

Think local, act local



Nepal

Effective financing of local governments to provide water and sanitation services



A WaterAid report

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Front cover image: WaterAid/Marco Betti

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Key messages

To improve equity of service delivery all funding must be on local level budgets and plans

A predominance of off-budget funding by central line ministries, donor funded projects and NGOs is undermining the ability of districts to plan service delivery targeted at poor and vulnerable communities. This is resulting in inequitable distribution of water supply and sanitation schemes. These actors must step back and allow local government to perform its mandate. Lack of capacity should no longer be used as an excuse for delaying devolution.

More funding is needed for rehabilitation of existing schemes and to support communities to maintain them

Coverage statistics and investment analysis indicate Dhading district is on track to meet the Millennium Development Goals (MDG) and national targets for water. Yet there is a huge rehabilitation task in Dhading which is ignored by these coverage statistics and by local budgets, where creation of new infrastructure predominates. Under the community management approach user groups are expected to manage all maintenance tasks yet in many cases this is beyond their capacity. Community management should not mean leaving communities to manage on their own – local government needs to support communities.

Systems for capturing community voices need to be institutionalised to improve accountability of service providers

In the absence of an elected local government there is a ‘downward’ accountability deficit. There are no effective mechanisms in place for ensuring participation of communities in decision making, transparency and sanctions against non-performance by service providers.

Section 1

Introduction to the research

Decentralisation in Nepal and Dhading district

In April 2008 citizens of Nepal elected a Constituent Assembly to rewrite the constitution. It is possible that the new constitution will give Nepal a federal structure. If this materialises the issues of how to finance states and other new local government structures will become key. It is especially timely therefore for sector stakeholders to begin to consider the issues raised in this report.

Background and methodology

Every year 13,000 Nepalis die from water-related diseases caused by a lack of water and sanitation services. These services are basic human rights, which underpin health, education and livelihoods, forming the first, essential step in overcoming poverty. Nepal is rich in both water resources and people with the technical knowledge to provide these services and yet so many people remain without access. WaterAid believes that this is because development finance for the sector is not reaching the authorities charged with delivering these services.

In Nepal and many other low-income countries the main obstacle to delivering water and sanitation is at the point of local government and municipal authority delivery systems. WaterAid believes that local government authorities, who find themselves at the frontline of basic service provision, are key to the achievement of the water and sanitation MDG targets to halve the proportion of people without access to clean water and safe sanitation by 2015 with universal access by 2017.

In Nepal, ensuring access to water and sanitation facilities is devolved to local government through the Local Self Governance Act (LSGA). Sector policies prescribe a supporting role to the department of the line ministry. WaterAid's policy and practice work aims to strengthen the ability of local government to provide equitable and pro-poor water and sanitation services.

Development finance can enable or constrain local government performance. This research was designed to explore the influence that decentralisation and water sector policy and institutional arrangements have on financing at the local level. The underlying assumption is that, in a decentralised context, greater control and influence of local governments over adequate finance will result in improved delivery of water supply and sanitation services. Decentralisation is a fact of life in Nepal and so our objective was to explore how it can be made to work more effectively. Whether decentralisation contributes to poverty reduction or indeed works for the water sector in particular is another valid but separate piece of research that needs to be undertaken.

The research in Nepal is part of a multi-country research study including 12 countries. The research was undertaken using a common framework developed for the study.

Section 1

Initially, this framework allowed us to map policy and resources at national level in all countries. This preliminary information was compiled and reviewed at a workshop in May 2007, where more detailed indicators to assess finance at local level were developed collectively. Draft reports were shared with local stakeholders in Nepal to validate the findings.

Throughout the research obtaining adequate financial data was a huge challenge. The main reason for this was a lack of consolidated data at the district level which meant that data had to be collected from each agency, some of which lacked structured reporting systems. As a result only one district, Dhading, was taken up for the study and as such cannot be considered representative of all districts in Nepal. Dhading was selected as it is a focal district for the Federation of Water and Sanitation Users Nepal (FEDWASUN) and hence there are opportunities for advocacy follow-up to the research. Dhading also has a diverse range of actors active in the sector. Although we originally set out to track investments in both water and sanitation, data for sanitation investments was very difficult to come by, indicating the lack of political priority that has been given to this sector. Given the enormity of the health impacts of inadequate sanitation – particularly on infant mortality rates – understanding this problem must be an urgent priority for the Government of Nepal and donors.

Decentralisation in Nepal

Political decentralisation

Decentralisation has four decades of history in Nepal, passing through many stages of review and amendments. The statutory local government institutions were created as early as 1962 after the replacement of the multi-party democratic system with the so-called party-less panchayat system in 1960. Since then several intermittent efforts were made to strengthen these institutions. Inter-government fiscal relations in the form of expenditure responsibilities, tax assignments and even borrowing power were given to the district panchayats, town panchayats and village panchayats through the Decentralisation Act in 1981 and Decentralisation Regulations in 1984. A bottom-up planning, coordination and implementation system was established bringing all district offices of development-related line ministries or departments under the District Panchayat Umbrella. However, these institutions could not function as real decentralised development bodies mainly because of the political system which demanded loyalty and accountability to the central government.

After the restoration of multi-party democracy in 1990 the decentralisation agenda was prioritised and panchayats restructured as District Development Committees (DDC), Municipalities and Village Development Committees (VDC) through the 1992 Local Government Act. A Decentralisation Committee under the prime minister was formed in 1996 to further enhance local self-governance and overcome the weaknesses. As a result the Local Self Governance Act, (1999) and the Local Self Governance Regulations (2000) were formulated and implemented. The acts and rules made provision for space to civil society, non governmental organisations (NGOs) and private sectors in local development and established a Local Fiscal Commission to ensure fiscal decentralisation.

Fiscal decentralisation

Central government transfers are the main source of revenue for local government in Nepal, providing more than 75% of their income (Shrestha M, 2002). However, the bulk of the national budget is absorbed at the centre and fiscal decentralisation continues to lag behind – district level budgets comprise only 12% of the national budget (Budget Speech, Ministry of Finance 2006-07). The Local Body Fiscal Commission (LBFC) chaired by the Ministry of Local Development and with representation of all line ministries has developed a budget allocation formula for districts based on population, service coverage and remoteness. However, the formula remains on paper and actual allocation is made based on the bargaining capacity of political representatives.

Functional decentralisation (devolution)

In the 2001/02 budget speech, the government announced the devolution of four sectors, namely, agriculture, livestock, basic primary education and basic health services. However, so far this has not been implemented. The government aims to devolve all sectors including water supply and sanitation in phases. A new constitutional assembly was formed in May 2008. The new constitution of Nepal should look at this issue more seriously as it considers a federal system.

Dhading district

Dhading district, located near Kathmandu, is subdivided into 50 Village Development Committees (VDC) and 450 wards. The 2001 national census reported a population of around 340,000 residing in 63,000 households with an average family size of 5.4 persons.

Economic activities in Dhading district are disparate and depend on the proximity of a VDC to the road network. Villages along the roads enjoy good economic opportunities, whereas villages unconnected to roads are dependent on subsistence agriculture. Despite the district's proximity to Kathmandu, development indicators lag behind the national average (see Table 1).

Table 1: Development indicators of Dhading

Area	Dhading	National average
Life expectancy at birth (in years)	58	61
Adult literacy (in %)	34	49
GDP per capita (\$PPP)	1,075	1,490
Human Poverty Index in %	48	38
Gender Development Index	0.39	0.51
Composite Human Development Index	0.41	0.53

Source: Nepal Human Development Report, 2004, UNDP HDR 2006

Section 1

Water and sanitation profile

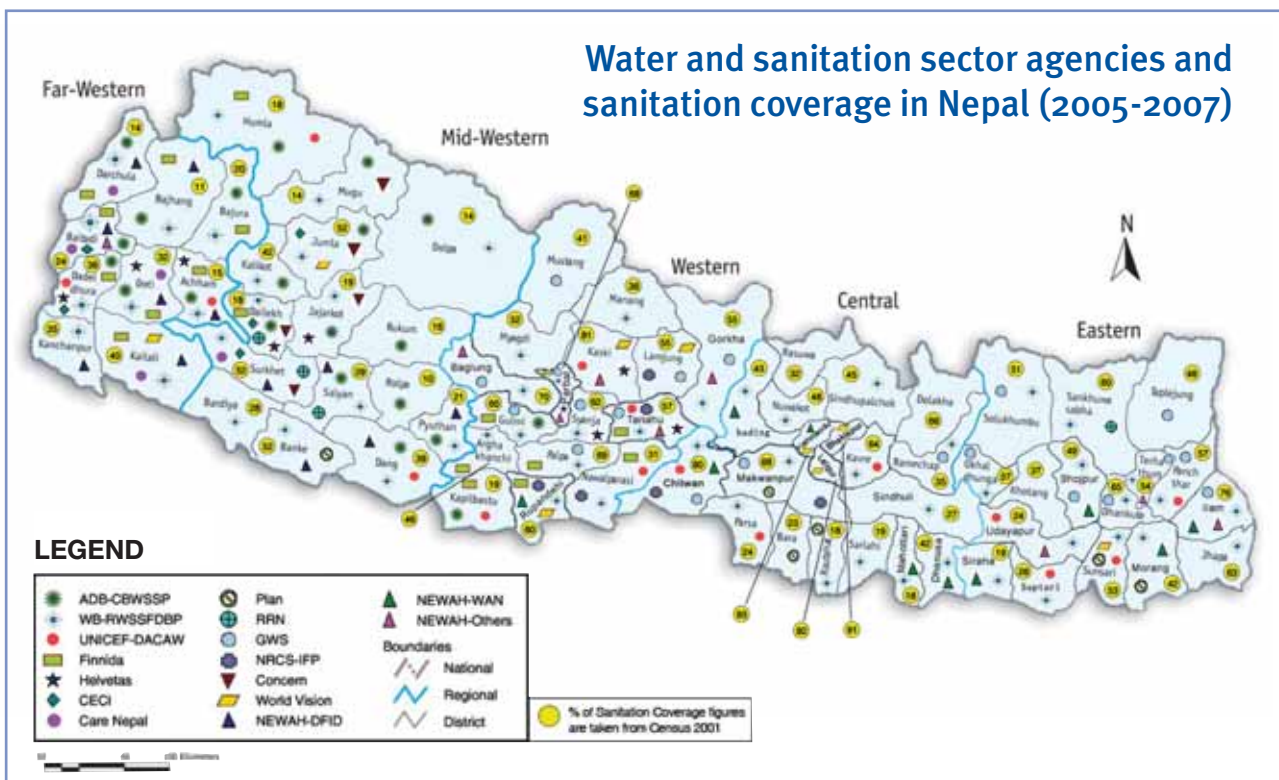
As the district is situated in the lap of the high Himalayas, it is endowed with plentiful water resources. There are altogether more than 1,500 rivers, rivulets and springs in the district. The latest survey (national census, 2001) indicates water coverage to be 79% (3% below the national average). Gravity flow water supply schemes are the main technology used. Sanitation coverage stands at 43%, similar to the national average of 42%.

Section 2

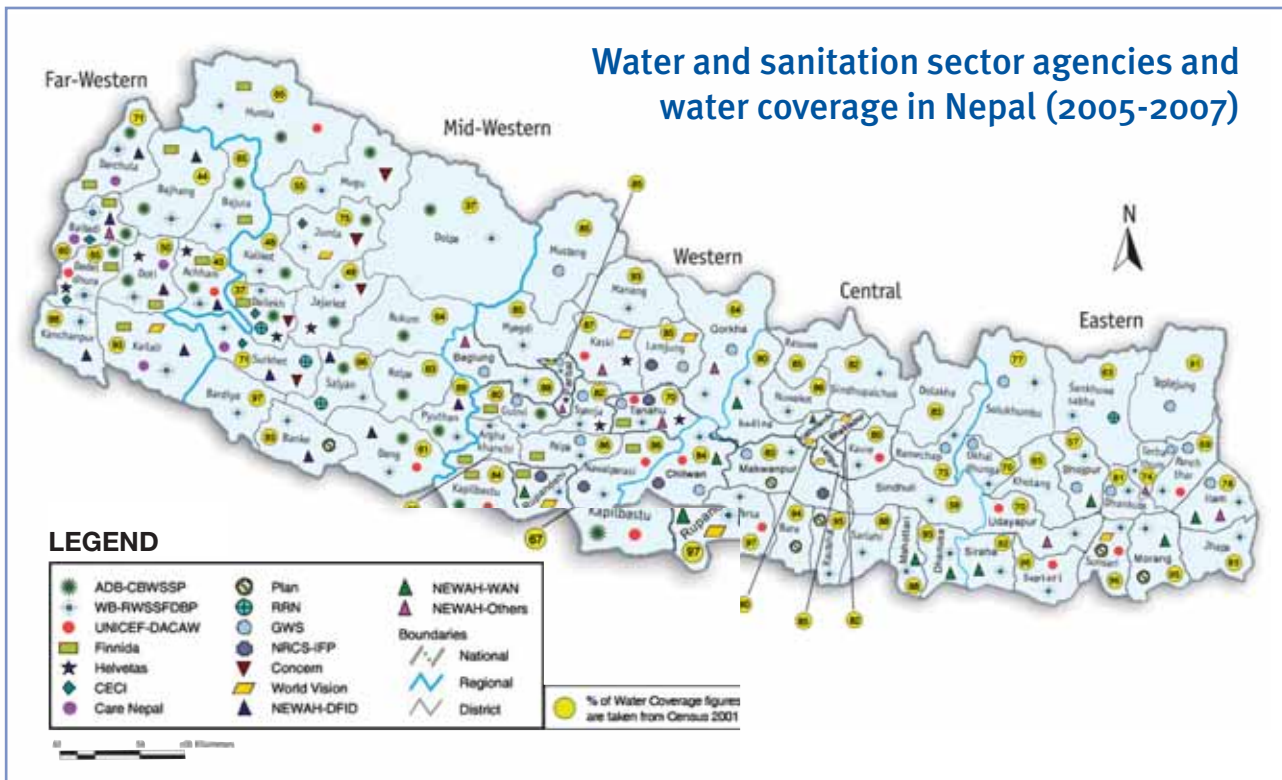
Equity and off-budget and off-plan funding

Inequity of water supply and sanitation schemes in Dhading

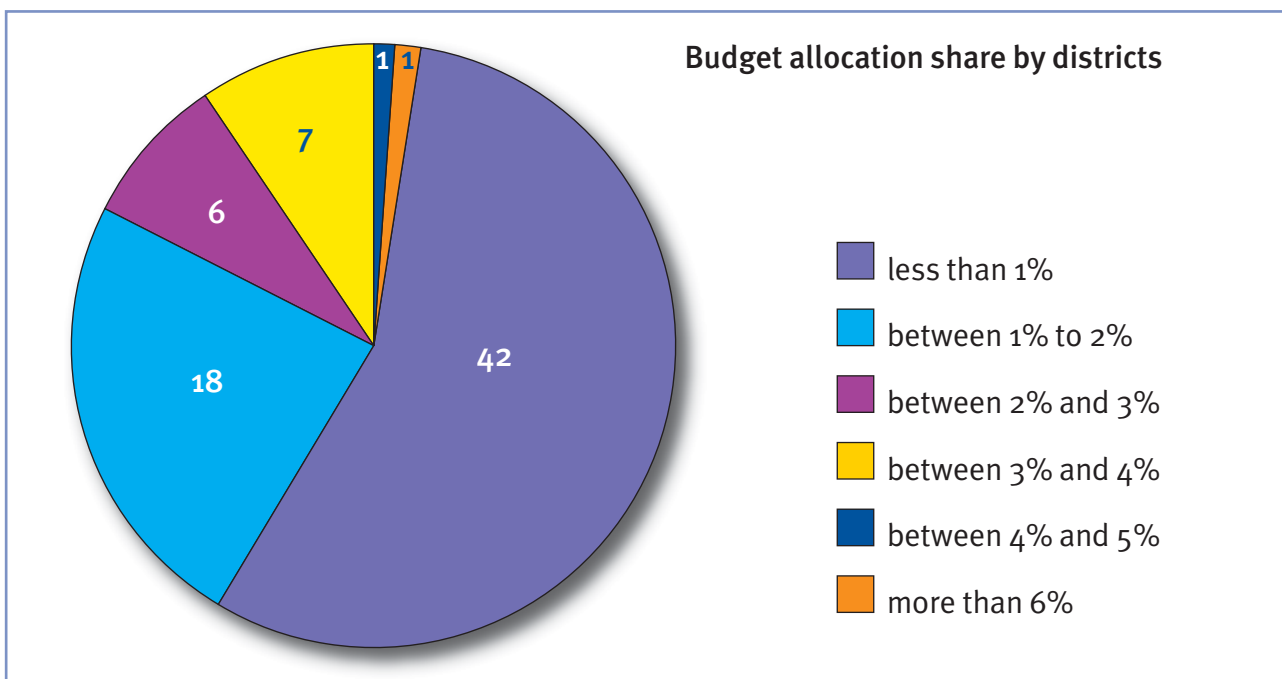
A 2005 study by FEDWASUN revealed that in two out of the 50 VDCs in Dhading no government, donor or NGO water supply and sanitation schemes have ever been implemented. The study highlighted a similar situation in Baglung and Makwanpur districts where 13 out of 104 VDCs had no WSS projects. In all cases the excluded VDCs are in remote and poor areas. A similar picture of inequity emerges at the national level. Forty-two out of 75 districts have water and/or sanitation coverage below the national average. The following map shows inequity of service coverage.



Section 2



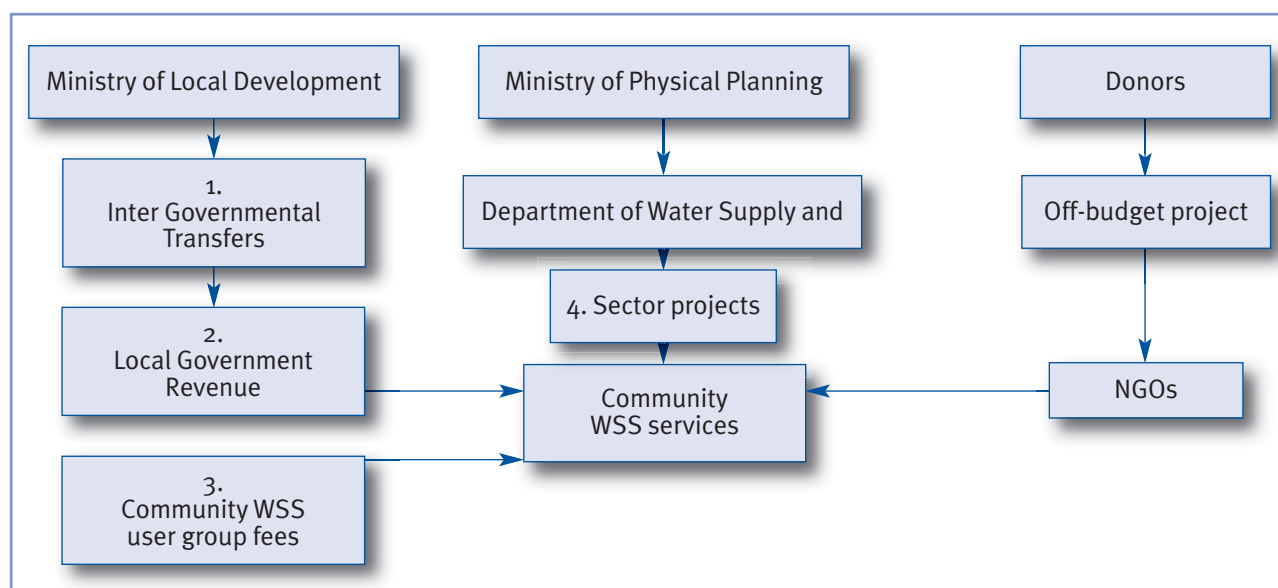
Despite an increasing trend in national water and sanitation coverage, the services are not reaching the poor and vulnerable communities. The National Living Standards Survey (2004) reports that the richest quintile of the population is eight times more likely to have sanitation facilities than the poorest quintile (coverage among the richest quintile is 80% versus 10% among the poorest). In the case of private connections to water points, the rich are 13 times more likely to get a connection than the poor. District wise sector budget allocation for the last three years showed that that 40 districts were allocated less than 1% of the water and sanitation budget while one district has 5% and another 6% of the total water and sanitation budget (estimated from Red Book, 2004 to 07).



Most funding is off the local budget

Funding for water and sanitation flows into the district through five channels (see Figure 1).

Figure 1: Water supply and sanitation financing blocks and fund flows in Dhading

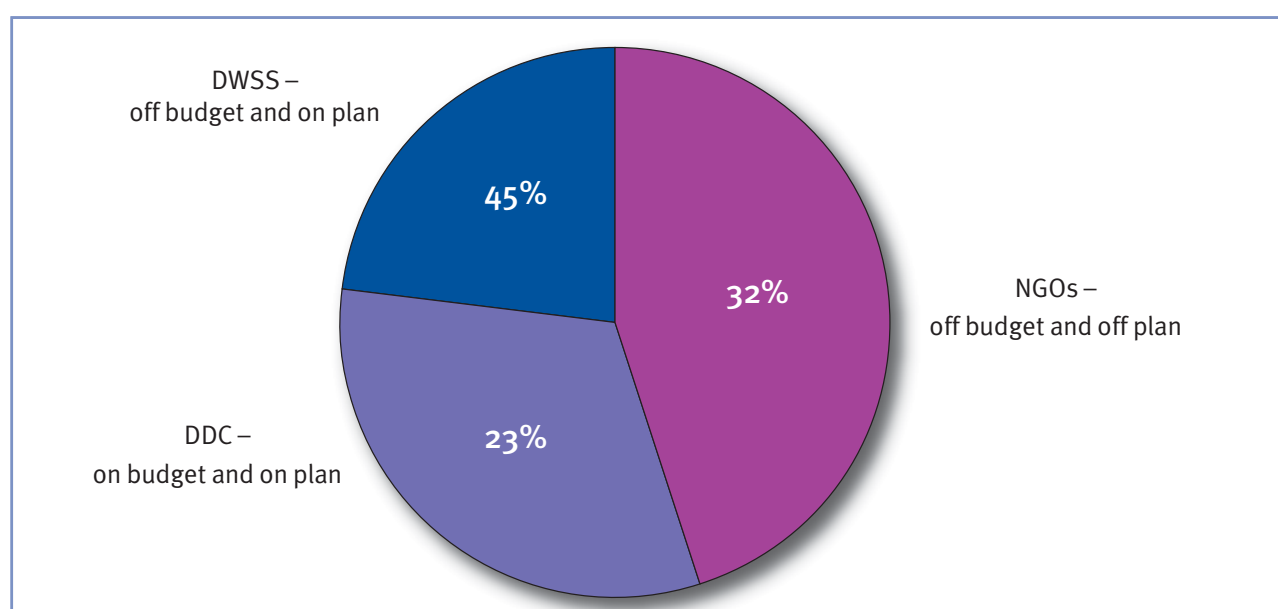


Local government income and expenditure

The major sources of income for local bodies are intergovernmental transfers (unconditional grant to VDCs, IGT conditional grant) and internal revenue generation by DDC. The other fund flows to the district largely bypass local government budgets.

This is reflected in expenditure patterns. In Dhading district only 23% of water supply and sanitation expenditure through the different channels is reflected in the local budget (see Figure 2).

Figure 2: Proportion of local expenditure on and off the local budget



Section 2

Analysis of district level budget allocations shows that education had remained dominant. This is followed by agriculture and irrigation. The budget allocation for drinking water and sanitation increases in the year 2006/07, yet it does not appear as a priority programme.

The majority of drinking water and sanitation-related expenditure in Dhading is outside of the local government budget. Off-budget investment by the Department of Water Supply and Sanitation (DWSS) office represents 45% of total expenditure and expenditure by local NGOs; the remaining 32% the DWSS continues to implement citing a lack of technical capacity within the DDC.

The fact that such a large proportion of funding is beyond the control of local government significantly hinders its ability to plan effectively and attempt to target resources towards poor and underserved communities. Prior to 2002, when elected local governments existed, there were some attempts to coordinate project locations through the district planning process. This practice largely stopped after the dissolution of elected local government in 2002.

Why does local financing matter for equity?

The way that funds are channelled to the local level determines the level of control that local government has on where and how these are spent. Donors and central government need to consider the impact of finance by-passing local government on the ability of the latter to perform its mandate. These stakeholders need to step back from taking local level decisions. Unless one body at the local level – and this responsibility has been mandated to the local government – has sight and control of all resources invested in the district, the pattern of inequitable investment will remain. Concerns about the weak capacity of local governments could be preventing donors from taking these steps, which in turn perpetuates the problem.

Equity and off-budget/ off-plan funding: what can be done?

- *By local government* – prepare detailed plans of the district highlighting poor and underserved communities for priority investment
- *By national government* – according to the current Rural Water Supply and Sanitation policy and strategy 2004 the role of DWSS is that of a facilitator and not an implementer. The Ministry of Physical Planning and Works (MPPW) and DWSS should stop direct implementation of projects and support the DDC to implement these projects instead
- *By donors* – make it mandatory for all projects funded by them to be reflected in local plans
- *By NGOs* – a) ensure all projects supported are on local plans; b) support mechanisms for raising citizens voice on equity issues
- *By citizens* – a) prepare maps showing under-served poor areas; b) monitor the location of investments from all funding channels – are these being directed to poor underserved areas?

Section 3

Balancing rehabilitation, new schemes and equity

National coverage estimates, resources gaps and the crux of the problem

Current statistics (NDHS 2006) indicate that 82% of the population of Nepal has access to improved drinking water sources (rural 81% and urban 90%). However, if we define access as being within a reasonable distance of 15 minutes, the coverage drops to 70% (rural 68% and urban 83%). The National Demographic Health Survey (NDHS) 2006 estimated that, although coverage is around 82%, the proportion of people who treat water before consumption is as low as 13% (Ministry of Health 2007).

The NDHS 2006 also reported that 52% of the population practice open defecation. Further analysis shows that 25% are reported to have access to improved latrines, such as a flush latrine connected to a sewer line, flush latrine with a septic tank, flush to pit latrine, VIP latrine, pit latrine with slab or a composting latrine. The report suggests that only 36% of households in Nepal have household-owned latrine facilities; 11% of these are unhygienic open pit latrines with no covering slab. The figure reported by the NDHS 2006 is consistent with WaterAid in Nepal's estimate of coverage.

In 2004, WaterAid in Nepal calculated an annual resource gap to meet the MDGs of \$23 million. A more recent estimate put the national level resource gap at \$43 million per annum (NPC and UNDP, 2005). Estimates for Dhading indicate that the current investment levels are adequate to meet MDG targets, however an additional \$170,000 per annum (a 30% increase in investment) would be needed to meet the national targets of universal access to water and sanitation by 2017.

Government statistics show high coverage of water and sanitation in the district. However these figures hide severe problems relating to the sustainability of projects and duplication of projects in specific locations resulting first in over-reporting of beneficiaries and coverage, and also including non-functional schemes in estimates of coverage.

The rehabilitation task in hill districts of Nepal

An analysis of 20 hill district water and sanitation profiles was prepared in 2000 for the first time (WaterAid in Nepal, 2003). It revealed (see Table 2) that:

- One in five schemes requires rehabilitation
- More than half of the schemes require major repair
- Only one fifth of all schemes are not in need of some sort of attention

Section 3

Official statistics were compared with data from case studies conducted by FEDWASUN in the year 2006. These showed that out of 9,500 water points from eight hill districts including Dhading, 16% of the water points require rehabilitation.

The annual cost required to meet MDG targets under the assumption that all water points are functioning is NRs36 million (\$0.5 million). If we take account of the finding that 16% of the schemes need rehabilitation at 7% of total cost per annum, the annual cost increases by NRs4.0 million (\$57,000).

Balancing rehabilitation versus extending services to new areas

While investing in rehabilitation may be the most cost effective way of increasing service levels, communities in Dhading raised concerns over the equity of this type of investment. Their concern was that communities that earlier received a scheme were the better-off communities. Under a rehabilitation programme investment would again be targeted at these communities and not at poor and unserved areas.

Limitations of community management

Over the last two decades, all agencies in Dhading have moved to a community management model. Under this approach a users group and a caretaker are given responsibility for operation and maintenance (O&M) of each scheme. However recent evidence suggests that there are limitations to the capacity of user groups to cope with major repairs or rehabilitation (Nepal Water for Health (NEWAH), 2004 and 2006). A study of two community-managed gravity flow schemes in Dhading found that the revenue generated through water tariffs (currently set at NRs15 (1\$=Rs75) per household per month) was insufficient (NEWAH, 2004). The study indicated that the schemes are not financially sustainable and that water tariffs would need to be increased by between 70-180% to ensure sustainability. However, communities would not be able to afford or be willing to pay such amounts.

Currently none of the organisations working in Dhading are allocating funding to support communities to maintain existing schemes – communities have just been left to manage alone.

Box 2 Example of a water and sanitation user group finances: Current status of Bhadaure maintenance fund two years after project completion

	Income (NRs)	Expenditure (NRs)	Remark
Initial maintenance fund (at end of project implementation)	12,000		
Tariff from users and interest	44,020		
Caretaker salary		33,600	NRs1,400 per month for 24 months
Repairs and maintenance		2,673	Potassium powder, padlocks, tools, washers, kerosene
Sub total	56,020	36,273	
Balance	19,747		
Note: 1 \$ =N.Rs.70			
<p>Bhadaure is a community in Dhading where a project was implemented with support of NEWAH in 2002. A study found that two years after the end of the project there was NRs19,747 in the maintenance fund in Bhadaure. Each household had initially agreed to pay NRs15 per month. If all users had paid regularly NRs59,000 would have been collected. However only NRs44,000 has been collected, a difference of NRs15,000, equivalent to 1,000 missed payments or around a quarter of payments. The fund is kept in the local bank and is used for paying the caretaker only and is not put to any other productive use. Comparing the level of the existing maintenance fund to the cost of repairs and rehabilitation given above, it is very clear that the users group does not have the financial capacity to deal with major repairs or rehabilitation.</p> <p>Source: Water Consumption Study, Nepal Water for Health, 2004</p>			

Why does local financing matters for rehabilitation?

Section 2 of this report shows how financing has a critical impact on the **spatial equity** of services. This section demonstrates that financing also determines **what is financed**. In most cases this is new schemes. What is required is a more nuanced mix of finance for rehabilitation, community management support and investment in new areas. Local government should monitor the status of all schemes and mobilise funding for rehabilitation. There is also a need to determine the type of investment on up-to-date local level plans identifying diverse needs.

Section 3

Balancing rehabilitation, new schemes and equity: what can be done?

- *By local government* – a) prepare profiles of district rehabilitation needs, including a users' perspective; b) prepare district plans with a mix of rehabilitation, support to user groups and new projects; c) form joint monitoring committees with local government, users and NGOs to monitor sustainability of projects
- *By national government* – a) set policy guidelines for responding to the national rehabilitation task; b) ensure sufficient finance for infrastructure development, financing rehabilitation and for monitoring of existing infrastructure
- *By donors* – make finance available to respond to the needs of the district with a mix of investment in rehabilitation and new projects
- *By NGOs* – support user groups with sustainability monitoring
- *By citizens* – monitor sustainability of schemes in their community and the district and use this information in the district planning processes

Section 4

The accountability deficit

Local governments are required to account both ‘upwards’ to higher tiers of government and ‘downwards’ to communities. In reality, upward accountability is more prominent than downward accountability.

In theory, local bodies are accountable to their citizens for their actions. The DDC Council is accountable to the citizens of its district. The accountability mechanism is upheld through periodic elections. Council members can raise questions on matters relating to district development. All DDC decisions are subject to the approval of the council. The local development officer is accountable to the DDC and to the Ministry of Local Development. The Auditor General’s Office is responsible for the final audit of the sector and DDC.

The responsibility of the District Development Committee Office (DDCO) is to execute the district plan under the direction of the DDC Chairperson. The DDC is accountable for delegating, financing and enforcement, whereas the DDCO is accountable for performance and reporting.

However, without a democratically elected government, responsibility lies with government staff without the necessary democratic checks and balances.

The accountability deficit is further aggravated by an absence of transparency around the volume of funds transferred through any one channel. For intergovernmental transfers, a transparent formula does exist to determine volume but is not applied in practice, so fund allocation remains uncertain and inscrutable.

Section 4

Accountability towards citizens

In Nepal, there are well defined policies on downward accountability. The problem is the gap between policy and practice. Dhading is no exception to this.

Parameter	Status
Take in to account: Are there mechanisms for involving citizens in planning and are citizens involved in planning?	Mechanisms not well-defined but citizens are involved in planning
Give an account: Are plans, reports, budgets and expenditure publicly available and posted?	Available but only after considerable efforts
Hold to account: Are there effective mechanisms for auditing, regulating or scrutinising expenditure?	Mechanisms exist and are effective. DDC and sector department follow the prescribed format of reporting to ministry on a quarterly basis on both programme performance and financing. Auditing is mandatory for DDC and DWSS.

Through a programme supported by WaterAid in Nepal, efforts have been made to encourage citizens to demand greater accountability from the local government. In Dhading district, FEDWASUN has been nominated as a member of the district water resource committee that helps citizens to gain access to planning processes and monitoring of programmes/projects. However, audit report and performance monitoring reports are still inaccessible to citizens and considerable effort is required to obtain and analyse them.

Box 2: Citizens' action leads to rehabilitation in Dhading

In Kumpur community two water projects were constructed a decade ago by the DWSS Division, Dhading. The projects failed to ever supply water to the targeted beneficiaries because the intake was constructed below the altitude of the community. The site selection for the projects was done without consultation with the community. Furthermore the projects were handed over to the community before the project was completed and the hand-over was to a number of individuals rather than to a community based organisation.

FEDWASUN brought this issue before district stakeholders, who initially refused to accept the claim. With large public support, district stakeholders ultimately agreed to revisit the project and a separate budget has been allocated this year to rehabilitate the project.

Why does local financing matters for accountability?

One of the main arguments in favour of decentralisation is that it brings the decision makers closer to those they serve and therefore increases accountability. A participatory governance assessment indicated that “[...] notwithstanding multiple and often deeply felt criticisms of local government officials, [poor and excluded groups] are nevertheless more supportive of decentralised policy decision-making processes... despite long and often repeatedly disappointing interactions with local level officials and service providers, poor and excluded groups still retained high expectations from government authorities” (NEPAN, 2007, p.24).

Yet, it remains challenging for citizens to demand accountability from local government and it is harder still for citizens to demand accountability from distant central line agencies, donors and NGOs. If financing is not flowing through local government budgets it is almost impossible for citizens to demand accountability from these service providers. Local government too faces constraints in becoming more accountable. A change in attitudes and skills is required to become more service-oriented – something that staff are not trained and incentivised to do. However even a well-intentioned local government will find it difficult to be accountable for activities taking place within its jurisdiction when these activities are beyond its knowledge and control.

The accountability deficit: what can be done?

- *By local government* – a) adopt more service oriented behaviors and implement transparency, participation and accountability provisions (there are limitations on what local governments can do in the current context); b) strengthen communication channels through more use of community radio
- *By national government* – a) capacity building of local government to increase their ability to be accountable; b) consider linking provision of certain block grants to local government to performance in terms of accountability; c) funding of civic education and legal literacy programmes
- *By donors* – support pilots and promote accountability mechanisms at the local level
- *By NGOs* – a) ensure programmes they support are fully accountable to communities and to government and donors; b) build capacity of local citizens voice mechanisms for increasing accountability
- *By citizens* – a) make real use of the recent Right To Information Act to demand information on investment and performance in the sector b) map and assess service levels and engage service providers in dialogue

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Notes

Notes

Think local, act local

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



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

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