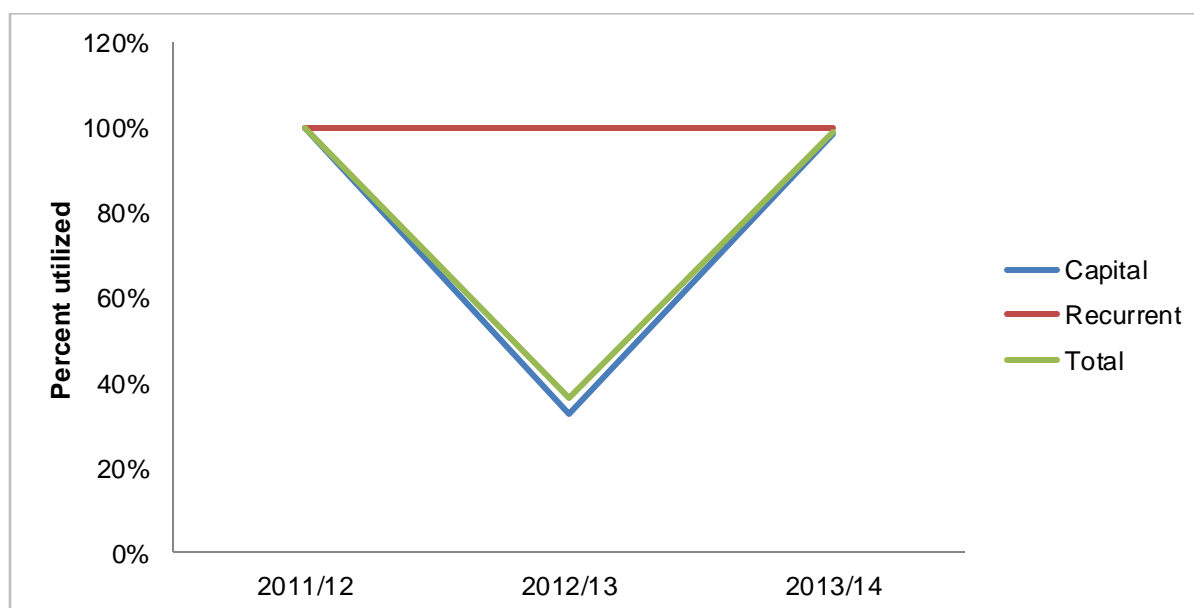
## 6.2 Konso district analysis of financial absorption

Konso is located in the SNNPR at a distance of 590 kilometers from the capital. It is a district from a rural area and has demonstrated relative weak performance in financial absorption. The AfDB has financed WASH service delivery during 2011/12 and 2012/13, and UNICEF has financed WASH in Konso since 2012/13. Konso local government (district) has also allocated a significant capital budget for WASH projects since 2011/12 from the block grant.

### Overall financial absorption for WASH

Financial absorption for WASH in Konso has experienced a mixed trend over the last three years. Although the district used 100% of the budget allocated during 2011/12, it failed to continue registering this high performance in the following year. It only absorbed 36% of WASH finance in 2012/13 (33% capital; 100% recurrent). As can be evidenced from Figure 6, the district has experienced a mixed trend in financial absorption for WASH over the last three years, showing a sharp decline in the 2012/13 fiscal year, followed by a sharp increase in the absorption of the capital budget allocated to WASH during 2013/14.

**Figure 6: Financial absorption for WASH in Konso, 2011/12 to 2013/14**



Source: Konso district finance and economic development office

During 2012/2013 the district used 77% of AfDB funds, 74% of UNICEF and 24% of its government capital budget allocated to WASH. It was reported that the following factors contributed to lower financial absorption during the year:

- The region failed to release funds in a timely manner;
- Outsourcing construction work to private companies was more time-consuming than expected (lengthy procurement processes by the district);
- Sector heads failed to provide timely decisions and were less responsive to programme activities due to competing priorities on their desks (less attention was given to WASH);
- High turnover of staff due to low salaries and absence of incentives and lack of effective knowledge management led to a loss of institutional memory;
- WASH projects funded by development partners are considered as sideline activities and there is a lack of incentives for technical staff engaged in the project activities (which are considered as additional responsibilities);
- Unforeseen or unplanned activities consume staff time leading to technical staff focusing less on the delivery of WASH projects.
- A lack of disaggregated data for water supply, sanitation and hygiene at federal, regional and local level.

## 7. Conclusions and recommendations

### 7.1 Conclusions

There are very strong indications of the urgent need to improve financial absorption for the WASH sector. According to the 2014 JMP report only 24% of the country's population has access to improved sanitation facilities. Ethiopia is among the 69 countries that are not on track to meet the Millennium Development Goal (MDG) target for sanitation by 2015. As indicated in the fourth health sector development programme only 7% of the population practise hand washing during critical times. Though Ethiopia is reported to be among those countries that are on track to achieve the MDG drinking water target, only 52% of the population has access to improved water. This means that there is a long way to go before universal access to WASH and Sustainable Development Goal 6 are achieved.

Absorption is recognised as an important issue by the Government, and the Government at all levels is working towards addressing those problems. Ethiopia started to use the word 'WASH' in 2005 when it developed a universal access programme for water supply and sanitation. This was very ambitious and attracted huge resources to the sector from donors. Since then, resources flowing into the

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sector have been increasing. Despite the high level of water poverty and huge demand for funding sanitation and hygiene, the level of financial absorption has been a major problem during the last 9 years.

Ethiopia has improved financial absorption in the WASH sector over the last three years, which is the result of continued and sustained dialogue between the Government and development partners. Factors affecting financial absorption for WASH sector vary vertically and horizontally, but some of the common factors that impact on financial absorption across the different levels are summarised below.

For the WASH sector **at federal level** the following factors are a cause of concern for absorption:

- The absence of direct accountability relations between the federal ministries and regional bureaus: regional bureaus are reporting to their respective regional presidents, and there are weak communication mechanisms with the federal ministries. This negatively affects the timely collection of action plans and expenditure reports from regions.
- Uncoordinated support from development partners places an unnecessary burden on those in government responsible for contract management and reporting. This further delays programme implementation, the release and timely use of funds, and the reporting of expenditures.
- The shortage of skilled personnel has negatively affected the quality of grant management, contract management and programme implementation. This impacts on the timely reporting and therefore on the timely release of funds.
- Institutional arrangements for WASH are another challenge. The MoWIE, the MoH and the MoE all have their respective roles in the delivery of WASH services to communities at large and institutions including schools, health facilities and others.

At **sub-national** level, bottlenecks to achieving high financial absorption include:

- Delay in the release of funds and the time it takes to reach districts: this leaves less time to carry out procurement and implementation, and affects the timely reporting on expenditure.
- Delay in the release of funds sometimes pushes back the timing of implementation. If this overlaps with the rainy season, it is not possible to undertake construction work. This further delays project implementation and reporting of expenditure, creating its own vicious circle.
- Low capacity of implementing agencies and private drilling companies (low level of expertise and skills to manage contracts; cutting costs to win the bid).



- Poor planning resulting in the shortage (over-utilisation) or surplus (under-utilisation) of funds allocated to the WASH sector. The low planning capacity of district staff or regional staff, especially in costing construction work (producing bills of quantity), either for water supply schemes or for sanitation facilities, sometimes results in under-utilisation of funds allocated for the year.
- Low capacity of districts to produce expenditure reports in a timely fashion and submitting to their respective regions. Sometimes local staff lack sufficient information on the size and timing of the release of donor funds, or the action plans approved for the year. This negatively affects programme implementation and thereby financial absorption.
- Shortage of recurrent expenditure for the government to create a competitive salary scale for government staff to attract well-qualified professionals especially at local levels. This has affected the level of financial absorption for WASH at local level.

## 7.2 Recommendations

On the basis of the above analysis and conclusions, below there are a number of recommendations for both government and donors moving forward to improve absorption.

### Recommendations for the Government

- **Disaggregate budgets particularly on sanitation and hygiene.**

Specific budget lines for sanitation and hygiene are a vital step towards identifying allocations and spending for water supply, sanitation and hygiene subsectors. Currently, it is very difficult to track sanitation and hygiene budgets and actual spending at all levels of government.

- **Improve the flexibility of procurement processes.**

Develop a strong internal system that improves the flexibility of procurement processes. If funds are approved, local governments should be able to process procurement in advance in the interest of beginning construction work in time.

MoFED should devise an internal working system that enables local finance and economic development offices to go ahead with procurement processes in advance of receipt of funds, once they are sure that the funds will be transferred.

- **Improve the flow of funds through the system and address the problems associated with the unnecessary delay in the transfer of funds from upper to lower tiers of government.**

The system should include some form of enforcement mechanisms for the relevant bodies involved in the transfer of the funds.

The WASH Technical Team at federal level, in collaboration with the Program Management Unit within the signatory Ministries, should improve the communication and understanding of the funds available to regions for implementation of the annual WASH programme, along with the approved action plan. Similar actions should be taken by the regional WASH Technical Team in collaboration with the regional Program Management Unit to raise the awareness of district staff on the requirements for the release of the funds. This will help support higher levels of financial absorption.

The Government should support the establishment of relevant sector actors in a platform to agree on the major causes for low financial absorption and reach a consensus on how to solve them.

- **Communicate more widely as well as strengthen the improvements already made to institutional mechanisms in the WASH sector.**

The National WASH Coordination Office should strengthen the knowledge and understanding at regional level of the One WASH National Program (OWNP), Program Operation Manual (POM), WASH Implementation Framework (WIF) and Consolidated WASH Account (CWA). The regional WASH Coordination Office should help to develop the capacity of zonal WASH offices on these policy documents so that they assimilate the targets further down to the districts. This will have positive implications on the timeliness of expenditure reporting from the bottom to the upper tier of government. This will support the improvement of financial absorption.

The Program Operation Manual that guides financial management for the WASH sector should be fully cascaded down to local governments. The Government should make sure that local governments fully understand the operating procedures agreed, and help ensure that the funds provided by the upper tier of government are used efficiently.

The National WASH Coordination Office should organise various strategic dialogue forums at national and/or regional level aimed at establishing vibrant communication mechanisms between the Federal Ministries and regional bureaus. This will also have positive implications on the timely collection of expenditure reports from regions, in turn facilitating the timely release of the subsequent tranche of funds.

- **Improve the capacity within the overall WASH sector to improve financial absorption.**

Incentives should be designed for government staff to curb the prevailing high turnover of staff. This will have a considerable impact on the effectiveness of programme implementation at all levels, and thereby increase financial absorption in the WASH sector.

Capacity building in the area of procurement processes, financial management and project management (especially contract management) will be essential at local and regional levels. Along with this it will be very important to create vibrant transfer mechanisms at all levels that sufficiently address the problems associated with staff turnover.

The capacity of both private and government-owned drilling companies needs to be improved in order to ensure that large scale capital projects can be implemented on time and on budget.

### Recommendations for donors

- **The Donor Accountability Group (DAG) needs to influence other WASH sector donors to contribute to the CWA managed by the MoFED (aligning with the government system).**

This will have a profound impact on achieving high levels of financial absorption. Donors need to channel their financial support through a Consolidated WASH Account that aligns programmes and harmonises financial management systems with that of the Government. This will significantly reduce inefficiencies with the fund transfers and procurement procedures and thereby increase financial absorption.

- **Donors need to identify how they can play a role in improving the balance between capital and recurrent funding, and identify ways that increased funds could be mobilised for recurrent expenditure needs, especially wages and salaries.**

In addition, recurrent expenditures should be sufficient for efficient monitoring of the quality of the construction, and timely implementation of the projects.

- **Donors need to make more timely transfers of their funds to relevant government accounts, enabling more efficient transfer of funds down to the local government.**

Donors need to work closely with the Government to solve the problems associated with the time it takes to transfer funds to local government.

Donors should also work with the Government to design internal working mechanisms to address the problems associated with the procurement processes.

## 8. Lists of sources

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<sup>1</sup> This report was written by Girma Aboma, Resource Person from Ethiopia, on behalf of DFI. The report had inputs and edits carried out by Jo Walker of DFI and John Garrett and Wen Hoe of WaterAid.

<sup>2</sup> Diagramme based on official documents.

<sup>3</sup> 'On budget' refers to spending which aligns to the government's plans and budget. 'On-plan' refers to spending which is broadly aligned to the goals and objectives set out by a government for a sector. Use of Channel 2 funds should reflect national resource mapping, plans and reports.

<sup>4</sup> Districts or woreda are the third-level administrative divisions of Ethiopia. They are composed of a number of wards or neighbourhood associations, which are the smallest unit of local government in Ethiopia.

<sup>5</sup> These are reported on quarterly and separately from CWA reporting, but in a way which allows the tracking of funds.

<sup>6</sup> One WASH National Program; WASH Implementation Framework; Water Sector Policy; Programme Operation Manual; Health and Health Related Indicators; Education Abstract; etc.

<sup>7</sup> Representatives from Ministry of Water, Irrigation and Energy; Ministry of Health; Ministry of Education; and their respective line bureaus in Amhara, Oromia and SNNPR; representatives from UNICEF, WSP/WB, Plan International Ethiopia, SNV Ethiopia.

<sup>8</sup> Ethiopian Financial year 2007 is the financial year 2014-15.

<sup>9</sup> Due to lack of comprehensive data on the funds flowing through channel 2 and channel 3 funded programs, it is not possible to capture the overall financial absorptions for the WASH sector.

<sup>10</sup> This includes Channel 1a matching funds government allocations, although does not include funding not going through channel 1. This does not also show channel 2 funding, (some donors directly support the sector bureaus through Bureau of Finance and Economic Development); and NGOs that directly implement the funds that are not fully captured at national level. Hence the following figure illustrated trends in the financial absorption of major donor funding to WASH sector.

<sup>11</sup> Ministry of Water, Irrigation and Energy, Fiduciary and Risk Assessment

<sup>12</sup> Computed from WASH budget and actual spending obtained from National WASH Coordination Office.

<sup>13</sup> Findings from budget and expenditure tracking in the WASH sector by the Water and Sanitation Forum also confirm this.

<sup>14</sup> WaterAid, 2008, 2011.

<sup>15</sup> WSF, 2012.

<sup>16</sup> Tesfaye 2012.

<sup>17</sup> It is worth noting, there are examples of where the government when it comes to donors working to limit procurement processes. In 2011, the Government of Ethiopia commenced an MDG fund for capital expenditure in the Regions which has a strong focus on roads and water supply. Reports from government sector ministries and their respective offices showed that MDG performance funds, though it is external resources, are able to absorb the fund as it has no restriction. MDG performance funds are similar to that of government allocations that can be transferred from one budget line to the other on the basis of need, upon the approval of the heads. This has the potential to address some of these short-falls. The implications of the MDG fund and financing aspects will be further assessed during the inception phase of the programme and multi-donor appraisal of the WaSH Implementation Framework and OWN Programme document.

<sup>18</sup> WSF, 2013.

<sup>19</sup> Ministry of Water Resources, Water Resources Management Policy, 1999.

<sup>20</sup> Federal Democratic Republic of Ethiopia, Constitution, 1995.

<sup>21</sup> Taken from the signed Memorandum of Understanding between the Ministries of Water, Health, Education and Ministry of Finance and Economic Development, 2012.

<sup>22</sup> Taken from Budget and Expenditure Tracking Study by Water and Sanitation Forum – WASH CSO forum, 2013.

Cover photo: Kapina Kapino collects clean water from a tap stand with other women from the village, Aba Roba, Konso, Ethiopia.