



# Allocating National Resources in the Water and Sanitation Sector

## Good sector resource allocation

There are many competing demands for the limited amount of investment available to the water and sanitation sector e.g. between urban and rural water, water for domestic use and water for production, and between infrastructure investment and maintenance of existing facilities. Clearly defined mechanisms are needed to decide how money should be spent and where resources should be allocated.

Good sector resource allocation leads to:

- efficient use of resources e.g. providing more people with safe water per \$ invested
- effective use of resources e.g. improving hygienic practices in a greater number of homes
- equitable use of resources e.g. providing better sanitation to those people in the poorest 10% of households

## Headline facts

- Mechanisms are required to ensure that resources are allocated to those water and sanitation activities having the biggest impact on achieving sector objectives.
- There are many factors to consider when assessing how to allocate resources between and within water and sanitation sub-sectors – but there is never one ‘right’ answer.
- The three main methods of sector resource allocation are the ‘Institutional’, ‘Sector Investment Plan’ and ‘Performance Based Budgeting’ approaches.
- Whatever the approach, there is a growing tendency to allocate resources to water and sanitation as part of a Medium Term Budget Framework (MTBF).
- How to allocate resources around a country is a key decision - whether targeted at centrally managed projects or increasingly as local decentralised funding. The urban/rural resources split is a particularly difficult issue to resolve.
- Effective financial management requires good monitoring, evaluation and audit procedures.

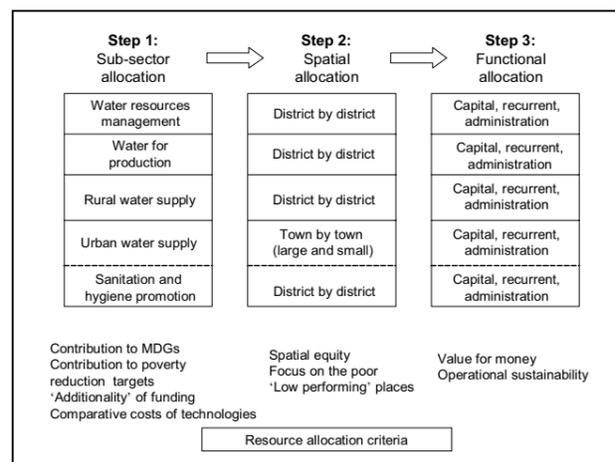


## Resource Allocation Methods in Theory

The water sector is divided into various sub-sectors, for example, urban, rural, sanitation and water for production, all competing for limited funding. A resource allocation framework sets out what factors should be considered, how they should be weighted and applied. There is no 'right' way to do this, but two suggested options are outlined here.

### Option 1. Sub-sector driven approach

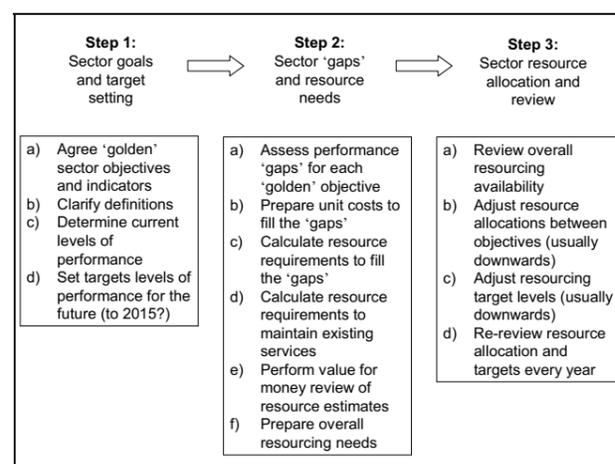
The overall focus for this approach is to allocate resources based on the importance of each sub-sector, i.e. it is the sub-sectors that drive the allocation process. This could form part of a three-stage process as is shown below.



However, it is difficult to make rational judgements on the weighting of different allocation criteria in step 1 that reflect the real needs of water and sanitation users.

### Option 2. Sector-objectives driven approach

Here, resource allocation is based on the objectives and targets of the sector as a whole, investing where the gaps are greatest.



This requires a strong commitment to a genuinely sector wide approach (SWAp) which prioritises investment on the basis of where the gap between service coverage and national targets is greatest. Budgetary allocations by institution then follow (rather than lead) the outcome of the analysis.

This offers a much clearer linkage between sector investment and desired achievement.

## Resource Allocation Methods in Practice

Three general types of resource allocation mechanism exist. The SIP approach corresponds to theoretical Option 1, the PPB approach to theoretical Option 2.

### 'Institutional' approach

In this, individual ministries, departments and NGOs negotiate on their own behalf for funds. There is little coordination between institutions and allocations are often based on historical trends. Donors tend to provide support to individual institutions.

#### Allocation of resources in India: the 'institutional' approach

The Ministry of Finance in India oversees a complex process for allocating resources across Ministries and Departments within the country. Funds are allocated to water and sanitation related activities within several central ministries:

- Ministry of Urban Development and Poverty Alleviation
- Ministry of Health
- Ministry of Human Resource Development
- Ministry of Rural Development
- Ministry of Agriculture

There are further allocations from these central government ministries to state level ministries or departments, who may then allocate funds to local institutions. As each of these ministries and departments largely plans budgets in isolation, it is difficult to integrate spending and to ensure that overall sector priorities are agreed and addressed.

### 'Sector Investment Plan' (SIP) approach

In this, several institutions take part in a Sector Wide Approach (SWAp), with key stakeholders meeting regularly to develop integrated sector policies, plans and budgets. Donors' support is allocated across different institutions.

#### Allocation of resources in Uganda: the SIP approach

The Government of Uganda has created a Water and Sanitation Sector Working Group with representatives from several government departments, NGOs and other members of civil society. It is responsible for a water and sanitation SIP that sets out overall targets and resource allocations from 2005 to 2015. Seven sub-sectors facilitate this process:

- Rural Water Supply
- Small Towns Water Supply
- Urban Water Supply
- Water for Production
- Water Resources Management
- Sanitation
- Sector Programme Support

A statistical model sets out current and target outputs for each sub-sector, with costs and estimates of future resource needs. It facilitates a debate about how money should be allocated and supports individual institutions in their own budget negotiation process.

### 'Programme Based Budgeting' (PBB) approach

This develops the 'sector' based approach further. Programmes have specified outputs, targets and resource allocations. The lead institution had overall responsibility for allocating resources, monitoring the disbursement of money and achieving desired outputs.

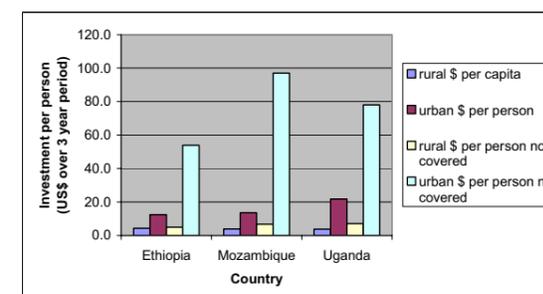
#### Resource allocation in Brazil: the 'PBB' approach

There are 350 priority 'programmes' each with their own programme manager, budgetary allocation, target outputs and monitoring mechanism. Many of these relate to water and sanitation, including:

- Implementation of demonstration units for aquaculture
- Integrated and sustainable development in semi arid areas
- Construction of concrete cisterns to store water
- Implementation, increase and improvement of sanitation
- Conservation, rational use and quality of water

Outputs and performance targets are defined for each programme, influencing how much money each is given. Resource allocation is typically for a four-year period, reviewed annually depending on performance levels.

## Rural/urban resource split



### Comparisons of rural & urban investments in water supply

Rural and urban water supply accounts for up to 90% of all sector resources. The following findings are based on data from Uganda, Mozambique and Ethiopia:

- Investment in water supply in urban areas is 3 to 6 times that of rural areas based on total urban and rural population.
- Based on the number of people **not** covered, investment in urban areas is 11 to 14 times that of rural areas.
- It is often more expensive to supply water to urban than to rural areas, which should influence resource assessment. Also, investments in rural areas may give different returns in terms of socio-economic benefits.

Because of these and other factors, the rural-urban resourcing split is perhaps one of the most difficult decisions to be made.

## Medium Term Budget Frameworks (MTBF)

MTBFs are increasingly used, whatever approach to resource allocation is taken. A rolling multi-period budget is prepared for each government ministry and department, reviewed annually. This sets out resource needs, matched to sector objectives and targets.

#### The MTBF for the water and sanitation sector in Uganda

Each year, the Ministry of Water, Lands and Environment manages a participatory process of developing a MTBF for the sector. This reviews sector objectives, policies and plans and how these relate to broader socio-economic objectives. It also reviews financial performance and estimates sector resource needs and planned outputs for the next three years. This process is being improved each year and allows better coordination of sector activities and prioritisation of resource allocation.

## Allocation of Budgets around a Country

Increasingly, funds are being decentralised to local governments, which have limited revenue generating ability, rather than to centrally managed projects. Geographical allocation is politically sensitive. The simplest method is by population levels, but this does not account for differing poverty levels, costs of providing services and access rates to them, factors which require elaborate formulae. Transparency is vital so that resource allocation decisions can be challenged.

#### Allocation of resources to local governments in Uganda

Uganda is promoting a Fiscal Decentralisation Strategy whereby increasingly resources are devolved to over 50 rural districts and over 15 urban municipalities. Money is allocated primarily on the basis of population levels, with factors such as poverty levels and access rates to water and sanitation services as additional considerations.

## Monitoring, Evaluation and Auditing

The following procedures help to ensure that money is well spent:

- Financial monitoring - the regular review of expenditure compared to budget.
- Performance monitoring - reviews the results of expenditure
- Evaluation - focuses on overall achievement of programme objectives
- Audit - the external validation of financial and performance data.

### *Monitoring, evaluation & audit of resource allocation in Uganda*

Mechanisms used are 'tracking studies' to monitor the flow of central funds to local projects; 'technical audits' to review project performance; and 'value for money' reviews. A Sector Working Group monitors overall spending and achievements. As sector institutions, donors and the Auditor General's Office are also involved in this, the challenge is to streamline and strengthen these efforts.

## Improving Resource Allocation

The key messages for consideration are:

### For central government policy makers

- Link sector resource allocation more closely to overall sector targets.
- Critically review the division of resource allocation between rural and urban areas, and between the development of new infrastructure and the maintenance of existing facilities.
- Develop resource allocation principles and criteria, both between types of expenditure and by geographical area.
- Ensure that sector financial and performance monitoring mechanisms are well developed yet streamlined.
- Strengthen evaluation mechanisms so that the impact of sector expenditure on the achievement of sector objectives and outcomes can be assessed.

### For water and sanitation programme and project managers

- Strengthen monitoring mechanisms so that the expenditure of resources can be compared to the achievement of results.

### For civil society

- Lobby for the publication of the mechanism/formulae for how resources are allocated around the country.
- Lobby for the publication of the amount of resources budgeted, distributed and spent for each local government area.

This Briefing Note summarises the importance of good sector resource allocation and sets out some mechanisms for achieving this in theory and in practice.

### Key references

The reader wishing to find out more about water and sanitation sector financing can consult the following documents. These cover more than just sector resource allocation issues.

- World Bank Water and Sanitation Programme, 2003. *Meeting the Financing Challenge for Water Supply and Sanitation.*
- World Bank Water and Sanitation Programme, 2003 *Water Supply and Sanitation in Poverty Reduction Strategy Papers in Sub-Saharan Africa: Developing a Benchmarking Review and Exploring the Way Forward.*

This briefing note is based on a report by Mike Thomson.

This and full details of all the material used in support of this briefing note are available at [www.Lboro.ac.uk/well](http://www.Lboro.ac.uk/well)

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Briefing Note compiled by  
Julie Fisher of WEDC

Photographs by: Aileen Lyon and Peter Harvey

For further information, contact:  
Julie Fisher or Andrew Cotton  
Water, Engineering and Development Centre (WEDC)  
Loughborough University  
Leicestershire LE11 3TU UK

Email: J.Fisher1@lboro.ac.uk  
A.P.Cotton@lboro.ac.uk  
Phone: 0 (44) 1509 222885  
Fax: 0 (44) 1509 211079  
Website: <http://www.Lboro.ac.uk/well/>



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