

Enhance
government
leadership of sector
planning
processes

Strengthen and use
country systems

Use one
information
and mutual
accountability
platform

Build sustainable
water and sanitation
sector financing
strategies

4. Build sustainable water and sanitation sector financing strategies that incorporate financial data on all 3Ts (taxes, tariffs and transfers), as well as estimates for non-tariff household expenditure

*This paper is part of a series of briefs outlining the four **SWA Collaborative Behaviours**¹. These papers draw on recent empirical evidence from eight case-studies² carried out by partners of Sanitation and Water for All's Country Processes Task Team along with broader evidence drawn from both the WASH sector and beyond.*

Building sustainable water and sanitation sector financing strategies

Water and sanitation sector financing strategies are a key component of sector policy and planning that enables sector stakeholders (policy makers, service providers, private sector and civil society) to make better investment decisions and to plan for financing of operations and maintenance. Financing strategies enable long term planning for the life-cycle costs of services, including the cost estimates for both hardware and 'software' elements (such as support to service providers and authorities, incentives to entrepreneurs, and capacity building of service providers and service authorities).

Effective and equitable development of WASH services requires financing strategies that incorporate financial data on all 3Ts (taxes, tariffs and transfers) and include estimates for non-tariff household WASH expenditure.

Building these strategies relies on the transparency and predictability of sector financing and a prerequisite is that there is transparent recording of fund flows from taxes, transfers and tariffs in:

- a) Financing agreements between development partners and governments;
- b) Government budgets (national, state and local) showing both budgeted and actual funding flows, including those from development partners;

¹ The other briefs in this series can [be found here](#).

² The case study material is drawn from the following countries: Burkina Faso, Ethiopia, Ghana, Honduras, Liberia, Niger, South Sudan, Timor Leste. The case studies were conducted by IRC, WaterAid and the Water and Sanitation Programme of the World Bank.

- c) Service providers financial statements, preferably in a format that is in accordance with International Financial Reporting Standards;
- d) Household consumption surveys that clearly separate out expenditure on WASH.

Even more specifically, financing agreements between governments and their development partners are essential in ensuring information on external transfers is accessible to legislators and the public. National budget systems support effective decision making by local, provincial and national governments and development partners, and shed light on the capacity to absorb available financial resources. Financial statements provide an overview of capital depreciation or formation, profit and loss and cash flows of service providers. Household consumption data on WASH generates a picture of how much poorer households spend on WASH relative to wealthier households and so enable an understanding of benefit incidence (the amount of public subsidy consumed by different wealth groups). Together these data sources enable the legislators and policy makers and other stakeholders to exercise a leadership role in directing and monitoring sector investment to where they are needed most. They can also promote domestic accountability for sector spending, both through parliamentary oversight and increased civil society scrutiny.

In contrast, the lack of systems within the water and sanitation sector for gathering financial data, assessing it and making it accessible is a critical impediment in generating a picture of who is financing what, with what funding, for how long and with what effect.

Learning from current practice

Evidence suggests that recording and reporting of WASH sector expenditure is not yet as effective as it should be³. Addressing this requires action from both developing country governments, and their development partners.

Governments are showing strong leadership in strengthening sector reporting. Central to Ethiopia's One Wash National Programme (OWNP) is the concept of 'One Report', which would see financial and activity reporting from each contributor consolidated under a common, unified framework. In Timor-Leste, which faces difficulties in identifying sources of funds because financing is increasingly spread across a number of institutions and programmes, the establishment in 2011 of an Aid Transparency Portal has been an important development. Through the portal, development partners can register their projects, recent disbursements and future projections every quarter, helping to mobilise increasing reporting about where, what and how much development partners are investing in WASH activities, and thus assist the Government to manage the sector and allocate its resources efficiently. However, Government officials continue to raise concerns about the degree to which development partners, especially those implementing projects in which the Government has no role, are adequately sharing information on their activities.

Challenges to accurate and timely recording of development partner expenditure remain significant. Building strong WASH reporting systems requires recording of both donor and domestic WASH expenditure in national budget systems. However, even in countries such as Ethiopia – which have made efforts to put in place the building blocks of a functioning WASH sector - some elements of the development partner reporting remain weak.

³ such as that gathered by TrackFin

In Niger, recording of expenditure remains even more problematic, as whilst development partner projects are recorded 'on plan' by the Ministry of Water and Environment (MHE), they are neither included in the national budget nor disbursed via the treasury. Each development partner project uses its own designated account in commercial banks making it very difficult for the Ministry of Finance to provide clarity on the volume of finance available for WASH let alone actual expenditure.

In South Sudan the Ministry of Finance, Commerce, Investment and Economic Planning (MoFCIEP) relies heavily on donor compliance with the reporting calendar, but only a few donors are reported to be sharing detailed budget plans with their government counterparts. Such information gaps not only undermine Government planning and resource allocation processes, but can also undermine trust among sector actors.

But some development partners are making efforts to support improvements in the way sector expenditure is recorded. For example, in Ethiopia the Water Supply and Sanitation Project (WSSP) has led to a shift from development partner funds flowing via line ministries, to a system of fund flow managed by the Federal Ministry of Finance and Economic Development to decentralized levels of government (World Bank 2010). This has helped ensure donor expenditure is recorded on budget, and comparison of disbursement against annual commitments suggests that utilisation of donor funds has been steadily improving as a result. There are also promising examples of development partners employing innovative approaches to ensure their expenditure is recorded as part of government budgetary processes, even where robust systems for budget execution, financial management and auditing are not yet in place. For example, in Timor Leste the Australian Government's BESIK programme has its own programme implementation unit, but has plans to transition to budget support during the programme's second phase.

Weakness in incorporating and assessing data on all fund flows limits oversight of sector spending, which in turn undermines the effective use of resources. In many countries the absence of clear budget lines for each of water, sanitation and hygiene expenditure is a recurring bottleneck for tracking expenditure on WASH. These challenges are exacerbated by a lack of predictability of fund flows, which constrain effective scheduling of activities under the budget and ability to timely execute the planned works. In South Sudan, such unpredictability was one reason behind the fact that by the end of the 2012-13 financial year, only 39% of the then planned MWRI budget was spent - a scenario that calls for an improved budget forecasting and monitoring. In Honduras, 75% of all external funding flowing to the WASH sector is centrally registered by Ministry of Finance. However, at sector level, funding is poorly monitored and assessed and is certainly not systematically used for planning purposes

In addition to recording fund flows in national budgets there need to be improvements in the reporting of financial flows by service providers. There are still many utilities, not to mention smaller service providers, which do not publish financial statements. In some cases, such as Zimbabwe, this is because the utilities are a department of municipal or local government but in other cases, corporatized utilities (such as Port Harcourt, Nigeria; Hargeisa, Somaliland; and Peshawar, Pakistan) are simply not in compliance with reporting requirements and need support to make the move to IFRS reporting.

Data on household expenditure on WASH is also patchy. In a number of countries WASH expenditure is not separated out from other household expenditure on food. Sector specialists need to work with national statistics bureaus to define categories of consumption that enable expenditure on purchasing

water, sanitation and hygiene goods and services to be separated out from other consumption regularly recorded in household budget surveys.

Recommendations

To build sustainable water and sanitation sector financing strategies, developing country governments should:

- Develop and implement investment plans for WASH that establish how equitable and sustainable service delivery for all will be guaranteed in the long term (based on a mid- and long- term estimation of all costs and envisioned income from all sources (3Ts));
- Provide a clear framework through which donors can record their aid within national public budgets;
- Develop clear budget lines for water and sanitation in public budgets to allow for disaggregated recording and reporting on the taxes and transfers;
- Ensure that corporatized utilities and municipal water and sewer departments comply with appropriate standards for financial reporting and publishing.
- Ensure that WASH expenditure is captured separately in household budget surveys.

Development partners should:

- Record aid transfers in public budgets and where possible channel these through government financial management systems;
- Where donor funding is off-budget, ensure this is accounted for and included as part of sectoral spending and take steps to record such fund on national budget
- Provide timely, transparent and comprehensive information on aid flows and impact reached;
- Move towards longer term predictable funding to enable better planning and implementation;
- Address underlying political constraints to transparency and predictability at a headquarters level;
- Support countries in developing or strengthening a national financial reporting and management infrastructure for equitable and sustainable WASH service delivery;
- Support countries in developing the institutional capacities for generating national resources for long term WASH service delivery.