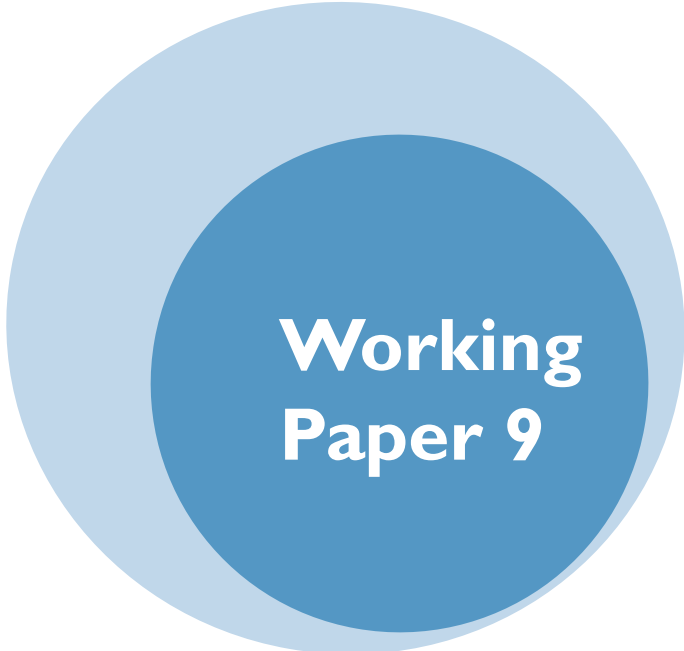


# **Assessment of budget utilisation (Channel One) in the Water Sector**

**A case study of four selected woredas  
in Benishangul-Gumuz regional state**

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*January 2009*



**Working  
Paper 9**



**Research-inspired Policy and Practice  
Learning in Ethiopia and the Nile region**

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**Research-inspired Policy and Practice Learning in Ethiopia and the Nile region (RiPPLE)** is a five-year research programme consortium funded by the UK's [Department for International Development](#) (DFID). It aims to advance evidence-based learning on water supply and sanitation (WSS) focusing specifically on issues of planning, financing, delivery and sustainability and the links between sector improvements and pro-poor economic growth.

*RiPPLE Working Papers contain research questions, methods, preliminary analysis and discussion of research results (from case studies or desk research). They are intended to stimulate debate on policy implications of research findings as well as feed into Long-term Action Research.*

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## List of Acronyms

ADLI	Agricultural Development-led Industrialisation
AIDS	Acquired Immunodeficiency Syndrome
BoFED	Bureau of Finance and Economic Development
BoWR	Bureau of Water Resources
CSO	Civil Society Organisation
DFID	UK Department for International Development
FGD	Focus Group Discussion
EEA	Ethiopian Economic Association
EFY	Ethiopian Fiscal Year
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Country
HIV	Human Immunodeficiency Virus
IFI	International Financial Institution
IMF	International Monetary Fund
LPA	Learning and Practice Alliance
MDG	Millennium Development Goal
MEFF	Macro-economic and Fiscal Framework
MTEF	Medium-term Expenditure Framework
NGO	Nongovernmental Organisation
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PRS	Poverty Reduction Strategy
RiPPLE	Research-inspired Policy and Practice Learning in Ethiopia and the Nile Region
SAP	Structural Adjustment Programme
SDPRP	Sustainable Development and Poverty Reduction Programme
UNICEF	United Nations Children's Fund
WHO	World Health Organization
WSS	Water Supply and Sanitation
WSSCC	Water Supply and Sanitation Collaborative Council
WSDP	Water Sector Development Programme

## Executive summary

Ethiopia has the lowest water supply coverage in sub-Saharan Africa (World Bank, 2004). Only 43% of the population had access to safe water in 2006/07. In the Benishangul-Gumuz region in these problems are even more apparent.

In Ethiopia's poverty reduction strategy (PRS) a 5 year development plan, the main objective for the water and sanitation sub-sector is that, by 2010, the percentage of the rural population with access to potable water will be 80.5%. However, there is a discrepancy between the PRS and annual budget sectoral priorities, and spending in the water sector is very low. Reports indicate that the rural investment requirement required to achieve the PRS goals is about five times the estimated current spending. Even achieving this goal, which implies coverage of 64%, would still leave over 35 million people without water.

Efforts to provide and sustain water and sanitation facilities have not achieved the intended objectives. Besides a need to increase investment in the sector, there is evidence of an inability to utilise Channel One funding efficiently and effectively (government budget and donor money in the form of loan and grants coming through the Federal Treasury rather than sectoral ministries). This raises questions as to the wisdom of allocating additional resources rapidly.

The main objective of this research was to use primary and secondary data collection to identify and assess the causes of the poor utilisation of Channel One funding to the water sector in Benishangul-Gumuz region, looking particularly at four woredas<sup>1</sup> (two RiPPLE study woredas and two non-RiPPLE). This paper examines the amount actually flowing to the sub-sector and the level of under/overspending, and assesses how efficiently and effectively the budget has been used during the past five years. It then puts forward viable recommendations for decision makers.

## Findings

Major findings of the research were as follows.

- Despite strong commitment by the government in its policy documents, the budget allocated to water has been very low compared with other basic service sectors, at both federal and regional levels, including in Benishangul-Gumuz.
- Channel One budget allocation to the water sector, at regional and woreda levels, has been much lower than is required for improving access to safe water. The growth trend in the study areas has been inconsistent, as has the allocation of the water budget into capital and recurrent budgets.
- There is a discrepancy between the poverty reduction policy priorities and annual budget sectoral priorities.
- There has been underspending of the Channel One water budget in the study woredas.

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<sup>1</sup> The lower administrative structure of the government, or 'district'.

- The growth trend of the Channel One water budget in individual districts can be inconsistent, with erratic ups and downs that do not reflect the steady increase of the overall government budget at federal, regional and woreda levels.
- There are problems with a: lack of coordination and structural clarity in the water sector; lack of consistent and well organised data; delays in financial disbursements; lack of effective and systematic monitoring and evaluation; and prevalence of centralised budget allocation at woreda level.

## Recommendations

### *Allocations*

- Budget decision makers at regional and woreda levels should receive wide-ranging capacity-building support.
- The level of supervision of budget allocations should be enhanced.
- Appropriate mechanisms should be designed and put in place to ensure public budget allocations are based on local community needs and priorities.

### *Spending*

- A database on finance and spending should be developed, and fragmentation of fiscal planning and disbursement should be minimised.
- There should be transparent oversight mechanisms and standardised reporting systems for spending.
- The regional and woreda-level water sector should be allowed greater autonomy, under a system of sound rules, regulations and working procedures, to increase buy-in and prevent bureaucratic delays.
- The quality of information available at each government level should be improved and capacity built on how to approve budgets and 'check and balance' budget utilisation.
- Government financial management systems should be strengthened, through: better resource planning; improved transparency and accounting, auditing and procurement practices at woreda level; a focus on performance; participation of users in the budget process; clarification of roles and responsibilities in the water sector; improved structure of woreda-level institutions; and improved information and monitoring and evaluation systems.

## I Introduction

The provision of safe water and appropriate sanitation services is recognised as an essential precondition to achieving a minimum standard of living, good health and economic growth. However, many countries currently suffer from a shortage of potable water and sanitation facilities. This situation is more aggravated in less developed countries, like Ethiopia. Water supply coverage in such countries is very low, especially in rural areas. Developing countries also struggle to expand new water schemes and sanitation supplies and have difficulties sustaining existing systems.

There has been an increase of interest from civil society organisations (CSOs) and others in development planning and its respective budget allocations. A great deal of advocacy surrounds the budget process in different developing countries, in Africa, Latin America and Asia. A number of budget groups – consisting of members drawn from nongovernmental organisations (NGOs) engaged in budget work – have been established in Ethiopia (de Renzio and Krafchik, 2000).

More and more countries are devoting substantial resources (usually using international donor assistance) towards implementing best practice financial management techniques, such as medium-term budgeting, and reforming key government institutions. Sustainable improvements in public budgeting will require the capacity building both of government and of independent oversight institutions, such as civil society, the legislature and the media. To date, much less attention has been devoted to establishing effective budget oversight systems, and to ensuring that independent stakeholders have the information and capacity necessary to hold governments to account (de Renzio and Krafchik, 2000).

Governments and donors are pursuing an agenda of aggressive expansion of social service coverage. However, nobody has calculated the costs of the strategies being proposed to assess how they can be made to fit within a realistic fiscal framework (de Renzio and Krafchik, 2000). The fact that social programmes are particularly intensive in their demands on recurrent resources mean that expansions being committed to today could easily overwhelm budgets in 20 years' time, crowding out the capacity to fund other investments. Furthermore, as there is very limited capacity to finance these needs domestically, they will largely drive the level of foreign aid requirements over the next two decades. Finally, because the costs of these programmes fall primarily on regional governments, they imply the need for a major increase in the share of resources transferred to lower-level governments (World Bank, 2004).

Ethiopia faces unique challenges: human development needs are arguably the greatest of any country in the world, while capacity to finance work to deal with such needs are as low as anywhere. This fundamental problem greatly affects approaches towards social sector spending and policy. At the same time, Ethiopia is starting from an exceptionally low base in terms of coverage of water systems and facilities. Water supply coverage is at 24%, the lowest in sub-Saharan Africa (World Bank, 2004). According to the annual report of the Ethiopian Bureau of Water Resources (BoWR), only 43% of the population had access to safe water in Ethiopian Fiscal Year (EFY) 1999 (2006/07).<sup>2</sup> In the Benishangul-Gumuz region of Ethiopia the situation of low water supply and sanitation coverage is even worse than the national averages.

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<sup>2</sup> The Ethiopian Fiscal Year normally runs from 8 July to 7 July, i.e. Hamle 1 to Sene 30 of the Ethiopian Calendar. Unless specifically indicated, all the years mentioned in this report use the Gregorian Calendar.

Governmental institutions and NGOs have tried to provide and sustain water and sanitation facilities, but these efforts have not achieved the intended objectives. The BoWR was established to tackle water issues and to provide potable water to communities by allocating a budget to the sector every year. Again, results obtained in the expansion of water supply systems and their sustainability have not been satisfactory.

The most important action necessary to expand water coverage is to increase investment in the water sector. However, despite the common assumption that water problems are all caused by a lack of money, there is also evidence of an inability to utilise Channel One funding efficiently and effectively (i.e. government budget and donor money in the form of loan and grants which come through the Federal Treasury rather than sectoral ministries).

The main objective of this research on water sector budget utilisation was to identify and assess the root causes of poor utilisation of Channel One funding (if there was underspending) to the water sector in Benishangul-Gumuz, looking at four woredas. The research aimed to examine the amount of budget actually flowing to the sub-sector and the level of under/overspending, and to assess how efficiently and effectively the budget has been used during the past five years – since the start of decentralisation and the separation of power to the woredas. In this context, this paper explores the relative importance of Channel One resource flows and the extent to which the potential of the public budget is being tapped effectively and how this can be enhanced.

Having assessed these issues, the paper puts forward viable recommendations for decision makers regarding strategies to take advantage of existing and emerging opportunities for improved sector financing and budget execution. It suggests steps to be taken in the allocation and utilisation of Channel One funds to the water sector, in the region in general and the study woredas in particular, by taking existing problems into account. This will help contribute towards improved and sustained future water development interventions. It was originally anticipated that the research would facilitate future dialogue on the state of funding in the sector. After discussions with the regional LPA (Learning and Practice Alliance) team and other relevant stakeholders, the recommendations of this research will be implemented in the two RiPPLE woredas during the next two and a half years. This study will also serve as a starting point of reference for further related studies.

## 2 Research methodology

This research represents the initial phase of a long-term action research project, envisaged to run over a three-year period. The action research facilitates ‘learning-by-doing’, by enabling relevant stakeholders to engage in the assessment, analysis, learning and action processes.

### 2.1 Research objectives

This action research had the following general objective: to identify issues related to the utilisation of Channel One funding to the water sector in four woredas of Benishangul-Gumuz region, from regional to woreda level, and to provide suggestions for future actions to improve water sector budget utilisation.

Specific objectives were as follows:

- To verify whether there was Channel One fund underspending by assessing the trend of budget allocation to, and utilisation by, the water sector at regional level and the level of the four selected woredas.
- To identify reasons for underspending or factors that affect the utilisation rates of Channel One funding to the water sector, from regional to woreda level, as relevant to the selected four study woredas.
- To assess recourse measures taken so far by relevant government agencies at regional, zonal and woreda levels to improve Channel One budget utilisation in the water sector of the study woredas.
- To provide suggestions regarding improvements to Channel One budget utilisation in the water sector of the study woredas.

### 2.2 Scope of the research

The study was conducted in Benishangul-Gumuz, one of the regional states of Ethiopia. This region was highly marginalised by previous regimes and is known for its deep-rooted poverty, arising not only because of economic resource limitations but also because of many other interrelated factors, which would merit further independent investigation. The Plan for Accelerated and Sustained Development to End Poverty (PASDEP) (MoFED, 2006) states that ‘over 70% of the households in Amhara and Benishangul-Gumuz use unsafe water from rivers, lakes and unprotected wells or springs’.

A particular focus was on four selected woredas, two of which are RiPPLE woredas (Menge and Kurmuk, both in Assosa zone<sup>3</sup>). The other two (non-RiPPLE) woredas are in the remaining two zones of the region: Pawe Special Woreda in Metekel zone and Sirba Abay in Kamashi zone. The reason for selecting these woredas is because it was intended to include at least one woreda from each zone in the region. In this way, it would be possible to look at the similarities and differences

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<sup>3</sup> Zonal-level is the government administrative structure between region and woreda-levels.

between the various woredas and zones, as well as between RiPPLE woredas and non-RiPPLE woredas. Pawe Special Woreda and Sirba Abay were selected as it was thought that they would offer relatively different characteristics in terms of amount of budget allocated and capacity of budget execution.

The timeframe covered by this research was limited to five fiscal years, i.e. EFY 1995 to EFY 1999 (2002/03 to 2006/07). This is because the government introduced woreda-level fiscal decentralisation in EFY 1995 and data on budget utilisation can be obtained until EFY 1999.

## 2.3 Data collection and analysis

Research team members were drawn from three regional bureaus (BoWR, the Bureau of Finance and Economic Development – BoFED – and the Regional Administrative Council). Research team members developed the data collection tools, including questionnaires, focus group discussion (FGD) guides and checklists. Team members summarised responses to the survey questionnaires and gathered data from all relevant offices at different levels. The team also conducted discussions with different stakeholders and collected information from secondary sources.

Primary data was collected through questionnaires and structured and unstructured interviews with selected respondents at regional, zonal and woreda levels. Primary data were also collected through FGDs with officials and experts of various relevant government offices at regional, zonal and woreda levels. A total of eight FGDs were conducted, allotting one session for each group of respondents, i.e. four FGDs at woreda level, three at zone level and one at regional level. There were around 61 participants in total in the FGDs. A description of the participants is included in Annex 2.

The methodology also included a time series study, whereby the trends of Channel One fund allocation and utilisation in the water sector were assessed based on secondary sources. These included budget guidelines, annual budget proclamations, allocation and transfer documents, periodic performance and financial reports, performance evaluation reports/minutes, audit reports and other relevant publications. Pertinent data was collected from the following sources:

- The regional BoWR, regional BoFED and Regional Administrative Council;
- Zonal Water Resources Development Offices/Desks and Finance and Economic Development Offices;
- Woreda Water Desks, Finance and Economic Development Offices, and other relevant institutions, such as the Woreda Administrative Councils.

A literature review was also carried out. Quantitative and qualitative data gathered from both primary and secondary sources were subjected to descriptive statistical analysis.

## 2.4 Limitations

The method of data collection unavoidably gave rise to questions surrounding interviewer bias, inconsistent data, unqualified data and unavailability of data. In addition, the study design did not provide an in-depth analysis of the main issues regarding budget utilisation, as the timeframe was not very long and the sample size was not completely representative. This study also does not provide in-depth research into the efficiency and effectiveness of budget expenditure in the water sector.

## 3 Literature review

### 3.1 Water development within the framework of the Millennium Development Goals

Water continues to attract a great deal of attention in the international development community, and has become the focus of a wide array of research and development activities. New global and regional organisations, networks and partnerships have been established; new global reviews of water use and water scarcity have been undertaken; and new commitments have been made to increase investments in the water sector. Targets for reducing the proportion of the world's population without adequate water and sanitation have been agreed upon and have become an important part of the Millennium Development Goals (MDGs).

Unfortunately, there is still a cavernous gap between the 'pro-poor' rhetoric of water crisis and response and the vested interests and competing priorities that continue to drive developments in the water sector, internationally as well as locally. Even the global statistics, narratives and agendas fail to represent the interests of the rural and urban poor, whose water and sanitary conditions are a primary concern. Local deficiencies in water and sanitation services are often far worse than global indicators imply. Contrary to the global water crisis narrative, there is little evidence that these deficiencies are the result of growing water resource scarcity. Low-income communities face a wide range of practical and political obstacles that widely regarded global agendas, such as integrated water resource management and private sector participation, do not address. This makes it all the more important that the opportunity provided by the MDGs to help realign water sector priorities is taken, and that more support is secured for those local initiatives most likely to improve water and sanitary conditions for the hundreds of millions of deprived rural and urban households. More local evidence, knowledge and opinion will have to be brought to bear on the international agendas in order to achieve this (Satterthwaite, 2003).

Indicative targets for water supply and sanitation coverage were developed by the Water Supply and Sanitation Collaborative Council (WSSCC) as part of the process leading up to the Second World Water Forum in The Hague in March 2000. The targets were presented in the report *VISION 21: A Shared Vision for Hygiene, Sanitation and Water Supply and a Framework for Action*. The targets to be achieved were:

- By 2015, to reduce by one-half the proportion of people without access to hygienic sanitation facilities (endorsed by the Second World Water Forum);
- By 2015, to reduce by one-half the proportion of people without sustainable access to adequate quantities of affordable and safe water (also endorsed by the Second World Water Forum); and
- By 2025, to provide water, sanitation and hygiene for all.

Through the Johannesburg Plan of Implementation that emerged from these deliberations, countries committed themselves to halving the proportion of people lacking access to proper sanitation and safe water by 2015.

Even though the above points are the indicative targets, there is no global or regional information base ascertaining how many people have the MDG requirement of 'sustainable access to safe drinking

water'. As the World Health Organization (WHO), the UN Children's Fund (UNICEF) and the WSSCC's 2000 *Global Water Supply and Sanitation Assessment* made clear, in most low-income nations and many middle-income nations, there is no information on who has 'safe drinking water'. The only information for which there is data for virtually all nations regards estimates as to who has 'reasonable access'<sup>4</sup> to 'improved' water sources. These are taken to include public standpipes, boreholes, protected dug wells, protected springs and rainwater collection in addition to household connections, with an acknowledgement that many 'improved' sources are not safe.

There is a large difference between 'reasonable access' and convenient access to water: water needs to be much closer and available in much larger volumes to be adequate for washing, laundry, cooking and personal hygiene. Hundred of millions of people classified as having 'improved' supplies still have to fetch and carry water from distant sources and/or queue for long hours each day to get water. There is no information on whether their access is 'sustainable', and large sections of both urban and rural populations suffer from irregular water supplies.

The drafting of the MDG missed the key issue that it is not just access to safe water that is important for health, but instead **convenient** access to **safe, sufficient and affordable** water supplies. In urban areas, the number of people lacking 'adequate' provision of water (i.e. provision to a standard that greatly reduces health risks from contaminated or inadequate supplies) is estimated to be four to five times the number lacking 'improved' provision. A significant proportion of rural dwellers said to have 'improved' provision are also likely to lack 'adequate' provision. So, achieving the MDG goal of halving the proportion of people without sustainable access to safe drinking water by 2015 is a much larger and more difficult task than just halving the proportion without 'improved' access. Monitoring this goal will also need more detailed data than are currently available (McGranahan, 2003).

### 3.2 Economic development planning in the Ethiopian context

In the initial decades after World War II, the pursuit of economic development was reflected in the almost universal acceptance of development planning as the surest and most direct route to economic progress. In the 1960s and 70s, few people in developing countries would have questioned the advisability or desirability of formulating and implementing a national development plan (Smith, 1973).

In many developing countries, planning was regarded as little more than the production of some kind of document on either a five-year or an annual basis. This blueprint for the future, often incorporating totally unrealistic objectives, frequently became an end in itself rather than a means for achieving development. Such plans were rarely operationally oriented and no real attempt was made to consider how they might be implemented. Indeed, the gap between planning and implementation was, and still is, one of the major shortcomings of planning, and it is consequently an issue that has received a great amount of attention (Smith, 1973). This has resulted in less emphasis on the preparation of plans and more emphasis on translating plans into guidelines for implementation,

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<sup>4</sup> 'Reasonable access' is taken to mean the availability of at least 20 litres per person per day within one kilometre of the user's dwelling.

especially by improving the links between planning and budgeting, since budgeting is the main means of allocating resources for the implementation of plans.

Structural adjustment programmes (SAPs), prescribed by international financial institutions (IFIs) such as the International Monetary Fund (IMF) and the World Bank during the 1980s and early 1990s, led to failure or a lack of success in achieving the desired economic development in many developing countries, particularly African countries. As such, the poverty reduction strategy (PRS) was promoted as a new strategy for countries in a vicious cycle of poverty. In terms of both conceptualisation and framing of the process of policy formulation and implementation, the PRS differs from SAPs.

In line with this, and to enable developing countries to achieve the MDGs, a series of initiatives was taken on, mainly focusing on heavily indebted poor countries (HIPC) for comprehensive debt relief. In September 1999, an agreement was reached between the IMF and the World Bank to make country-owned PRSs the basis for their concessional lending and a guide for the use of resources freed by debt relief under the enhanced HIPC initiative (EEA, 2007). In the years to come, policymaking and budget preparation in most African countries will be based on the preparation of PRSs. This, in turn, will be closely tied to the preparation of a medium-term expenditure framework (MTEF).

It is over three decades since Ethiopia adopted a planned approach to development. In the immediate post-war period, separate programmes and plans, not integrated into a general national framework covering the entire economy, were drawn up by various government agencies and served as the bases for government policy. Subsequently, sectoral programmes of varying durations were prepared for agriculture, industry, forestry, transport and telecommunications, education and water resources development (EEA, 2007).

The Ethiopian government designed and implemented the first phase of its PRS, which it referred to as the Sustainable Development and Poverty Reduction Programme (SDPRP), in 2001-2002, covering the period up to 2005. As a second phase of this initiative, the government recently prepared a document which it refers to as the Plan for Accelerated and Sustained Development to End Poverty (PASDEP), for the five-year period from 2005/06 to 2009/10 (EFY 1998-2002). The document is suppose to encompass: i) the development path that the government will follow in the next five years; ii) the specific objectives to be achieved at the end of the programme period; and iii) the instrument of policy that will be employed and the indicators by which achievements are to be measured (EEA, 2007).

The PASDEP carries forward important components (human development, rural development, food security, expanding education, strengthening health service provision, fighting HIV/AIDS, food security, capacity building and decentralisation), which were started under its predecessor, the SDPRP. It also embodies some new directions, including a major focus on growth in the coming five years and a scaling-up of efforts to achieve the MDGs. The country will continue to pursue the existing Agricultural Development-led Industrialisation (ADLI) strategy, but with important enhancements to capture the private initiative of farmers and to support the diversification and commercialisation of agriculture.

According to the PASDEP document, Ethiopia's strategy for the next five years is expected to consist of the following eight pillars:

- Building all-inclusive implementation capacity;
- A massive push to accelerate growth;
- Creating a balance between economic development and population growth;
- Unleashing the potential of Ethiopia's women;
- Strengthening the infrastructure backbone of the country;
- Strengthening human resource development;
- Managing risk and volatility; and
- Creating employment opportunities.

These pillars aim to enable the nation to achieve the set targets during the PASDEP period. Whether these strategies will really enable the government to achieve the PASDEP targets depends on a number of factors, so it is difficult to make certain value judgments (EEA, 2007).

There is now a consensus that growth is very important, and an accelerated growth strategy is at the core of the PASDEP (MoFED, 2006). Covered are, among other things, GDP growth targets, different sectoral targets and budget allocation to pro-poor sectors. Throughout the PASDEP period, the government is expected to maintain macroeconomic stability and to phase PASDEP programmes into the annual planning cycle to make it consistent with the resources available. Out of the principal PASDEP targets, sectoral goals are the major focus.

### 3.3 Goals for water and strategy during the PASDEP

For the water and sanitation sub-sector, by the end of the PASDEP period, the percentage of the rural population with access to potable water (within 1.5 kilometres) is set to be 80.5%. It was 35% in EFY 1997 (2004/05).

The main elements of the overall water sector strategy (drinking water and sanitation) are:

- To provide access to all of the population with clean potable water over the coming seven years;
- To build capacity at different levels, particularly at sub-national level where actual implementation is taking place;
- To focus on low-cost, affordable and labour-intensive technologies;
- To improve sanitation outcomes;
- To focus on gender considerations while designing projects and programmes; and
- To provide high participation opportunities for females to benefit from construction work.

In order to achieve the sectoral targets, it is obvious that a number of inputs are required. These inputs could be good policies and financial, human and material resources. Although it is important to analyse the allocation of all these resources and the existence of appropriate policies for effective PASDEP monitoring and evaluation, our focus will only be on analysing financial inputs/resources. This is because public finance is the basic and perhaps the most quantifiable input required for the

proper implementation of PASDEP programmes. Besides, it is the major area of interest for the budget group CSOs, whose attention is on public expenditure.

### 3.4 Trends in Ethiopian budget allocations and spending

#### 3.4.1 Sectoral allocations in the PASDEP

One of the crucial tasks in implementing and achieving the PASDEP objectives is financing social and economic development programmes and strategies. The extent to which the various sectoral and national targets will be realisable depends on the provision of the required amount of finance, channelled to the different sectors of the economy during the PASDEP period in a sustainable manner. As a result, the PASDEP document has incorporated the necessary budget breakdowns across sectors for the period to be raised from both domestic and foreign sources, along with detailed descriptions of the sources of revenue and the expenditure for each activity to be undertaken during the five-year period.

The Macro-economic and Fiscal Framework (MEFF) is a tool used by government to establish the resource envelope and broad sectoral allocations, in line with its overall policy objectives of ending poverty and achieving the MDG targets while maintaining fiscal discipline. Thus, the MEFF is an instrument by which three- to five-year resources are identified on the basis of the macroeconomic framework. A medium-term fiscal framework is developed at the beginning of each budget cycle, indicating expected resource mobilisation from both domestic and external sources for the coming years and the broad allocation of those resources to the key sectors. The MEFF is reviewed at the beginning of each budget cycle. It is this MEFF that links the budget process with the PASDEP, as MEFF shows the financing of social and economic development programmes and strategies identified in the PASDEP.

#### 3.4.2 Expenditure categories and sectoral spending in the PASDEP

Even though the overall federal government budget shows an upward trend from EFY 1994 to EFY 1999 (2002/02-2006/07), the trends of some of the specific sectoral budgets indicate a mixed picture. In general, total federal government budget expenditure is divided into four expenditure categories, namely, Administration and General Services, Economic Services, Social Services and Other Expenditures.

In each of these expenditure categories, there is different sectoral spending. In this regard, for instance, the first category consists of spending on different organs of the state, justice and public order, national defence and general services. The second expenditure category, Economic Services, includes spending on agriculture and natural resources, water resources, industry and trade, mining and energy, transport and communication and construction activities. Public spending on education and training, information and communication, culture and sport, health, labour and social services is referred to in the third expenditure category. Finally, federal government spending on transfers, regional subsidies, public debt, provisions and others is included in the last category (EEA, 2007).

Out of total federal government expenditure, the shares of these four major expenditure categories in EFY 1994 (2001/02) were 27.1%, 19.4%, 6% and 47.4%, respectively. They constituted 13.2%, 31.6%, 16.8% and 38%, respectively, in EFY 1999 (2006/07) (EEA, 2007).

In EFY 1999 (2006/07), out of the budget allocated for Administration and General Services, the highest share and therefore priority was given to national defence and general services, which constituted about 82%. The remaining 18% was spent on organs of the state and justice and public order (MoFED, 2006). Out of the total budget allocated for Economic Services, the respective shares of agriculture and natural resources, construction and mining and energy were 45%, 39% and 12%, which accounted for 96% of total spending. The remaining 4% was spent on industry and trade and transport and communication (ibid). The share of expenditure on water resource development was insignificant (see below).

Within the total spending of the Social Services category, the two poverty-oriented (pro-poor) sectors, namely education and health, took the lion’s share. Their respective shares in EFY 1999 (2006/07) were 71.2% and 23.2% of total spending on social services. This constituted 94% of the spending in this category. Finally, within the last expenditure category, the federal government’s subsidies to regions and servicing of public debt constituted 73% and 20% of the total allocated for ‘other expenditures’ (MoFED, 2006).

Figure 3.1: Proportion of Government Expenditure by investment Categories

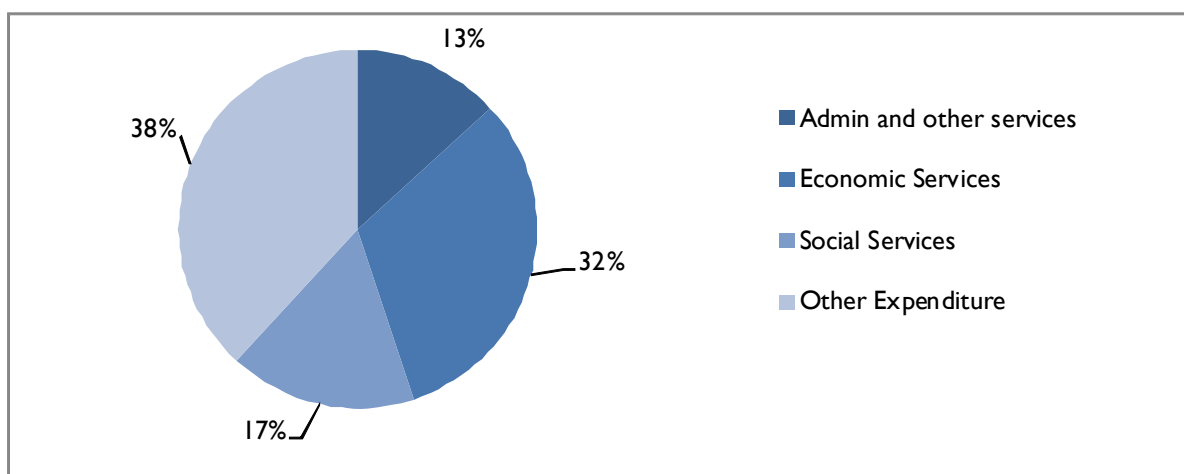
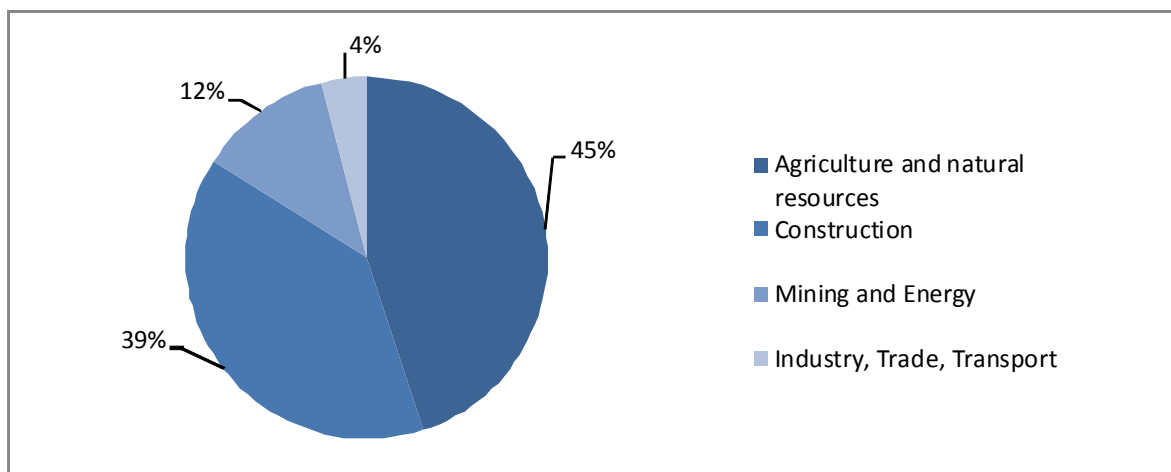


Figure 3.2: Respective Shares of Budget Allocation for Economic Services



### 3.4.3 Allocations and indicative spending in pro-poor sectors

In the PASDEP, sectors such as education, health, agriculture and natural resources, labour and social affairs and water and sanitation are known as pro-poor sectors.

Given the government revenue and expenditure structure, the amount to be allocated to different sectors is shown in PASDEP indicative spending levels for major pro-poor sectors, towards the realisation of an average 7% growth rate every year until the end of the PASDEP period and the sectoral and sub-sectoral targets (MoFED, 2006). In accordance with the priorities given to different sectors in the PASDEP, their budget allocation shares should reflect the commitment of the government towards achieving what is set as a target in the activities planning document. To this end, in general, the amount of budget allotted to these pro-poor sectors is expected to be larger than the other, non-poverty, sectors.

It should be noted that more than 70% of the total budget has been allocated to these major pro-poor sectors in the PASDEP period, except in EFY 1998 (2005/06). The aggregate share of these pro-poor sectors in EFY 1999 (2006/07) was around 72.2%. Education saw 15.3%, agriculture and rural development 7.4%, roads 11.8%, health and HIV/AIDS 6.2% and water and sanitation 6.5% (EEA, 2007).

The federal government gave a smaller resource envelope to the water sector in EFY 1999 (2006/07) compared with previous years. This could owe to the fact that the sector's focus and activities were shifted from being the concern of federal government to being that of regional government. Despite that the budget shares allocated for this sector in EFY 1994 (2001/02) and EFY 1995 (2002/03) were 1.3% and 1.9%, respectively, and were close to zero in EFY 1999 (2006/07) (EEA, 2007). As noted above, 'water and sanitation' is one of the pro-poor sectors in the PASDEP, with 6.5% of the indicative spending share. This suggests that, in the annual budget, the share of this sector was insignificant. This reveals a discrepancy between the PASDEP and annual budget sectoral priorities.

## 3.5 Federal government expenditure performance in water

A public expenditure review of social sectors (World Bank, 2004) reports that total public spending in Ethiopia has increased substantially in recent years (by 80% in nominal terms, from 24% of GDP in 1997/98 to 35% in 2003/04). The bulk of this increase has been allocated to education, road building and agricultural services. Spending on health, population and water supply has remained constantly lower, both in terms of shares of expenditure and relative to needs. However, this appears broadly rational, given effectiveness and absorptive constraints.

Water supply is clearly central to poverty reduction – both in improving the living conditions of the poor, but also in contributing to longer-run growth through agriculture development. Furthermore, improved sanitation and hygiene – for which clean water is essential – is one of the single greatest public health interventions available to government. According to the World Bank's 2004 public expenditure review, Ethiopia had the lowest level of water supply coverage in sub-Saharan Africa (24%) and the second-lowest level of sanitation coverage (15%).

The current level of spending is also remarkably low. As in other sectors, there are data problems, but it appears that total spending – both urban and rural, on investment and operations – is about US\$53 million per annum, including donor financing but excluding much of the NGO financing, which is difficult to collaborate. Consistent with the low level of spending and the increasing population

pressure, coverage was estimated to have increased by only 2% to 6% between 1990 and 2000 (World Bank, 2004). Spending over the past decade has been heavily concentrated in urban areas. This has partly been justified by the needs of urban centres, both as growth poles and because of the health risks associated with higher density populations; it is also because unit investment costs are far higher for urban schemes.

Reports indicate that the investment requirement for rural water supply spending amounts to about Birr 12.6 billion (US\$1.5 billion) between now and 2015.<sup>5</sup> This would result in coverage of about 64% of the population, consistent with the MDG for water supply. That would require a annual level of spending of about US\$115 million per year on average, which is about five times the estimated current spending on rural water, and this is unlikely to be affordable. Future requirements are massive. To reach the MDG target of halving the proportion of people without access to safe water by 2015, a new service would have to be provided to an estimated 44 million people, while maintaining the service of those who already have it. And even this goal, which implies coverage of 64%, would still leave over 35 million people without water.

It is clear that Ethiopia possesses substantial untapped water resources that could play a significant role in reducing poverty and accelerating growth, if utilised properly. It has 12 major river basins and 12 large lakes. The total annual surface runoff is estimated to be in the order of 122 billion m<sup>3</sup>, and there is a further estimated 2.6 billion m<sup>3</sup> of usable groundwater. Various efforts have been made to develop Ethiopia's water resources to increase the contribution to the national economy. However, owing mainly to the uneven distribution of the resources and limitations in financial and technical inputs, only limited progress has been made so far (MoFED, 2006).

Recently, greater efforts have been made to enhance the management of the water sector and its contribution to socioeconomic development. Especially during the past three years, the first phase of the SDPRP has been formulated and implemented within the frameworks of the national Water Resources Management Policy, Water Sector Strategy and Water Sector Development Programme (2001-2015) (WSDP). During this period, significant steps were taken towards improving overall water resource management, including the commencing of the Nile Basin Initiative. Some 90 urban water supply systems were constructed or rehabilitated, and about 160,000 village wells or other rural systems were provided, raising average access to rural water supply from 24% in 1999/2000 to 34.5% by the end of 2004/05 (MoFED, 2006). The programme for the next five years is to build on the basis of these successes and the lessons learned: to carry forward the sector policy and strategy developed during the SDPRP and the decision to accelerate implementation to achieve the MDGs (ibid).

The water sector strategy (Section 3.3) seems able to meet both the country's and the MDG goals. The World Bank public expenditure review (2004) reveals that the policy framework is basically sound, with government shifting to a policy of self-financing for urban areas. However, there are going to be continuing large investment needs and, although operation and maintenance costs can probably be covered if tariff increases are pursued and enforced, the level of cost recovery is unlikely to be sufficient to finance the very large capital cost requirements in many urban areas. At any given time, 20% to 30% of rural schemes are reported to be non-functional. This is a serious cause of concern, and raises questions as to the wisdom of allocating additional resources rapidly. While there

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<sup>5</sup> US\$1 = Birr 9.7 (as of April 2008).

is an increasing move towards internationally accepted models of community responsibility for operation and maintenance, there has been limited experience in implementing these models in Ethiopia besides poor utilisation of the budget allocated for water development works.

### 3.6 Monitoring budget processes

In most developing countries, public budgeting to achieve a development plan is still conveniently governed by the arcane principle that budget information should be guarded as a state secret and the process dominated exclusively by the executive. Unfortunately, citizens have traditionally been excluded from budget decision making and monitoring, as have CSOs, legislatures and the media. Budget transparency and accountability are often weakest in countries where poverty and inequality are highest. The result is massive leakages of scarce public resources into unnecessary projects, corruption and ineffective service delivery, undermining efforts to reduce poverty (de Renzio and Krafchik, 2000).

An important function of CSOs is their role as watchdogs. For many CSOs in the poorest countries, this role is very new and thus is far less developed than their role as service providers. But with growing donor support for advocacy work and greater attention to good governance matters, this is beginning to change (Wood, 2005).

Although monitoring of budget processes is still in its infancy, there is now considerable experience available in undertaking monitoring and carrying out advocacy based on its results. This makes this an opportune time to take stock and reflect on what is working, what has not worked, what obstacles exist and how these have been or might be overcome (Wood, 2005).

In Ethiopia, achievement of the desired effects at the end of the PASDEP period calls for the wide-ranging participation of different development actors in the economy. The government has a crucial role with regard to actively identifying priority targets and creating an enabling environment for the private sector and other stakeholders. Among the development partners, NGOs are expected to play a pivotal role in helping to achieve poverty alleviation targets during the PASDEP period and to establish a strong monitoring structure to support the government through identification of possible weaknesses and forwarding of suggestions for improvement. It was under these premises that RiPPLE attempted to monitor the expenditure trends of water development work in Benishangul-Gumuz regional state.

## 4 Data analysis and presentation

This section identifies recent trends in public expenditure on water supply in aggregate, and highlights the factors that have shaped these trends and that are likely to be in evidence in the future.

### 4.1 Trends in water sector budget and actual expenditure: regional-level analysis

According to data obtained from BoFED and BoWR, the budget allocated to the water sector in EFY 1998 (2005/06) was Birr 21,542,057. The amount utilised was Birr 13,052,095.50, only 60.59% of the total.<sup>6</sup> According to data obtained from BoFED, the total budget allocated by the Benishangul-Gumuz regional government (Channel One funding) for the past five years (since 2002 or EFY 1995) to the water sector is over Birr 31 million.

Table 4.1: Share of water sector budget from total regional budget (Birr)

EFY	Federal government block grant to region	BoWR budget	Share of BoWR from grant
1995	241,100,000	2,104,770	0.87%
1996	177,510,000	1,539,618	0.87%
1997	185,240,000	2,849,694	1.54%
1998	221,910,000	10,638,721	4.79%
1999	254,340,000	13,942,942	5.48%
Total	1,080,100,000	31,075,745	

Source: BoFED, various budget documents.

Table 4.2: Budget allocated to water sector by capital and recurrent (Birr)

Year	Budget			Proportion of total budget		Nominal rate of change		
	Capital	Recurrent	Total	Capital	Recurrent	Capital	Recurrent	Total
1995	573,650	1,531,120	2,104,770	27.3%	72.7%			
1996	329,600	1,210,018	1,539,618	21.4%	78.6%	-42.5%	-21.0%	-26.9%
1997	1,333,474	1,516,220	2,849,694	46.8%	53.2%	304.6%	25.3%	85.1%
1998	1,611,759	9,026,962	10,638,721	15.1%	84.9%	20.9%	495.4%	273.3%
1999	12,477,984	1,464,958	13,942,942	89.5%	10.5%	674.2%	-83.8%	31.1%
Total	16,326,467	14,749,278	31,075,745					

Source: BoFED, various budget documents.

<sup>6</sup> The figure is from BoWR and has some difference from that of BoFED.

Table 4.2 above shows that the capital budget allocated to BoWR for EFY 1995, 1996 and 1998 was significantly lower than the recurrent budget. However, in EFY 1999, the share of capital budget increased considerably and the share of recurrent budget declined drastically.

Figure 4.1: Trends in Capital and Recurrent Budget Allocation (Birr)

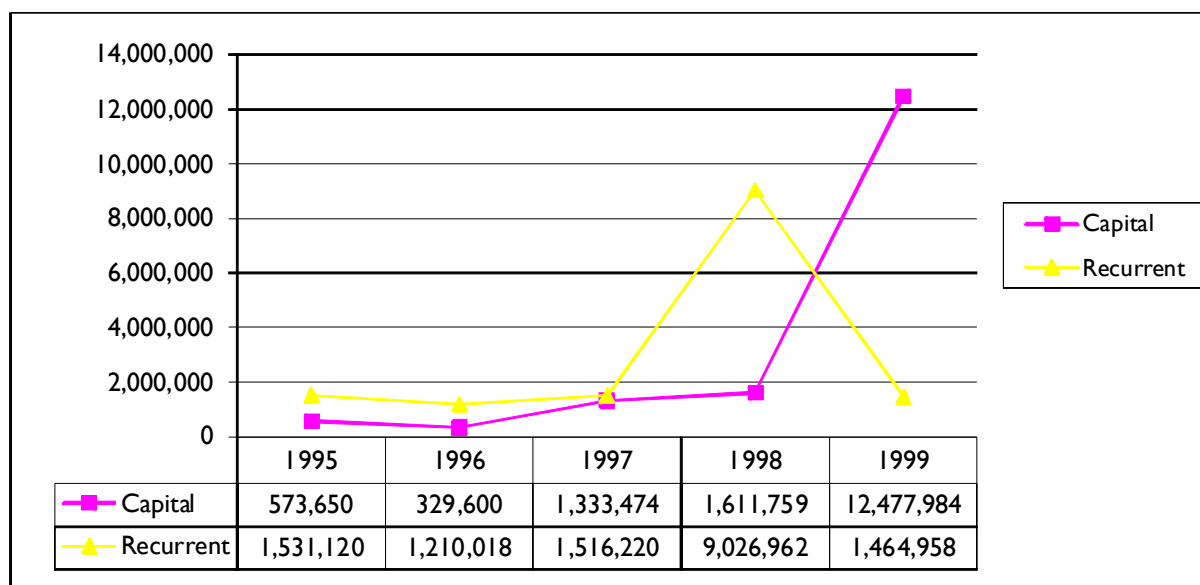
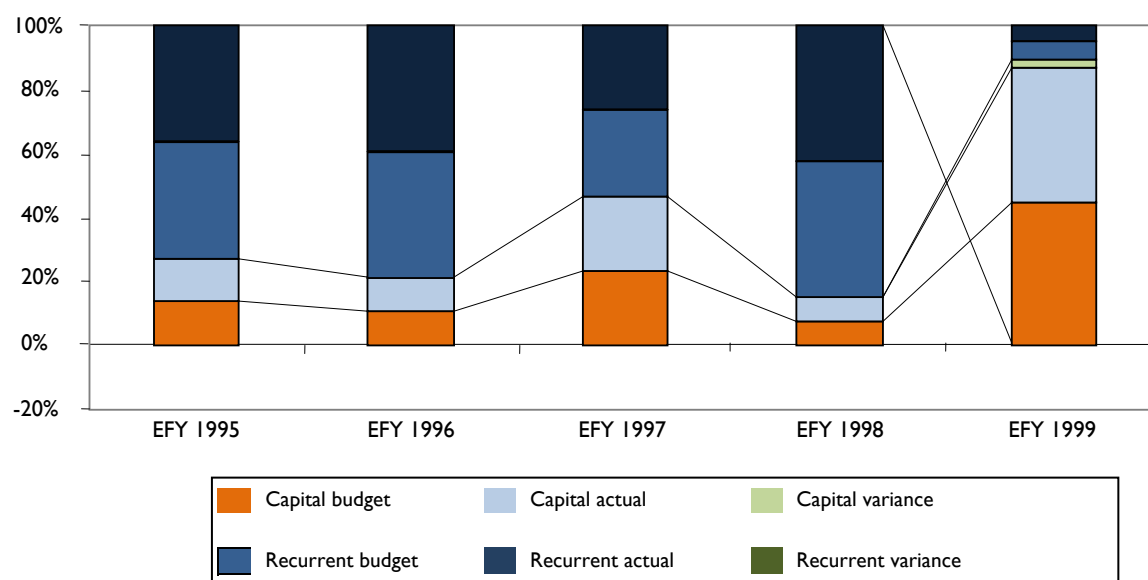


Figure 4.2: BoWR capital and recurrent budget allocation, actual spending and variance



Source: BoFED, various budget documents.

Regarding actual spending, BoWR generally had no major variances. However, there was capital budget underspending of 7.6% (Birr 43,689) in EFY 1995 and of 5.9% (Birr 732,254) in EFY 1999.

## 4.2 Trends in water sector budget and actual expenditure: woreda-level analysis

Table 4.3: Absolute and relative trends in water sector budget: Menge (Birr)

Year	Budget			Proportion of total budget		Nominal rate of change		
	Capital	Recurrent	Total	Capital	Recurrent	Capital	Recurrent	Total
1995	350,000	-	350,000	100.0%	0.0%			
1996	94,800	31,648	126,448	75.0%	25.0%	-72.9%		-63.9%
1997	86,910	23,791	110,701	78.5%	21.5%	-8.3%	-24.8%	-12.5%
1998	40,000	34,000	74,000	54.1%	45.9%	-54.0%	42.9%	-33.2%
1999	-	34,000	34,000	0.0%	100.0%	-100.0%	0.0%	-54.1%

Source: BoFED, various budget documents.

Menge woreda water sector had no recurrent budget for EFY 1995 and no capital budget for EFY 1999. In addition, the water budget of the woreda continually decreased, from Birr 350,000 (all capital) for EFY 1995 to Birr 34,000 (all recurrent) for EFY 1999. The decline in capital budget from Birr 350,000 to nil in EFY 1999 is more worrying. However, the recurrent budget remained relatively stable over the fiscal periods of EFY 1996 to EFY 1999.

Table 4.4: Absolute and relative trends in water sector budget: Kurmuk (Birr)

Year	Budget			Proportion of total budget		Nominal rate of change		
	Capital	Recurrent	Total	Capital	Recurrent	Capital	Recurrent	Total
1995	5,000	-	5,000	100.0%	0.0%			
1996	59,519	10,827	70,346	84.6%	15.4%	1090.4%		1306.9%
1997	43,920	1,368	45,288	97.0%	3.0%	-26.2%	-87.4%	-35.6%
1998	-	31,000	31,000	0.0%	100.0%	-100.0%	2166.8%	-31.5%
1999	-	77,000	77,000	0.0%	100.0%		148.4%	148.4%

Source: BoFED, various budget documents.

The overall water budget of Kurmuk was the lowest of the surveyed woredas, although it grew from Birr 5,000 (all capital) for EFY 1995 to Birr 77,000 (all recurrent) for EFY 1999.

Table 4.5: Absolute and relative trends in water sector budget: Sirba Abay (Birr)

Year	Budget			Proportion of total budget		Nominal rate of change		
	Capital	Recurrent	Total	Capital	Recurrent	Capital	Recurrent	Total
1995	159,325	-	159,325	100.0%	0.0%			
1996	145,910	-	145,910	100.0%	0.0%	-8.4%		-8.4%
1997	216,835	3,229	220,064	98.5%	1.5%	48.6%		50.8%
1998	-	1,000	1,000	0.0%	100.0%	-100.0%	-69.0%	-99.5%
1999	39,000	4,000	43,000	90.7%	9.3%		300.0%	4,200%

Source: BoFED, various budget documents.

Sirba Abay had no recurrent budget for EFY 1995 and EFY 1996, and a very small amount (1.5% of the total) for 1997. Interestingly, the total water budget of the woreda for EFY 1998 was just Birr 1,000 for recurrent costs, which shows how much the sector was marginalised. The recurrent costs for the four year period is just under 9,000 birr or less than 1000 US dollars. Moreover, the total budget declined from Birr 220,064 in EFY 1997 to Birr 1,000 in 1998 and Birr 43,000 in 1999. Given that the overall government budget has been increasing over time at all levels (national, regional and woreda), it is difficult to give a rational explanation for the contrary trend in the Sirba Abay water budget.

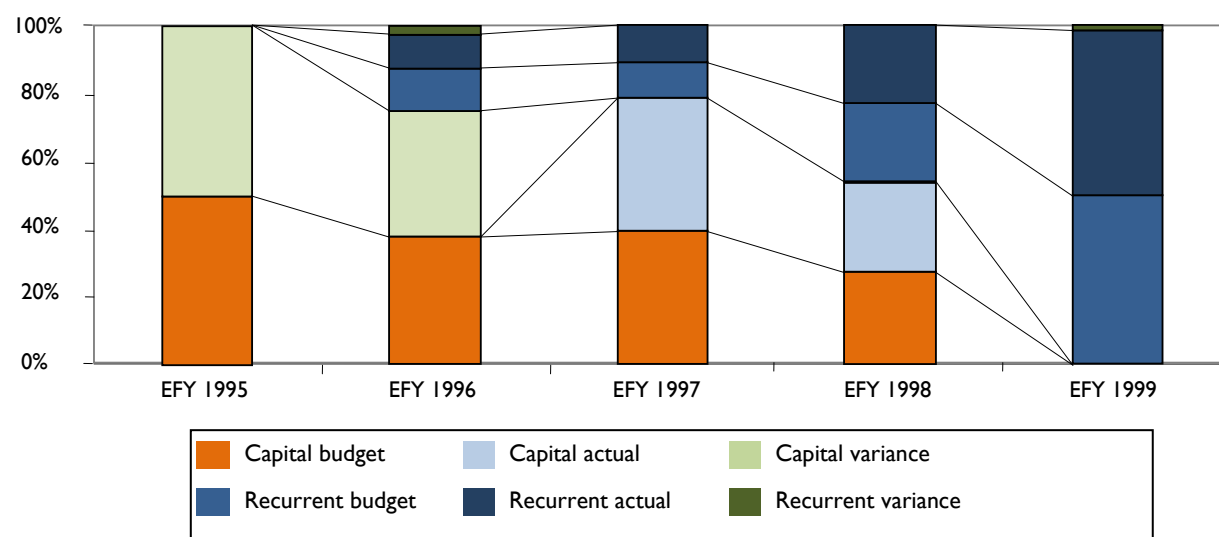
**Table 4.6: Absolute and relative trends in water sector budget: Pawe (Birr)**

Year	Budget			Proportion of total budget		Nominal rate of change		
	Capital	Recurrent	Total	Capital	Recurrent	Capital	Recurrent	Total
1995	39,180	-	39,180	100.0%	0.0%			
1996	89,000	142,710	231,710	38.4%	61.6%	127.2%		491.4%
1997	53,607	141,384	194,991	27.5%	72.5%	-39.8%	-0.9%	-15.8%
1998	-	269,000	269,000	0.0%	100.0%	100.0%	90.3%	38.0%
1999	246,000	214,000	460,000	53.5%	46.5%		-20.4%	71.0%

Source: BoFED, various budget documents.

Pawe woreda had no recurrent budget for EFY 1995 and no capital budget for 1998, but allocations showed great improvements in the EFY 1999 budget.

**Figure 4.3: Woreda's capital and recurrent water budget, actual spending and variance: Menge**

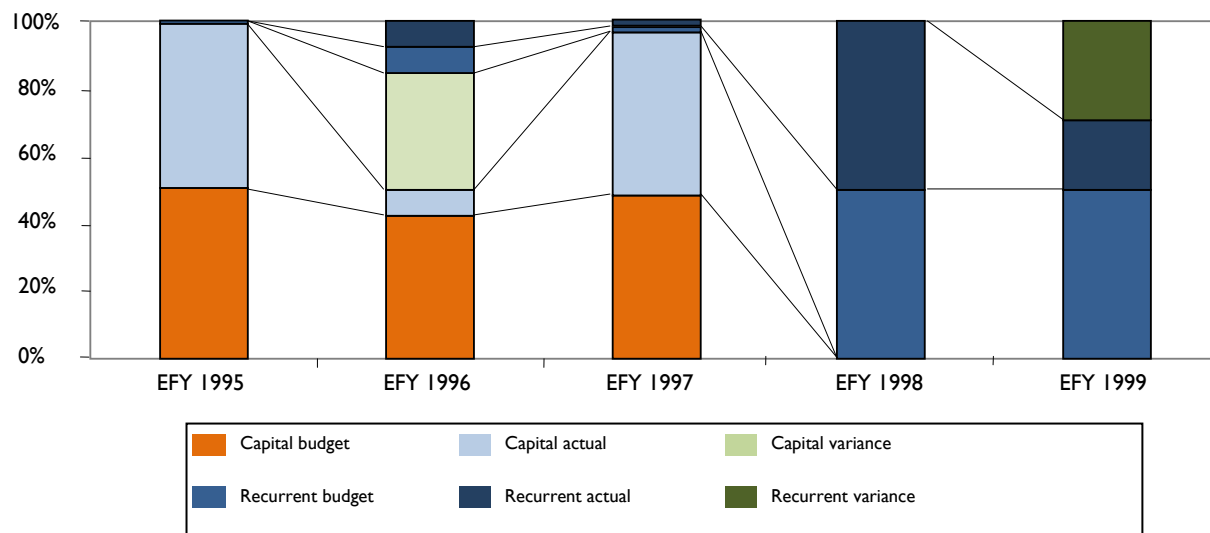


Source: BoFED, various budget documents.

None of its capital budget of Birr 350,000 for EFY 1995 and Birr 94,800 for EFY 1996 was spent; this indicates that water budget spending is a serious issue in Menge. Also, 20.9% of the recurrent budget for EFY 1996 was not utilised. The aggregate rate of variance (underspending) for the five fiscal

periods was 65.3% of the total budget (78% of the capital and 6.5% of the recurrent budget), the highest of the surveyed woredas.

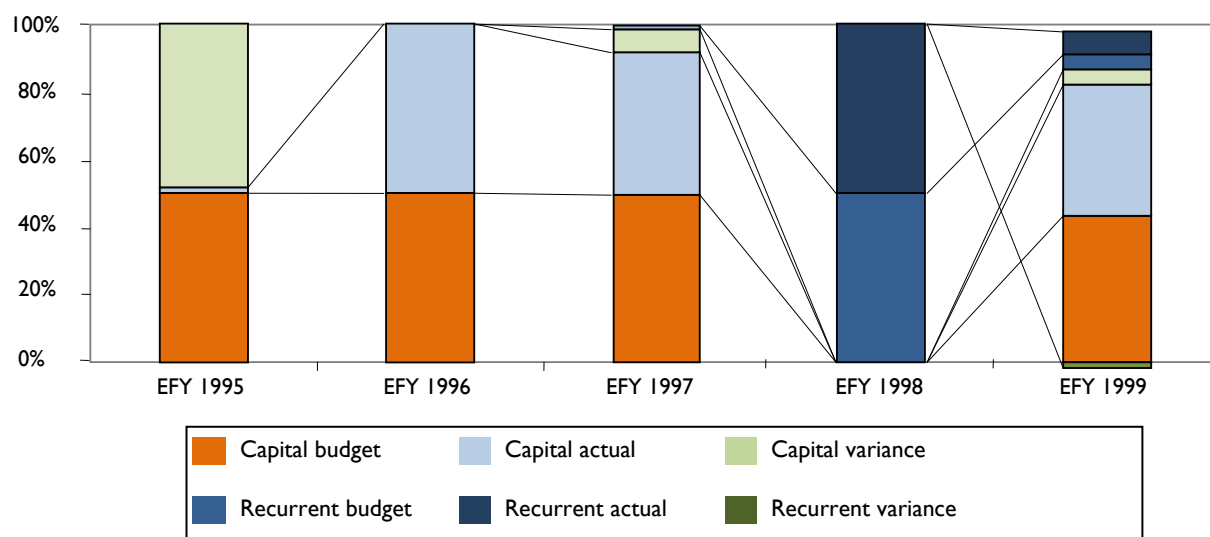
Figure 4.4: Woreda’s capital and recurrent water budget, actual spending and variance: Kurmuk



Source: BoFED, various budget documents.

The Kurmuk woreda water sector did not utilise 82% (Birr 48,783) of its capital budget for EFY 1996, and 58.4% (Birr 45,000) of its recurrent budget for EFY 1999. The total variance rate over the five years was 41.2% (i.e. underutilisation of Birr 94,229 out of a total of Birr 228,633), of which Birr 48,869 (45.1%) was capital and Birr 45,359 (37.7%) recurrent.

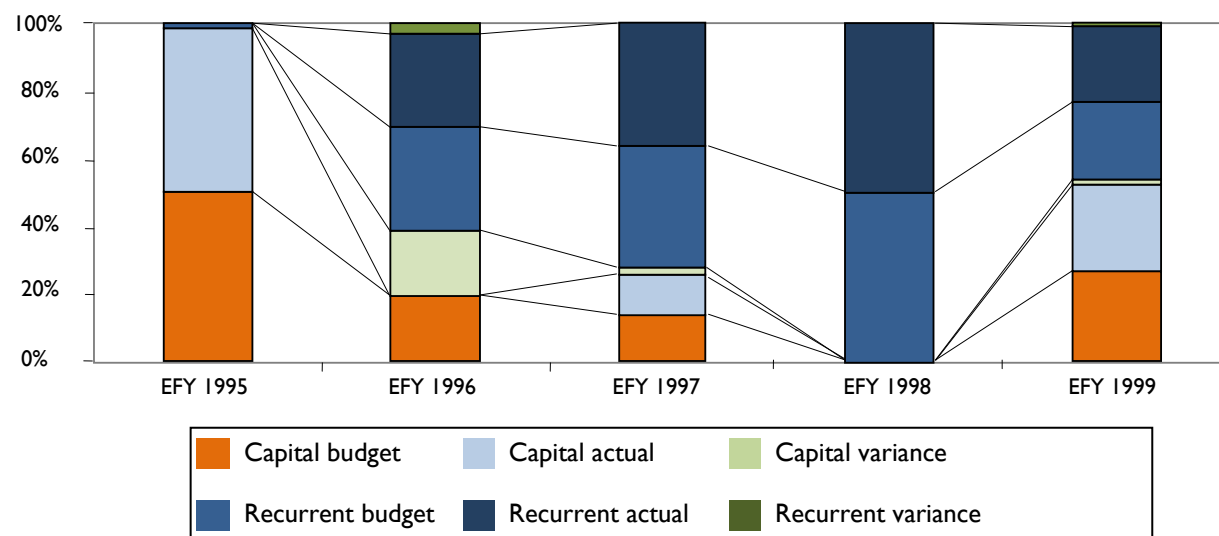
Figure 4.5: Woreda’s capital and recurrent water budget, actual spending and variance: Sirba Abay



Source: BoFED, various budget documents.

The budget utilisation rate was found to be a major area of concern. For instance, 97.4% (Birr 155,111), 13.9% (Birr 32,572) and 10.3% (Birr 4,000) of its capital budget was not spent in EFY 1995, 1997 and 1999, respectively. The overall underspending rate over the surveyed period was 33.3% of the total (33.8% capital and 4.4% recurrent).

Figure 4.6: Woreda's capital and recurrent water budget, actual spending and variance: Pawe



Source: BoFED, various budget documents.

The woreda experienced significant budget variance in EFY 1996, when none of the capital budget (Birr 89,000) and 9.8% (Birr 14,000) of the recurrent budget was not spent. Capital budget underspending was 12.7% (Birr 6,801) for EFY 1997 and 4.5% (Birr 11,000) for EFY 1999. The cumulative variance rate for the five fiscal periods was 10.9% of the total budget (25.2% of the capital and 2.9% of the recurrent budget).

Table 4.7: Trends in budget utilisation rate in water sector: variance rate of the two non-RiPPLE woredas

EFY	Pawe woreda			Sirba Abay woreda		
	Capital	Recurrent	Total	Capital	Recurrent	Total
1995	2.9%		2.9%	97.4%		97.4%
1996	100.0%	9.8%	44.5%	0.0%		0.0%
1997	12.7%	0.2%	3.6%	13.9%	73.1%	14.8%
1998		0.0%	0.0%		0.0%	0.0%
1999	4.5%	3.7%	4.1%	10.3%	-50.0%	4.7%

Source: BoFED, various budget documents.

Table 4.8: Trends in budget utilisation rate in water sector: variance rate of the two RiPPLE woredas

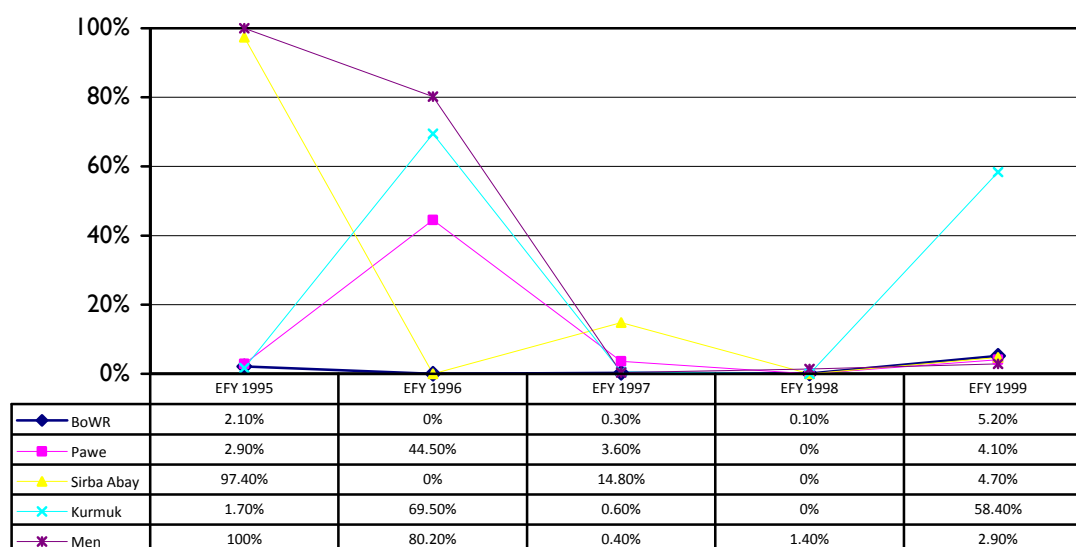
EFY	Kurmuk woreda			Menge woreda		
	Capital	Recurrent	Total	Capital	Recurrent	Total
1995	1.7%		1.7%	100%		100%
1996	82.0%	1.0%	69.5%	100%	20.9%	80.2%
1997	0.0%	18.6%	0.6%	0.0%	1.7%	0.4%
1998		0.0%	0.0%	2.5%	0.0%	1.4%
1999		58.4%	58.4%		2.9%	2.9%

Source: BoFED, various budget documents.

### 4.3 Per capita budget/actual expenditure: region and woreda

Per capita budget analysis in nominal terms can indicate if allocation is enough (adequacy) and whether resources are being allocated fairly (equity). The per capita block grant to Benishangul-Gumuz region was Birr 302.20 for EFY 1996, Birr 307.51 for EFY 1997, Birr 359.20 for EFY 1998 and Birr 401.43 for EFY 1999 (according to federal budget proclamations for budget data and BoFED for population data).

Figure 4.8: Nominal per capita budget (Birr) of BoWR and woredas



Source: BoFED, various budget documents.

Analysis shows that the per capita budget was inadequate. In most cases, it was below Birr 5 per person per year. Although the per capita budget of BoWR increased significantly, from Birr 2.62 in EFY 1996 to Birr 22.01 in EFY 1999, the change pattern was so inconsistent that it is difficult to project a future trend. In the case of Sirba Abay and Menge, the per capita budget showed a significant decline.

#### 4.4 Underlying factors in poor utilisation of the budget

This section looks at the underlying reasons for or factors leading to low utilisation rates of Channel One water funding, in the region and in the four selected woredas. Since government expenditure reflects collective choices that emerge from the political process and that vary across woredas, there will be limits to what economic analysis alone can provide. However, using data collected in interviews and FGDs, it should be possible to analyse statistically the influence of factors such as institutional arrangements and capacity, regulatory procedures, monitoring and evaluation, budget formulation and implementation process and managerial factors.

As shown in the Annex, 93% of respondents noted a lack of skilled human resources and working procedures; an inconsistent monitoring, evaluation and controlling mechanism (at most once per year); a lack of spare parts and other materials for maintaining water points (80% said there were no materials); and budget distribution across sectors and within the sector not being based on agreed and well organised criteria. Block grants from the region are distributed or allocated based on institutional or implementation capacity (16% of respondents), regional development direction (13%), woreda annual plan (10%) or the community priority problem (7%).

Between 83% to 93% of respondents felt that there was underutilisation of the government water sector budget (in all woredas). They reasoned that this situation arose as a result of a lack of capacity; delays in budget allocation and disbursement; a lack of an efficient and effective monitoring and evaluation system; inadequate coordination; unavailability of competent and efficient contractors; managerial and leadership problems; and a lack of community and expert participation in budget formulation, allocation and utilisation.

Underspending of the public budget raises major issues. Financing problems make it difficult to ensure fiscal discipline, depending on how well the processes of budget formulation and implementation operate. There is a lack of adequate planning and evaluation procedures incorporated in the formulation process. Also there are insufficient controls at the implementation stage and a lack of processes that work to encourage the reversal of any spending increases designed to mitigate downswings. There is a lack of coordination among line offices or weak relationships between various woreda entities, which include both horizontal relationships, i.e. between finance and the water sector, and vertical ones, i.e. between BoWR and woreda Water Desks.

## 5 Major research findings

### 5.1 Level of emphasis given to water supply

The literature review clearly shows that safe water supply has now become a priority of development and poverty reduction, both at international and national levels. Access to safe water is now recognised as a fundamental human right and is one of the targets of the MDGs. The government of Ethiopia has also shown its strong commitment to improving access to potable water in its various policy documents: the PASDEP recognises water as a major issue of development. It states that the 'efforts to increase water supply in the PASDEP are very much needed. This area should be given a high priority in the event of limited funding. The policy should be targeted at those regions with the lowest supply of water' (MoFED, 2006).

However, various studies show that the government budget allocated to water has been very low compared with other basic service sectors, at both federal and regional levels. This research has also revealed that the situation is no different, if not worse, in Benishangul-Gumuz region and the sampled woredas.

### 5.2 Channel One water budget allocation in the study areas

According to the results of this research, Channel One budget allocation to the water sector, at both regional and woreda levels, has been much lower than is required for improving access to safe water. For instance, the per capita share of the BoWR budget from the per capita federal block grant to the region was 0.87% for EFY 1996, 1.54% for 1997, 4.79% for 1998 and 5.48% for 1999. Although the Channel One budget of BoWR has shown growth in recent years, this cannot be said to be adequate to meet the potable water demands of the population in the region. The picture in the surveyed woredas is much gloomier again.

Moreover, the growth trend of the Channel One water budget in the study areas has been inconsistent, with erratic ups and downs that do not reflect the steady increase of the overall government budget at federal, regional and woreda levels. Similarly, it was observed that the allocation of the water budget into capital and recurrent budgets has been inconsistent at both regional and woreda levels. This makes it look initially like there is no rational basis for budget allocation across various sectors and within the water sector in the region. It could also be inferred that this lack of rationality in budget allocation may have adversely affected Channel One water budget utilisation in the region, since it is too difficult to effectively execute a capital budget without a proportionate recurrent budget, and vice versa.

### 5.3 Channel One water budget utilisation in the study areas

This research has confirmed that there has been underspending of the Channel One water budget, as illustrated in the study woredas. The variance or underspending rate of the overall total budget of the survey period (EFY 1995 to 1999) was 65.3% for Menge and 41.2% for Kurmuk, but 33.3% for Sirba Abay and 10.9% for Pawe.

## 5.4 Other findings of the study

### 5.4.1 *Lack of coordination in the sector*

The organisation of the water sector remains so complex that structural problems are apparent. Structural problems also lead to a lack of clarity and rationality in terms of assignment of roles and responsibilities. This has undermined effective lobbying for higher budgetary allocations and disbursements. On top of this, coordination among the sectors and experts within the sector was found to be weak at every level. The water sector at the woreda level also lacks clarity with regard to the assignment of roles and responsibilities.

### 5.4.2 *Lack of consistent and well organised data on Channel One funding at woreda level*

The lack of data is mostly a result of a lack of information on sector spending. At times, it is difficult to isolate spending on water from spending in other sectors, especially with regard to the Channel One budget. This indicates an absence or weakness of monitoring mechanisms to track public expenditure on water supply adequately. There is not enough budget information available on water supply, as there has been no proper tracking system put in place by the regional Water and Finance and Economic Development Bureaus. These limitations require great caution to be used when interpreting any estimates of the level of spending in the water sector.

### 5.4.3 *Disbursements of budget through the pool system undermines on-time utilisation of budgets in the woreda*

The above findings suggest that delays in budget disbursements, through the pool system of accounting, are a result of a lack of skilled manpower at the woreda level, which hinders the full and on-time utilisation of the water sector budget. This needs addressing through capacity building, both to raise funding levels, but mainly to improve effectiveness in sector expenditure.

### 5.4.4 *Lack of consistent, adequate and systematically organised monitoring, evaluation and control at all levels*

Monitoring and evaluation systems, including expenditure tracking mechanisms, in the water supply sector are poorly developed, such that there is a need for all players to undertake a larger collaborative effort in this area. In addition, there is a shortage of a transparent reporting system and oversight arrangements for financial planning.

### 5.4.5 *Centralised budget allocation at the woreda level*

Block grants are transferred from the region to the woreda are distributed by Administrative Councils and Finance and Economic Development Offices. Transfers lack transparency, accountability and participation in budget allocation, implementation and control.

Centralising the budget preparation process, without systematic consultation with operational departments and service delivery units, leads to a lack of confidence and commitment in woreda-level Water Desks. This leads to poor and under utilisation of the budget.

## 6 Recommendations

### 6.1 Suggestions for improved allocation of the Channel One water budget

In order to address the issues raised above with regard to allocation of the Channel One budget to the water sector in the region, the following actions are recommended:

- Budget decision makers, i.e. Cabinet and Council members at regional and woreda levels should be given capacity-building support (e.g. creating awareness of relevant government policies, such as the PASDEP, budget guidelines of MoFED, etc.)
- The level of oversight of budget allocations should be enhanced, particularly by the Budget and Finance Standing Committees of Councils at all levels.
- Appropriate mechanisms should be designed and put in place to ensure public budget allocations at woreda level are based on local community needs and priorities.

### 6.2 Suggestions for efficient utilisation of the Channel One water budget

Develop a database of public entities that includes their sources of finance and areas of spending; minimise fragmentation of fiscal planning and disbursement; and design transparent oversight mechanisms and standardised reporting systems for areas of spending

Improvements are needed in the way that budget information on accounting, auditing, monitoring and evaluation is presented, in order that meaningful analysis can be carried out. First, with respect to accounting, there is a need to strengthen basic reporting systems, to enhance woreda-level capacity to provide data in a timely and accurate manner, and to extend coverage of budget information systems. Second, there may be scope for better monitoring of spending by the finance and economic development sector, although this should not be so detailed as to interfere with the ability to deliver services efficiently. At a minimum, the budget system should provide a classification of government expenditures by functional category as well as by administrative unit. Ideally, budgets are disaggregated by sector, desk or programmes or activities to enable more sophisticated analysis and evaluation; in practice, in some woredas, the budget and expenditures on water sector were not disaggregated functionally or economically until EFY 1996. Detailed line item classifications, for example, give managers little flexibility to swap funds from other services to water supply costs.

#### Establish greater autonomy for the sector

Greater autonomy over allocated resources should be complemented by arrangements such as sound rules, regulations and working procedures, to enhance accountability – ones that not only improve honesty and stewardship in the use of budget resources but also enhance the quality of associated outputs and outcomes. Faced with the unenviable task of meeting demand for services with limited resources, the water sector could seek to maximise the resources at its disposal. When sectoral budgets are allocated without adequately consulting line offices and bureaus, including Water Desks, the line agency may see the allocated budget as unrealistic and will have little commitment to its limits. In addition, it will tend to spend all of its annual appropriations, possibly through a spending

spree in the last quarter of the financial year. As previously mentioned, centralising the budget preparation process, without systematic consultation with operational departments and service delivery units, can create problems. This can undermine operational effectiveness as a result of underfunding of services, or create a mismatch between the demands for certain services and the targets developed by the sector. It also weakens accountability. This situation is aggravated when appropriations are made at the broad agency level and managed centrally, without considering each and every department of the sector, such as the Water Desks at woreda level.

This study shows that resources tend to get delayed at the regional level of the administrative hierarchy, preventing operational departments from accessing the resources on time and spending the budget effectively and efficiently. This also suggests that higher officials in charge of institutions will serve their own interests (by allocating resources to administrative overheads and perquisites; for example in Pawe Special Woreda, the Water Desk had a total budget of Birr 460,000 for EFY 1999, but from this budget Birr 23,000 was taken for car maintenance) if they are not held accountable for the level and quality of services provided to the public or if they lack incentives to prioritise service delivery. These concerns were addressed in FGDs as follows:

- Requiring sectors and line agencies to develop strategic plans as inputs to the overall water sector strategy.
- Giving line offices, operational departments and associated service delivery units greater autonomy and flexibility in using resources to meet water sector objectives (within the operating budget constraint).
- Holding desk/bureau heads accountable for adherence to spending limits.
- Linking budgets to performance targets, focusing attention on the services provided rather than on the institution's needs.
- Monitoring performance and rewarding personnel based on results that can be linked to poverty reduction and efficiency goals.

#### Improving the quality of information available to the Administrative Council at each level as well as building capacity on how to approve the budget and check and balance budget utilisation

A representative Council member in a well functioning democracy is important to providing a clear indication of society's preferences. A Council's enactment into law of the annual budget provides an opportunity for the people's representatives to scrutinise the government's budget proposal. Representatives can ensure that the overall level of public spending and resource allocation is consistent with society's development goals and spending preferences. They can also assess the soundness of public sector financial management.

Unfortunately, as discussed in the relevant sections above and as analysed using the data collected from interviews, Council scrutiny is inadequate at each level in the region for a number of reasons:

- The information provided by the chief executive may not support meaningful analysis.
- Council members, in particular Standing Committees, may lack the capacity and staff resources to undertake detailed analysis of the budget, even where the information is available.

- Council members may lack incentives to critically analyse the overall composition of spending. This can occur when legal procedures require Councils to approve or reject a budget in its entirety without amendment.

Improving the quality of information available to Councils and the wider public can promote a better understanding of the tradeoffs between spending options and partly overcome the shortcomings of Council oversight functions. The government should provide adequate information to the Councils, and to the public more generally, to enhance budget utilisation capacity at each level. The capacity of Council members to critically review the budget may be enhanced through training opportunities specifically designed for parliamentarians.

### Improving government financial management

One of the main obstacles to using a budget effectively regards poor government finance management systems for the development and implementation of plans. This section identifies seven ways in which scarce public resources can be managed more effectively to fulfil the objectives of the sector.

1. **Clarify the assignment of roles and responsibilities in the water sector.** This should be the first step, because it will also help clarify the funding of activities to raise coverage and improve service delivery in the water sector. In particular, there is a need for clarity on the roles of the Water Desks in the Agriculture and Rural Development Office.

2. **Ensuring better resource planning.** Good resource planning would imply an institutional system that achieves the following:

- Translation of long-term strategic plans into sustainable programmes, projects and annual plans.
- Better matching of spending with overall resource availability.
- Sectoral allocations of spending more in line with government priorities, on the basis of a comprehensive review of resources and plans.
- Increased effectiveness and efficiency of spending, by requiring line offices to better define their goals and activities and, where possible, linking spending amounts to measures of performance in terms of outputs and outcomes.

It has been shown that in each of the woreda's studied; the typical annual budget fails most of these tests. It does not capture the long-term implications of current spending decisions and so does not provide an adequate basis for matching future programme financing needs with projected fiscal resources. Even at the regional level, five-year plans have not been successful in being integrated with the annual budget. Effective and efficient budget utilisation requires the adoption of medium- to long-term perspectives in budgeting in order to effectively link policies, plans and budgets.

3. **Improving transparency and strengthening accounting and auditing as well as procurement practices at woreda level.** Strengthening accounting, auditing and procurement practices, and improving transparency in government financial management, will help ensure better budget utilisation. Among other things, this process requires improvements in accounting systems, adoption of clear reporting rules and procedures, and skills development in woreda Water Desks and Finance

and Economic Development Offices. The main indicators of compliance in government budget utilisations include those described below.

- The Council's timely approval of the annual budget and its public release in accordance with regional laws, rules and regulations.
- Regular, timely and accurate reporting of actual government expenditures during and at the end of the budget year by the Finance and Economic Development Office to the executive body. These reports would compare actual expenditure to planned budget estimates and would be made available to the public in a timely manner. Over the medium term, public financial audits are not included in regular budgets. Hence, to fully utilise the public budget on water, there should be an improvement in public finance management and a system of transparency, accountability and better working procedures, achieved by building the capacity of the concerned body.

**4. Focusing on performance.** Woreda budget planning and allocation systems have traditionally not emphasised control of resources over achievement of outcome-oriented objectives. Instead, budgets have often been allocated to line offices on a historical basis and without consideration of goals or performance. At the same time, highly centralised decision-making and control systems, under the Cabinet and Finance and Economic Development Office have made it difficult for Water Desks to take initiatives that lead to the efficient utilisation of budgets. The decision making occurs without participation of and consultation with responsible team leaders and experts, As a result, Water Desks become inflexible and unresponsive; sometimes, budgets are diverted from the delivery of essential services to administrative overheads. Pragmatic considerations – such as the availability, reliability and cost of data – should play a part in the selection of appropriate performance indicators. One of the challenges of performance management is linking the responsibilities of various levels of an organisation and levels of personnel, to appropriate performance indicators. For performance targets to be effective, they must be set after consulting with the appropriate local heads rather than imposed from above.

**5. Encouraging participation in the budget process.** Transparency and accountability are also important components of public expenditure management that aims to improve the effectiveness of government spending.

Involving those who are supposed to benefit from government services in budget preparation and monitoring can improve public spending. Stakeholders can be involved at many levels, including consultation with users for their views on priorities and performance, and user participation in managing government services.

The key to building a participatory budget planning system is to create a culture of open communication at various levels of government and among public officials, local political leaders and citizens' groups. The benefits of this for the government are both political and economic. By more directly involving stakeholder groups, participatory budget planning can help boost public support for the local and national budget process, which in turn increases people's willingness to voice their concerns about fiscal management and their budget priorities and improves communication among government officials, political leaders and civic groups. It can also increase fiscal transparency and accountability in local financial management and assist with effective planning and service delivery at local level.

6. **Strengthen the structure of woreda-level institutions.** As they are closer to service users, woreda Water Desks are more likely to reflect the needs of the community in their development priorities. A move towards democratic decentralisation with strengthened capacity of Water Desks is in the interest of the water sector.

7. **Improve information and monitoring and evaluation systems (especially with regard to budgets).** These are necessary if the sector is to continually assess not only the adequacy of budgets but also the efficiency and effectiveness with which expenditures are being made. At the moment, information and monitoring systems are weak, and would benefit from a goal-oriented strategic plan for the sector.

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## Annex I: Summary of field survey results (questionnaire responses)

No.	Questions and response options	Frequency	Percent
1	Frequency of budget monitoring and evaluation		
	a) Once per year	42	69
	b) Two times per year	19	31
	c) Three times per year	0	0
	d) Four times per year	0	0
	4) None	0	0
	Total	61	100
2	Basis of budget allocation		
	a) Woreda development strategy	0	0
	b) Implementation capacity of Woreda sector offices	10	16
	c) Regional development direction	6	10
	d) Woreda short-, medium- and long-term plans	8	13
	e) Based on communities' needs	4	7
	f) Without any rational basis or criteria	33	54
	Total	61	100
3	Length of time normally taken from budget preparation to approval		
	a) Less than one week	3	5
	b) One week	12	20
	c) Two weeks	46	75
	d) Between one and two months	0	0
	e) More than two months	0	0
	Total	61	100
4	How fast was the budget release and disbursement process?		
	a) Very fast	0	0
	b) Fast	3	5
	c) Medium	12	20
	d) Slow	36	59
	e) Very slow	10	16
	Total	61	100

5	Availability of spare parts and other materials for water point maintenance		
	a) Adequate	12	20
	b) Not adequate	49	80
	Total	61	100
6	Availability of skilled manpower and working procedures		
	a) Adequate	4	7
	b) Not adequate	57	93
	Total	61	100
7	Availability of competent and efficient contractors		
	a) Adequate	6	10
	b) Not adequate	55	90
	Total	61	100
8	Managerial competence		
	a) Adequate	3	5
	b) Not adequate	58	95
	Total	61	100
9	Clarity of structure as well as roles and responsibility		
	a) Adequate	24	39
	b) Not adequate	37	61
	Total	61	100
10	Transparency of and participation in budget allocation and utilisation		
	a) Adequate	4	7
	b) Not adequate	57	93
	Total	61	100
11	Timeliness and quality of financial reporting		
	a) Adequate	5	8
	b) Not adequate	56	92
	Total	61	100
12	Coordination among various sectors and desks		
	a) Adequate	11	18
	b) Not adequate	50	82
	Total	61	100

## Annex 2: Description of FGD participants

The field group discussions included:

- About 44 people at woreda level: 11 in each study woreda (woreda administrator, head of the Agriculture and Rural Development Sector Office, Water Desk head and expert, head of the Finance and Economic Development Sector Office, head of the Budget Disbursement Section and about four woreda budget team members, and speaker of the Woreda Council).
- At least nine respondents at zone level: about three in each zone (Water Desk head and expert, and head of the Finance and Economic Development Department).
- At least eight respondents at regional level: head of BoWR and three relevant experts, head of the BoWR Finance Section, head of the Finance and Economic Development Bureau, head of the Budget Disbursement Section, and speaker of the Regional Council.



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