

Public finance for water supply and sanitation: focus on regions and woredas (local governments)

Key findings

- **Water supply and sanitation are not receiving sufficient priority or public funding to meet the targets set in the Universal Access Programme (UAP) and the Growth and Transformation Plan.**
- **Subsidies from regions to woredas are not sufficient for infrastructure development. Woredas have the potential to do more if they are given more resources and targeted capacity building.**
- **Regions are using a low percentage of the funds allocated to them, in part due to capacity constraints but also due to overly bureaucratic reporting requirements.**
- **There is no clear budget line for sanitation. Less than 1% of the total regional budget is being spent on sanitation and hygiene promotion.**



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Pipes are laid to bring mountain spring water to a community-managed shower block in the small market town of Kella in the Oromia region.

1. Introduction

The Government of Ethiopia has set ambitious targets for universal access to water supply and sanitation. The focus of this report is on regional and woreda governments, which are responsible for delivering these commitments. For water supply, regions are responsible for the construction of large schemes and high cost technologies (eg gravity schemes, piped schemes), and woredas for low cost technologies (eg spring protection, hand dug wells). For sanitation, health extension workers at woreda and kebele levels are responsible for sanitation and hygiene promotion.

This policy brief presents analysis of regional and woreda budgets for water supply and sanitation, and asks whether budgets are adequate and effectively spent. It draws on research carried out by WaterAid in Ethiopia and Poverty Action Network in Ethiopia (PANE) in three regions – Oromia, Amhara and Southern Nations, Nationalities, and People’s Region (SNNPR) – and six woredas where WaterAid is active. The brief seeks to stimulate debate about how water, sanitation and hygiene (WASH) financing could be made more effective at regional and woreda levels.

2. Sources of finance

How are regional governments financed?

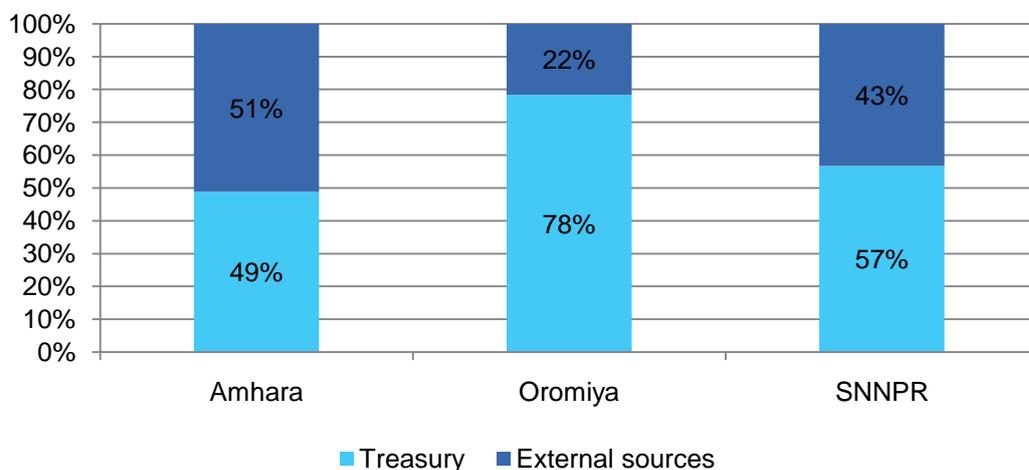
The largest source of income for regions is a subsidy from the Government treasury. Over the past five years, regions have received an average of 30% of the national budget through subsidy based on an equity formula approved by the House of Federation. Amhara, Oromiya and Southern Nations, Nationalities, and People’s Region account for more than 80% of Ethiopia’s population and 75% of the regional subsidy allocated by the Federal Government. In nominal terms the subsidy allocated to regions has increased over the past five years.

Regions may also receive external assistance and loans, which are allocated based on financing agreements signed between donor agencies and the Government of Ethiopia. These funds flow to regions through two channels; Channel 1 (1a and 1b) uses government systems and is managed by the Ministry/Bureau of Finance and Economic Development. Channel 1a financing is composed of un-earmarked donor funds flowing through government systems, while Channel 1b financing comes from earmarked donor funds. All Channel 1 funds are on-budget but there may also be some donor funds that are not included in the budget (‘off-budget’). Regions also generate their own revenues.

Figure 1 shows the sources of finance for the water supply capital budget for the study regions. Amhara and Southern Nations, Nationalities, and People’s Region largely depend on external sources to finance their water supply projects. Oromiya region is less dependent on external resources, using financing from the treasury. About 51% of the water capital budget in Amhara has been financed through external sources, followed by SNNPR (43%) and Oromiya (22%). The SNNPR has financed 57% of the water capital budget from the treasury, followed by Amhara (49%). Generally, the effort of the Government to allocate some budget for the

development and operation of water supply infrastructure has a positive impact on the sustainability of investments.

Figure 1 Sources of finance for regional water supply capital budget



Allocations from regions to woredas

On average, regions allocate around 50% of the total budget available to them to local governments, but this varies depending on the capacity of the woredas to generate their own revenues. The resources available to local governments were found to be insufficient compared to the assignments given to them.

Analysis of consolidated expenditure data from the Ministry of Finance and Economic Development revealed that only 17% of the water supply budget allocated to regions is transferred to local governments. The reasons for this are that regional bureaus are mandated to implement large projects/programmes on behalf of the local governments, and therefore require a higher budget. Local governments are mandated to construct simple water supply schemes like spring developments, hand dug wells and shallow wells. However, it could be argued that more funding for the lower cost technologiesⁱ would benefit communities considerably, especially since low cost technologies are generally more sustainable.

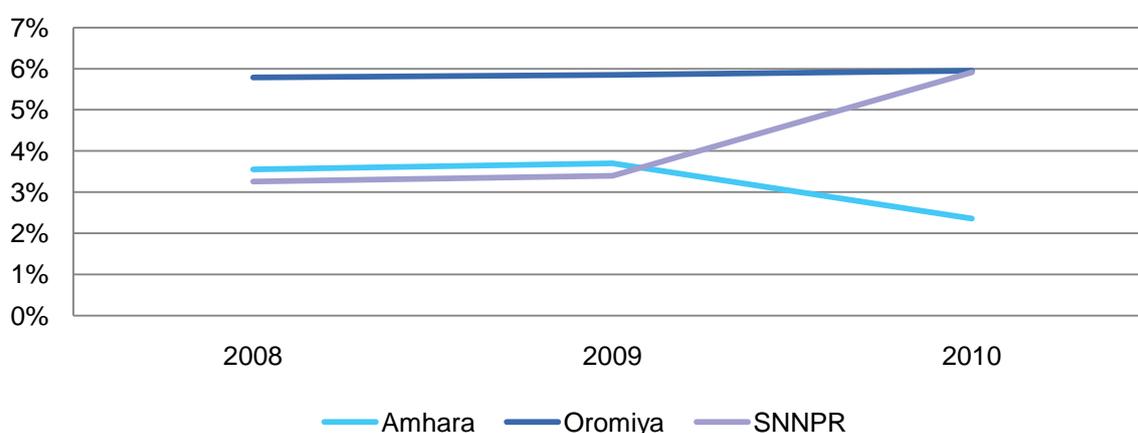
3. Regional and woreda allocations to water supply

On average, only 6% of the regional budget has been allocated to water supply over the past five years. This represents 11% of capital and 3% of recurrent expenditure budgets. The percentage share of expenditure for water supply in all of the study regions has declined over the last five years (from 7% in 2006 to 5% in 2010). The reasons, among others, include:

- The decline in political priority in some regions.
- The assumption that water supply is financed by civil society organisations (CSOs).
- Ambitious increases in the coverage figures (despite the lack of commonly agreed definition on what is improved, difference in the source of data and method of calculating the coverage).
- Budget shortages.

Oromiya has allocated an average of 6% of its regional budget to water supply. The Southern Nations, Nationalities, and People’s Region has allocated an average of 4%, but the water supply budget has increased sharply in recent years. Amhara allocated an average of 3% of its budget to water supply, but this has declined sharply in recent years. The difference in the trends of allocations to water supply emerged from the difference in the level of political priority given to the sector. Again, the difference in the type of technologies adopted by the region and the unit costs affect the allocation to water supply.

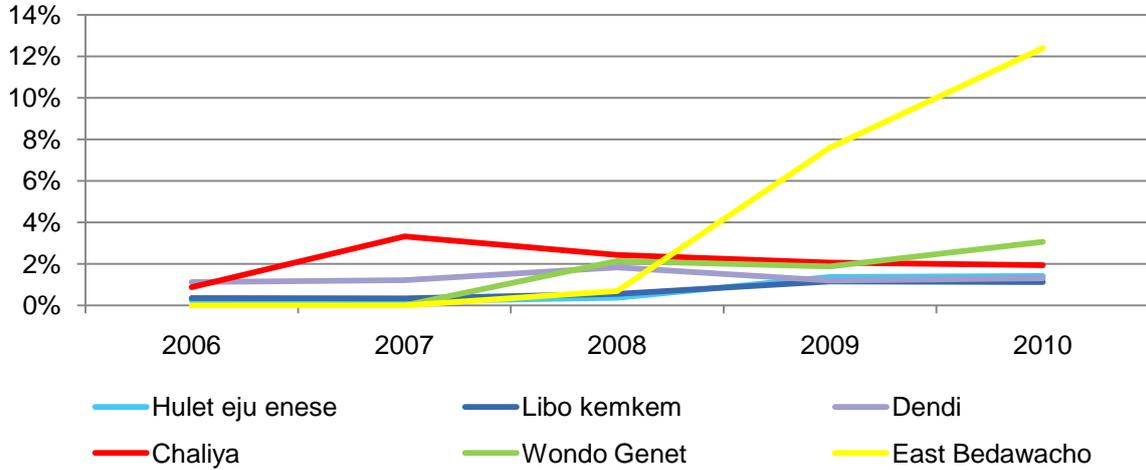
Figure 2 Trend in the percentage share of water supply in regional budgets



At woreda level, much of the budget is absorbed by recurrent costs (recurrent budget takes more than 95% of the woreda budget). The percentage share of water supply (allocated from block grant) in the total capital budget ranges from 0% in East Badewacho (SNNPR) to 17% in Hulet Eju Enese (Amhara). But, as can be seen in Figure 2, East Badewacho (SNNPR) has benefited from the Local Investment Grant, being a pilot woreda. Libo Kemkem (Amhara) and Wondo Genet (SNNPR) have been allocating 4% of their capital budget to water supply. Dendi (Oromiya) has been allocating 7% of its capital budget to water supply while Chaliya (Oromiya) allocated

10%. With such low levels of investment, local governments may not be able to achieve the universal access targets.

Figure 3 Trend of the share of water supply in local government budgets



All that's left of the Arayo river in the dry season is a muddy seep where women "scratch" for water. But thanks to a newly built sand dam upstream, the next heavy rains will pool in an underground reservoir of clean water accessed by a handpump.



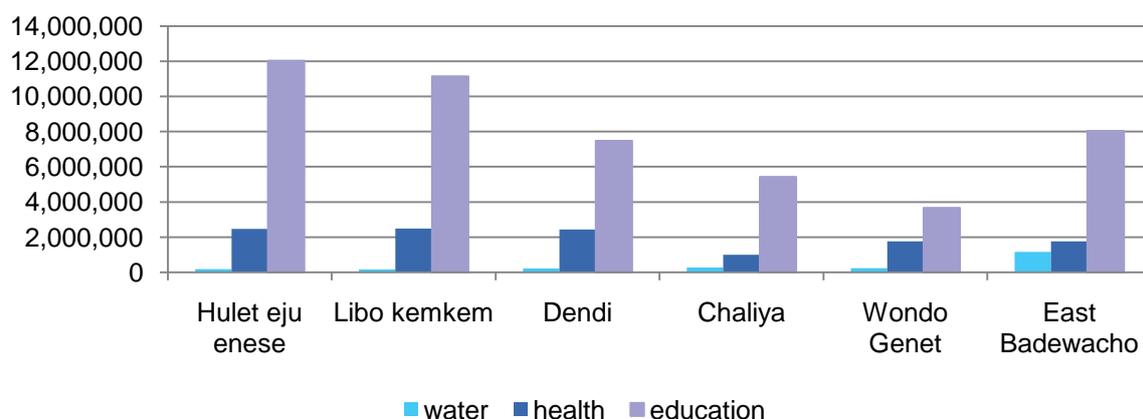
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4. Allocation across sectors

The share of water supply in regional poverty sector budgets was found to vary across the study regions. In all the regions, the percentage share was generally less than 10%, which is 5% in Amhara, 9% in Oromiya and 6% in Southern Nations, Nationalities and People’s Region. Water supply financing has not been prioritised within regional poverty sector budgets. Over the last three years, the share of water supply has declined from 6% in 2008 to 4% in 2010 in Amhara, while in Oromiya this percentage share has increased from 8% in 2008 to 10% in 2010, and in SNNPR from 5% in 2008 to 10% in 2010. The difference in the regions’ allocations emerges from the difference in the scale of the political priorities made – education has been the priority in all regions.

Woreda governments allocate resources available to them across sectors in line with the national and regional level budget processes and policy directives. Figure 4 shows that in the last five years, across all six woredas studied, water supply gets a smaller budget than other poverty sectors, such as education (which takes the largest share of the budget) and health. The graph is even more surprising when we consider that water supply is a highly capital intensive sector.

Figure 4 Comparison of average budgets (in ETB) for selected poverty sectors



Water supply per capita adequacy analysis

The Universal Access Programme clearly indicated the cost requirements for water supply in different regions. Table 1 shows that actual budgets fall well below these amounts, making it unlikely that the UAP targets will be met.

Table 1 Water supply per capita adequacy analysis

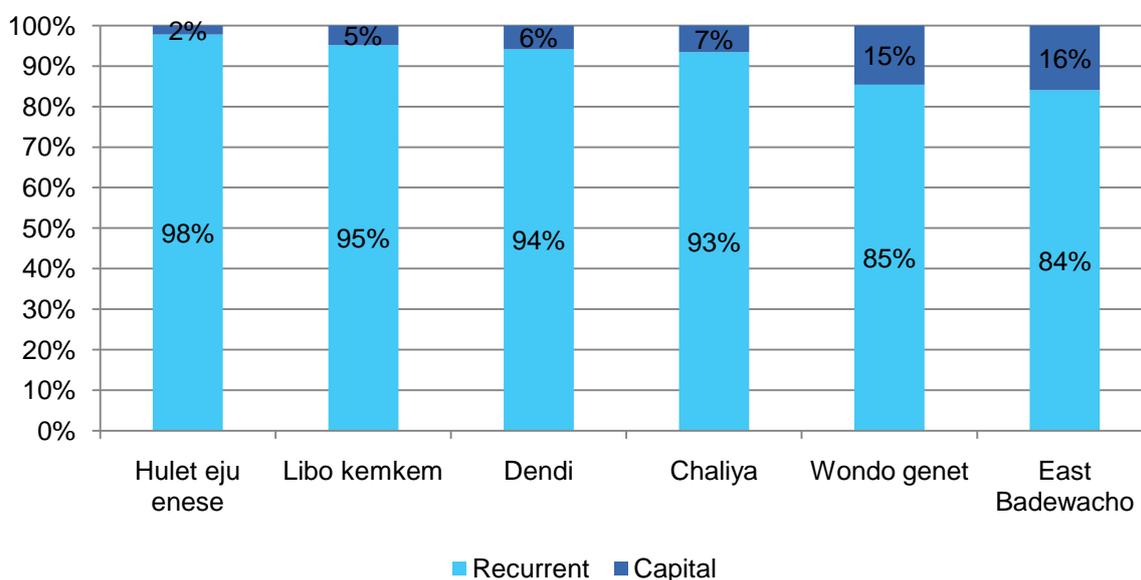
Region	UAP recommended per capita budget	Actual per capita budget
Amhara	109	19
Oromiya	174	36
SNNPR	198	42

5. Composition of water supply budget

The largest share of the water supply budget at the regional level is allocated as capital or project budgets. In Amhara, 79% of the water supply budget has been allocated as capital, while in Oromiya and Southern Nations, Nationalities and People’s Region the capital budget took a slightly higher percentage share (85% in Oromiya and 82% in SNNPR). Recurrent expenses include salary and operating expenses. The level of operational budgets allocated by the Government may not be sufficient to meet the needs on the ground.

Allocation of the woreda budget between recurrent and capital is usually made at regional levels. Regions provide guidelines for local authorities to use. As can be seen in Figure 5, on average, the recurrent budget takes more than 90% of the local government budgets. It ranges between 84% in East Bedewacho (SNNPR) and 98% in Hulet Eju Enese (Amhara). East Badewacho and Wondo Genet have higher capital budgets because they have been receiving funds from the pilot project of the Local Investment Grant (LIG), which was designed by the World Bank jointly with the Ministry of Finance and Economic Development. There are 40 local governments included in piloting the Local Investment Grant approach to finance capital expenditures, and these two local governments are among them.

Figure 5 The average share of recurrent and capital in woreda government budgets



In general, resources allocated to local governments have not been sufficient to support capital expenditure.

6. Utilisation of funds

The WASH performance report found the level of utilisation of Channel 1b funds at regional level to be very low during the first six months of 2009/10ⁱⁱ. The same pattern is seen in the three study regions, which have utilised less than 20% of the funds allocated to them. The level of utilisation in Amhara was only 15% while in Oromiya and Southern Nations, Nationalities and People's Region only 18% of the WASH funds transferred were utilised. Some of the reasons, among others, for this under spending by the study regions include:

- **A delay in the release of funds.** Opinion survey results indicated that the release of WASH funds is delayed because of lengthy bureaucratic processes and the delays in submission of expenditure reports, which comes about due to the late release. This created a vicious circle (delay in the release – delay in reporting – delay in the next release).
- **The WaSH coordination unit is under-staffed.** The regional WASH programme management unit is under-staffed and as a result implementation of WASH activities is slow.
- **Limited capacity of local contractors.** The limited capacity of local contractors and drillers has also challenged the efficient utilisation of WASH funds.
- **Weak monitoring of WASH programme funds and unclear roles and responsibilities.** Results from the opinion survey clearly indicated the low level of attention given to monitoring WASH programmes. Different donors have different guidelines for financial management, which has considerable implications on the operational costs (different rates of payments). This has led to a low level of ownership by the Government. There are misunderstandings about who should make the controls and check whether the programme is on track or not.

Women have to get to the 'clean' water by scooping away the muddy left by the last scooper or hoof. But often there isn't any to be found.



7. Allocation to sanitation

As at the federal level, there is no dedicated budget for sanitation at regional or woreda level. The regional and woreda sanitation budget was estimated using the salary of health extension workers as proxy. Health extension workers are responsible for promoting sanitation and hygiene in communities, among other responsibilities. No data is available that shows the budget allocated to the construction of rural communal latrines for market places or for the construction of institutional latrines.

Over the last five years, the regional budget going to sanitation indirectly through the salary of health extension workers has been decreasing. The budget for sanitation accounted for less than 1% of the total budget – 0.5%, 0.6% and 0.7% of the regional budget in Oromiya, Amhara and SNNPR respectively.

Figure 6 Trend in the regional sanitation budget over the past five years

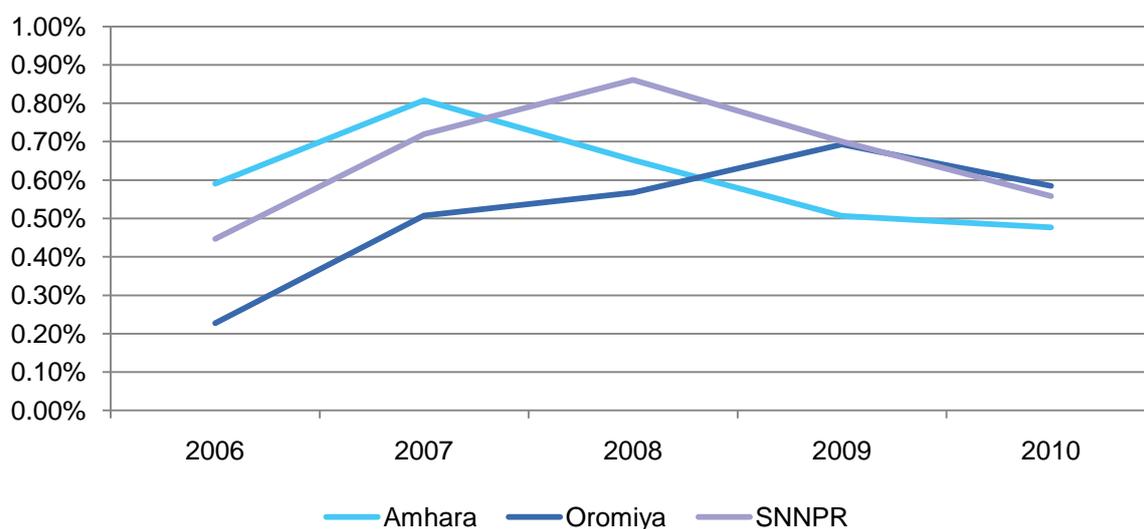
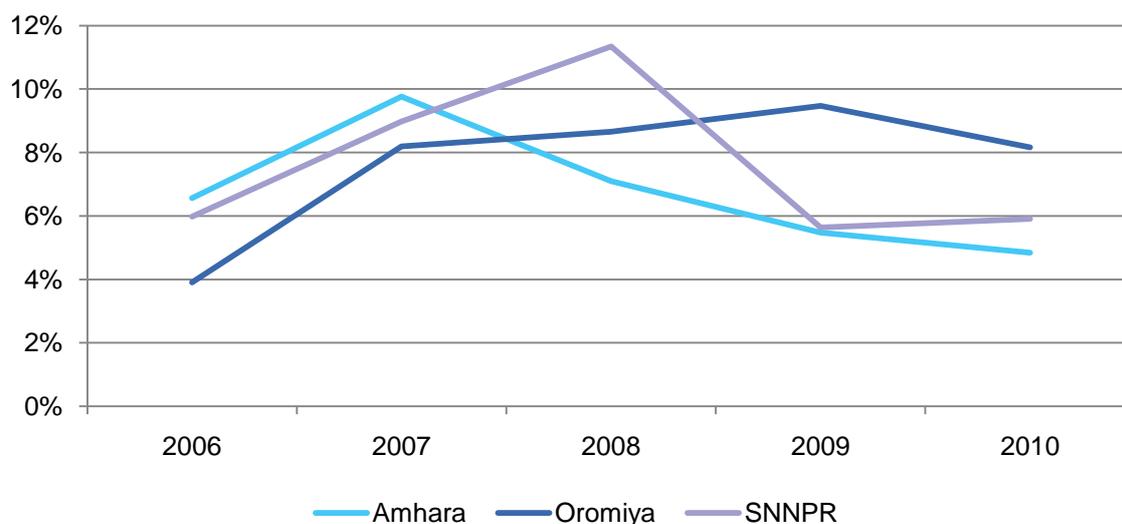


Figure 7 illustrates the trend in the share of sanitation in regional health budgets during the last five years – 7% in Amhara and 8% in Oromiya and SNNPR. In all three regions the share of sanitation in the regional health budget has increased during the first two years and declined in the last years with some slight variations across the regions and in the middle of the study period.

Figure 7 Trend in the share of sanitation in regional health budgets



Sanitation per capita adequacy analysis

The Universal Access Programme does not differentiate per capita costs for different regions as is the case for water supply, but estimates ETB 50 as theoretical per capita for rural latrine construction. However, the average per capita budget for sanitation at regional and local levels is ETB 1ⁱⁱⁱ, well below this. The reasons for under-financing are diverse but include:

- Health bureaus not receiving sufficient budget to allocate more budget to sanitation.
- The fact that sanitation is merged with the broader health programme, does not have a specific budget line and hence receives less priority in terms of budgeting.

The low budget for sanitation is exacerbated by the lack of a separate public budget line at federal level and by the lack of specific unit within the Ministry of Health which is responsible for sanitation. Sanitation has not been a priority within the broader health programme, and has received less attention in local budget processes.

8. Conclusions and possible solutions

The focus on regional and woreda budgets has raised awareness of the following challenges:

- Water supply has not received adequate finance to meet the universal access targets. The problem is particularly acute at the woreda level, where budgets are insufficient for the expansion of access using simple technologies.
- Regions are unable to utilise the funds available to them. This problem has two dimensions – capacity to implement services and capacity to meet reporting requirements.
- Regions do not explicitly budget for sanitation activities, with most of the finance coming from external sources. Without financial resources, there is no way that progress can be made in the sanitation sector.

WaterAid and PANE suggest the following solutions at regional level:

Give adequate priority to the water supply and sanitation sector to attain the regional GTP and UAP targets. This should be reflected by the size of budget allocated to the sector relating to the demand on the ground. Regional per capita for water supply and sanitation indicated in the Universal Access Programme should inform the budget decisions made at regional level.

- Allocate sufficient capital budget to woreda governments to enable them take up their assignments. The unit cost formula should be used by all regions to address the needs of the sector and make relevant budget allocation decisions.
- Establish a sanitation and hygiene unit within the bureau of health. The unit would be fully accountable for coordinating sanitation programmes in regions on the basis of the procedure followed by the federal government.
- Adopt a sanitation budget line from the federal government. The bureau of finance and economic development in collaboration with the bureau of health can make this happen at regional level.
- Take steps to improve expenditure reporting in order to prevent delays in the flow of funds.
- Establish a comprehensive database system for WASH coverage and financing at regional level, including off-budget investments.

At Woreda level:

- Give priority to water supply and sanitation investments, using simple technologies to expand access, budget based on the unit costs indicated in the financing strategy, and per capita budget set in the Universal Access Programme.
- Establish a sanitation unit within the health office that takes full responsibility of sanitation promotion and use.
- Be proactive in getting technical support from the regional or zonal bureaus for the implementation of WASH projects. This includes making timely requests for release of the funds as per the agreement, timely utilisation and timely reporting of expenditures.

Endnotes

ⁱ The UAP stated that 62% of technologies should be low cost.

ⁱⁱ The analysis of utilisation of Channel 1b funds was made based on the twice-annual WASH report prepared by the National WASH Coordination Office, June 2009/10. It only includes the utilisation of Channel 1b during the first six months.

ⁱⁱⁱ This estimate only covers promotional activities, not the other components of sanitation (construction, pit emptying, transport and treatment).



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

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