



DRAFT NOTE ON

Water Sector Decentralisation

The views expressed in this paper are those of the author(s) and do not necessarily reflect the view or policies of the Ministry of Foreign Affairs of Denmark

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LIST OF CONTENTS

List of contents	ii
List of abbreviations	iii
1. Introduction	4
1.1 Background	4
1.2 The Water (and Sanitation) Sector.....	4
1.3 Overview of the paper.....	5
2. Assignment of functions, legal framework/ policy.....	6
3. Sector Financing	11
4. Human Resource Management	16
5. Local Accountability Structures and participation.....	19
6. Central institutions for reform coordination and oversight	21
7. Summary Conclusions and recommendations	22
8. References and Further Reading	26

LIST OF ABBREVIATIONS

CB:	Capacity Building
CBO:	Citizen Based Organisation
CG:	Central Government
CSO:	Civil Society Organisation
DP:	Development Partner
FD:	Fiscal Decentralisation
GBS:	General Budget Support
GTZ:	Gesellschaft fuer Technische Zusammenarbeit
HR:	Human Resources
IWRM:	Integrated Water Resource Management
LG:	Local Government
O&M:	Operational and Maintenance
PFM:	Public Financial Management
NGOs:	Non-Governmental Organisations
RWS:	Rural Water Supply
RWSS:	Rural Water Supply and Sanitation
SBS:	Sector Budget Support
SDC:	Swiss Development Cooperation
SIP:	Sector Investment Plan
SWAP:	Sector Wide Approach
TC:	Technical Cooperation
UN:	United Nations
UNICEF:	United Nations Children's Fund
UN-Habitat:	United Nations Human Settlements programme
WRM:	Water Resource Management
WS:	Water Sector
WSS:	Water Supply and Sanitation
WSSS:	Water Supply and Sanitation Sector

1. INTRODUCTION

1.1 Background

In order to improve the quality of Danish support to decentralisation reforms and approaches for improved local governance and service delivery it has been decided to develop a set of learning materials on decentralisation reforms.

The learning material is synthesized in an overall "Source Material on Decentralisation and Improved Service Delivery for the Poor", while separate issue papers are developed on:

1. Political Economy of Decentralisation;
2. Fiscal decentralisation and Sector Funding;
3. Draft Note on Health Sector Decentralisation;
4. Draft Note on Environment Sector Decentralisation;
5. Draft Note on Water Sector Decentralisation.

This paper is intended to support staff at the embassies as well as others with a quick introduction to some of the core issues in designing and implementation of support to the water and sanitation sector in countries undergoing decentralisation processes. The paper should be read after familiarisation with the basic concepts in the overall Good Practice Paper for Support to Decentralisation Reforms as well as the Political Economy and Fiscal Decentralisation papers.

1.2 The Water (and Sanitation) Sector

The Water Sector or sometimes named "water and sanitation sector", is defined as in the previous Danida evaluations on the Water Sector (WS) as a broad set of institutions, strategies, legislations, programmes and activities within the Water Resource Management, Urban and Rural Water Supply and Sanitation as well as hygiene and health promotion related to water and sanitation¹. The abbreviation often used in this note is "WSS" for "Water Supply and Sanitation" or WS for the entire sector. However, the main focus will be on issues related with rural and urban water supply where issues in other sub-sectors will be briefly discussed when relevant.

The water sector comprises several sub-sectors with varying potential and actual degree of decentralisation through local governments. Rural water supply is frequently devolved to local governments and donor harmonisation/use of country systems is also widespread. Urban water supply is generally characterised by larger investments and separate delegated management systems with a lesser role assigned to local government and more frequent use of "project" funding modalities². Water Resource

¹ See e.g. Danida, Technical Advisory Service (2006): "Good Practice Paper – Harmonisation and Alignment in Water Sector, programmes and initiatives", March 2006, p. 3).

² E.g. see ODI: "Fluid Dynamics? – Achieving Greater progress on aid effectiveness in the water sector – lessons from three countries", p.6-8 by Welle, Kaharina et al, (ODI, May 2008) for a discussion of these issues.

Management requires institutional arrangements aligned with water catchment areas rather than administrative (local government) boundaries.

The decentralisation process and external factors vary across countries, and therefore there is no “blue-print” for decentralisation of Water & Sanitation. Effective policy and processes in decentralisation of water and sanitation depend on the systems of governance, balance of functions and divisions of responsibilities, funding and staff management and capacity³. The features of many of the tasks in the WSS in theory offer great opportunities for decentralisation, including the shifting of power, competencies, responsibilities and resources from central government to local governments (LGs) and other local provides, but are in practice also related with a number of challenges.

1.3 Overview of the paper

It is widely recognised that decentralisation reforms through local governments only are effective if certain conditions are met. These were in the general Good Practice Paper for Support to Decentralisation Reforms summarised as “five pillars of effective decentralisation”:

The paper is therefore structured into the following chapters that each discuss what are common arrangements but also what can be considered as “emerging lessons” in the water sector with regards to each of these “five pillars of effective decentralisation”:

1. Assignment of functions: discussion of practices and lessons regarding transfer of water sector functions to local governments;
2. Finances: discussion of practices and lessons regarding financing of decentralised water sector services;
3. Human Resource Management – practices ad lessons regarding decentralisation of water sector staff and building effective capacities for management of water sector issues at the local level;
4. Local Accountability Structures – practices and lessons regarding how water sector services can be made more locally responsive by decentralisation;
5. Central institutions for reform coordination and oversight – practices and lessons regarding how water sector decentralisation can be coordinated and managed centrally.

The paper closes with a brief concluding chapter. The paper should be read subsequent to the general Good Practice Paper for Support to Decentralisation Reforms that provides a general overview of key concepts just as broader and more theoretical discussions of e.g. expenditure assignments are discussed there. In this paper the focus is on specific water sector issues.

³ SDC: “Opportunities and Challenges for the Water and Sanitation Sector in a Decentralised Context”, Report on the 23rd AGUASAN Workshop, Gwatt, Switzerland, 22. June 2007.

2. ASSIGNMENT OF FUNCTIONS, LEGAL FRAMEWORK/ POLICY

Many of the activities within the WSS are generally suitable for localized provision with a strong role of LGs, but the activities and division of functions differ between highly urbanized areas, towns and rural areas and between sub-sectors. There are various functions such as water resource management (incl. watersheds) and larger urban investments (particularly related to piped water), which generally call for various task-specific management arrangements.⁴

A general tendency in many developing countries have been to: i) pursue decentralisation of water supply, but to separate the Water Resource Management (WRM), including protection of watersheds, from the supply functions and keep this at a higher level of management, ii) to separate the functions of policy and coordination with those of operational and service provision, iii) to ensure greater involvement of private sector in actual production,⁵ iv) to pursue involvement of communities in the activities, particularly on operational and maintenance (O&M) functions and finally v) to distinguish between urban and rural service delivery in design and operation of the management modalities⁶. Second the roles of various national and international NGOs and various CBOs have traditional been very important in the WS.

Many countries have developed national WS strategies, but often without clarification of the specific roles to be undertaken by local governments or without means and strategies to ensure that these are implementing in the spirit of the strategy. Furthermore, when developed, these are often without sufficient linkage with the overall decentralisation strategies pursued in the countries.

Involvement of LGs in WSS

There have been few evaluations of the impact of LGs involvement in the WS, but some evidence, e.g. from an ADB study shows that if local institutional capacity is developed the involvement of LGs has the potential to have a positive effect on service delivery within the sector⁷.

WSS is characterized by great differences in the mode of service delivery between urban and rural areas, and the tendency to separate the roles of policy and coordination and the actual operations of the services, often through various forms of public and private companies. The experience shows that there is a great diversity in the organisational modalities and involvement of LGs in actual service provision in the sector ranging from entirely central government managed WSS (East Timor), to LG managed systems in the rural areas (e.g. *Uganda*) as well as various forms of public/private company models (*Kenya* and *Ghana*). The systems and organisation may also vary greatly between urban and rural areas, where the urban areas tend to have with less involvement of LGs. The actual production can often be private as well as public, e.g. in *South Africa* (SA), which has experienced a massive decentralisation of WSS⁸. Here districts can be both water service authority and water service provider

⁴ See the Annex to the Paper on LG Finance and Sector Funding.

⁵ World Bank (2009): "Addressing China's Water Scarcity, World Bank 2009.

⁶ See e.g. GTZ: Water supply and sanitation sector reforms in Kenya, Tanzania, Uganda and Zambia, January 2008.

⁷ ADB (2007): "Best Practices in Water Supply and Sanitation: Learning from Successful Projects", 2008.

⁸ SDC, 2007, p. 33 ff.

at the same time but are also allowed contract out the service to private service providers.

The problems of unclear division of functions, confusing links of accountability and discrepancies between stated decentralisation objectives and practices, observed from other sectors, are critical and widespread for the WSS. The legislation in many countries such as e.g. *Ghana, Zambia India, Nepal and Mongolia*, gives the LGs comprehensive roles in water supply and sanitation. However, practical challenges such as lack of funding, human resource gaps or disagreements amongst stakeholders on the roles and responsibilities have limited the actual involvement of LGs.⁹

In other places there are contradictions between the policy and the legal framework and defining the institutional roles of key agencies, and varies level of governments, have been a great challenge (e.g. Burkina Faso)¹⁰.

The box below provides other examples of these challenges, and show that unclear roles and responsibilities have hampered efficiency in service provision in many countries.

Box 1- Examples of Unclear Division of Tasks

Many countries suffer from the lack of consistency between the legal framework/formal arrangements and the actual practice/implementation. Examples of this are in *Sri Lanka, Mongolia, Venezuela and India*, where most of the WSS functions are legally transferred, but where there is very limited LG autonomy and funding available to fulfil these functions.¹¹

Cambodia, through the Decentralisation & Deconcentration (D&D) policy promotes decentralisation, but most functions are still delivered in a strongly top-down deconcentrated mode of RWSS, where the Ministry of Rural Development (MRD) has deconcentrated offices at the provincial and district level with limited input from below¹². An attempt by the Ministry of the Interior to request MRD to identify functions to be decentralised has not yet led to any significant changes due to resistance from line ministry and other "definitions" of decentralisation, despite the Government's declared D&D Policy.

A recent World Bank review in *China*¹³ identified serious problems of unclear roles of LGs, fragmentation of decision-making and lack of LGs representation in important coordination arrangements impacting negatively on efficiency in local service delivery.

In the *Solomon Islands* the following quote describes the situation in many other places: "where most confusion in roles and responsibilities of Provincial Governments (PGs) stems from: (i) the fact that actual service delivery takes place in a de-concentrated fashion (in which PG roles are by definition limited), while -because of the existing political leadership- one is made to think that the system is devolved; and (ii) that no clear and/or explicit

⁹ A case study on Brazil and Venezuela has an interesting case on the problems of moving from state run enterprises to participatory municipal driven WSS activities with contracting out to external providers and close public monitoring, see Water Aid: Brazil and Venezuela – Civil Society organisation and involvement in Urban Water Sector Reform, 2009.

¹⁰ USAID: Burkina Faso – Water and Sanitation Profile, 2008.

¹¹ World Bank: Project Appraisal Document on Proposed Grant – Sri Lanka for Second Community Water Supply and Sanitation Project, April 2003 (World Bank 2003), and World Bank: India Rural Governments and Service Delivery, Vol. 1, June 2006 (World Bank 2006) and UNICDF&UNDP: Improving the Local Service Delivery for the Millennium Development Goals, November 2008 (UNICEF 2008) and Water Aid (2008, p. 7).

¹² UNDP, UNICEF and UNCDF (2009): "Improved Local Service Delivery for MDGs in Asia", 2009

¹³ World Bank (2009) op cit.

*agreements are made what the specific minor delegated tasks are for PGs as part of this de-concentrated mode.*¹⁴ " The point to be made here is not whether deconcentration or devolution is the approach in this country, but rather the need to clarify the existing system and accountability issues, and be clear on the strategy and way forward.

Some countries have started a deconcentration process within WS, but there is lack of clarity on when and by which steps (phasing and timing) the declared policy on devolution of functions, staff and funding will take place (e.g. Zambia).

Public – Private Partnership in service provision of WSS

Experiences from involvement of the private sector (Private Sector Provision (PSP)) are mixed, but private involvement offers great opportunities if carefully planned and capacitated.¹⁵ However, numerous examples reveal the practical challenges and pitfalls, exemplified by the box below:

Box 2: Private Sector Provision – in the City of Dar Es Salaam

The city of Dar Es Salaam' experience with PSP in water and sanitation services was not successful. This sector in Dar es Salaam has been particularly constrained with limited capital investments for thirty years, with the facilities failing to keep apace with population growth. In 2002, a British-German-Tanzanian joint-venture ('City Water Services') was awarded the tender for a ten-year lease contract to manage the technical and commercial operation of the water and sewerage system in the city. The infrastructure assets remained in government hands and the consortium entered the contract for the implementation of the 'Dar es Salaam Water Supply and Sanitation Project' with the Dar es Salaam Water and Sewerage Authority (DAWASA). Effectively, the private operator would be responsible for routine maintenance, billing and tariff collection under an 'operating lease contract'. The World Bank and other donors awarded US\$143million for repairs, upgrades and expansion of the water and sewerage infrastructure. However, in May 2005, the government terminated the contract and transferred the responsibilities back into the public sphere. The stated reasons for contract termination were the operator's failure to deliver on its contractual investment obligations, to pay the lease fees to the government and to contribute to the fund to improve water supplies to the poor, as well as overall feedback from the residents of deteriorating water services in the city. The city's water supply and sewerage has since then been managed by Dar es Salaam Water and Sewerage Corporation (Dawasco).

Source: (IPP Media, May 14, 2005; World Bank 2003; WaterAid 2003). Occasional Papers OVERVIEW OF MUNICIPAL FINANCE SYSTEMS IN DAR-ES-SALAAM, TANZANIA Pritha Venkatachalam Development Studies Institute, LSE November 2009

As discussed by Håkan Tropp, some of the reasons why private sector has not been able to meet expectations have been weak regulatory capacity of many governments, which often has resulted in price-hikes and poor water quality and management.¹⁶ Tropp argues for the need to bring government back in its critical roles to improve water services and management. Winpenny (2003, p. 7) also documents that involvement of private sector in the WS is a long and difficult process, although with opportunities for efficiency gains if the environment is conducive. For LG this poses a special challenge, as the capacity of LGs is often weak in areas of procurement,

¹⁴ Land, Gerhard Van't: "Review of the Functional Assignment for Provincial Governments in the Solomon Islands", Discussion Paper, Final Draft, December 2009. The paper contains a good overview of the functional assignment issues.

¹⁵ E.g. refer to UN Habitat, 2005, opcit, p. 158 ff.

¹⁶ Tropp, Håkan (2007) : Water Governance: Trends and needs for new capacity Development, Water Policy 9 Supplement 2 (2007), 19-30.

management, and supervision of private service providers, hence need for a strong capacity development support to reduce the risks in this area.

Involvement of NGOs

NGOs have traditionally had particular strong roles in the WS. They play important roles in advocacy, mobilisation, strengthening of accountability measures, capacity building of communities and LGs, but also in the actual delivery of services. However, their links with the system of LGs are often not sufficiently clarified (particularly on the actual delivery function) leading to issues on accountability and overlapping competencies. The literature is rich of examples of involvement of NGOs.¹⁷

Examples of phased decentralisation /transitional arrangements

The WS has experienced significant changes in the organisational set-up and division of functions and responsibilities. Over the last decade, a number of countries have decentralised significant services within the WSS, such as Uganda (massive allocation of functions to the LGs)¹⁸ and *El Salvador*' experiences from decentralisation, partly as a respond to the weaknesses of central provision¹⁹. Other countries are planning similar trends, see the textboxes below:

Box 3: Decentralisation Plans in on Water Supply and Sanitation in East Timor

The decentralisation of services in the highly centralised country East Timor has been planned in conjunction with the introduction of municipalities with public elected councillors (expected to start in Year 2010). The decentralisation will be phased in geographical and functional scope, and some few sectors such as general administration, **water supply and sanitation** and basic health have been chosen as the first batch of functions for sector devolution. A draft plan for transferring of functions, funding and decision-making power has been elaborated in close cooperation between various ministries with TA support from UNCDF. The decentralisation will mean that the existing deconcentrated offices will be part of the coming new municipal administration, that a intergovernmental fiscal grant system will be established with transfers from central government to the new municipalities for funding of investments (these funds will be deducted from the central ministry's funding) and O&M functions. Staff will remain part of the central civil service system, but will refer to and be accountability to both the municipalities and the central government within some technical areas. Cost implications of the change in the provision of services have been determined, and the plans are awaiting the final adoption in the Parliament of the LG Act. The case is an example of a well-planned process, moving from a highly centralised system to "controlled" form of decentralisation, "-controlled" in the sense that central government will still have a say on the staffing and overall funding provisions. Major capital investments will also remain at the central government level. The system has undergone a close review of the functions to remain at the central level versus functions to be decentralised, the cost implications and staffing issues. It is expected that the process will start from FY 2010/11.

Source: Ministry of Infrastructure – National Directorate of Water Supply and Sanitation in collaboration with Ministerio Da Administracao Estatal e. Ordenamento Do Territorio, Draft 26. June 2009.

¹⁷ See e.g. USAID: Burkina Faso- Water and Sanitation Profile, 2007; Sari, Kumula. Participatory Monitoring of Sanitation: the case of Wotawati Hamlet, Pucung Indonesia; UNDP, UNCDF and UNICEF (2009): Improving Local Service Delivery for MDG in Asia, 2009 and ADB: Best Practices in Water Supply and Sanitation, March 2007.

¹⁸ ODI (2008) and GTZ (2008)

¹⁹ Hoogerwerf, Tanya: Sustainable Rural Water Supply in El Salvador, Final Report, p. 10, (Hoogerwerf, May 2001).

Box 4: Ghana

Ghana has been pursuing increasing roles of LGs sector service provision, here with support from Danida and other development partners (DPs), in a strategy with phased transfer of responsibilities to districts. The new Policy on Water emphasizes the role of district assemblies in provision and operational and maintenance of water and sanitation. Water facilities at the community level are managed by Water and Sanitation Committees (WATSAN) under the districts, and in small towns and LGs are gradually taken over new functions within the water sector, see Section 3 for more information.

Danida (2008) and Water and Sanitation Program: Rural Water Sector Reform in Ghana: A Major Change in the Policy and Structure (WSS, Ghana), 2008

Box 5: India – State of Kerala

An interested reported success story of transitional arrangements is from the State *Kerala in India* where a new relationship between LGs and user groups have been established in the implementation of larger water supply schemes moving away from a top down managed system to a highly participatory model with involvement of communities and the lowest level of LG. Some of the core features of this initiative are: i) clear division of tasks and responsibilities between the state run rural water supply and sanitation agency, the gram panchayats (LGs), the user groups and teams to support the community mobilisation, ii) strong involvement and management by the user scheme committees (with elected user representatives), responsible for planning input, tariff setting, O&M and as owner of the scheme etc, and iii) clear responsibilities for supervision and coordination by the LG representatives and project support by the LG.

Please refer to the Water and Sanitation Programme (WSP): Success Story in Kerala: Local Government and User Groups Plan and Implement Large Water Supply Schemes, Jay 2008 for more information on this.

Special issues concerning water resource management (WRM) –including catchment areas

WRM and the issues of catchment areas require cross-district interventions and new management arrangements as issues cut across individual LGs or even countries. A recent study²⁰ in China document the challenges in this area where the absence of LGs in important river basin management committees, led these committees rather inefficient in terms of coordination across and amongst authorities and coordination of water resource management issues.

A recent study in *Uganda* recommended deconcentrated management with clear links to districts and catchment management organisation with involvement of stakeholders and outlined pros and cons of various options for management, which will be very country specific depending on institutional settings, environment features, history etc.²¹

Experience from piloting decentralised WRM Uganda has pointed on the importance of ensuring clarification of the following issues and phasing: Catchment area/basin defined and mapped; water resource issues and problems identified; positive interest from local authorities and other key stakeholders; WR assessment prepared; catchment management committee formed; stakeholder analysis conducted and stakeholder forum formed; water user associations identified and involved; capacity of

²⁰ World Bank 2009

²¹ COWI Consult. Catchment based water resource management – Institutional Assessment, -- Final Report, October 2009

decentralised WRM bodies built; WRM strategy prepared; WRM action plan and budget prepared; funding obtained and WRM action plan implemented.

Most countries have not yet decentralized the WRM, but functions are still centrally managed with emerging involvement of LGs in some places. As the functions are often trans-local government and even trans-boundary, organizations with wider scope need to be established – sometimes with need for water management zones above LGs, but below Central Government. The main issue is here to ensure representation and coordination with all interested parties, including central and LGs, users and other stakeholders.

3. SECTOR FINANCING

Funding modalities

There are four main dimensions of sector financing in WSS:

1. Source of Funding – Government, DP, NGO, private sector, community (DP funding is strongly dominating on the investments);
2. Centralised-versus decentralised funding and resourcing.
3. Sector-specific versus non-sector specific funding (several of the investments in water do not fall under the sector-specific programmes);
4. Modalities for DP funding: GBS, SBS, programme based baskets, projects (more or less aligned and harmonised with national procedures) – see Section 5.

Source of funding

Funding of WSS activities varies greatly from country to country and from the urban to the rural areas. However, there are common issues and challenges in most countries. Firstly the sector suffers from high level of underfunding, which impact the LG service provision as well, particularly within the area of sanitation and wastewater treatment²². Second, the funding of larger scale urban WSS investments has often been done in a highly fragmented project mode with a significant support from various DPs insufficiently coordinated²³. A core challenge has been to ensure that the various funding flows (see below) from Government, DPs, NGOs and other sources are coordinated, not overlapping, and that LGs have a chance to incorporate funding in the planning, budget execution on monitoring.

In the rural areas, there are largely five main approaches for funding of LG service provision:

- i) Sector specific central government and /or project specific area based programmes (often donor funded) sometimes in a deconcentrated mode (and sometimes through an established grant facility),
- ii) General area-based local development programmes (often DP funded) sometimes in a deconcentrated mode (and sometimes through an established grant facility),

²² Please refer to Report by Winpenny, James in a work chaired by Camdessus Michel: "Report of the World Panel on Financing Water Infrastructure – Financing Water for All", March 2003 and Danida (2007) for a review of this and overview of the funding issues.

²³ Capacity: "A gateway for capacity development", Issue 36, April 2009 and ODI, 2009, opcit.

- iii) Genuine sector grant systems with intergovernmental fiscal transfers to LGs for small scale investments and/or O&M²⁴ – more or less earmarked for WSS activities (a variant of this is various forms of challenge funds from which LGs can get access to support, but these are not regular formula-based transfer schemes). These grants may be complimented by LG own source revenues. The grants may be funded by a combination of Government consolidated funds and/or DP budget support contributions;
- iv) Funding by communities themselves, often with limited support from others, but this may vary and funding may be combined with (i), (ii) and (iii).
- v) Funding managed by NGOs.

Centrally versus decentralised funding and resources

The choice of the funding models depends on the historical development in the sector in each country, mode of decentralization, area of investments (e.g. urban versus rural), composition of development partners and their strategies, and many other factors and there is generally no single best option.

In general the LG contribution to WS is low²⁵. Based on a review of 7 countries, a Danida report concluded that LGs contribute to less than 10 % of the rural WS costs and that grants from CG and DPs are the core funding sources for local provision. Second the extent to which WS services are provided in a decentralized or deconcentrated mode varies greatly across countries, and in many some countries several channels are operating simultaneously. Some of the risk of this, if not clarified and phased, are overlapping responsibilities, blurred accountability and high transaction costs for everyone involved. On the other hand, some countries, e.g. Ghana and East Timor, have started a deconcentration process, with support to and through local offices under the central government, as a step towards a subsequent devolution process.

Multi-sectoral versus sector grant system – grant.

One of the major issues on LG financing has been the extent to which sectors should be promoted by multi-sectoral or sector-specific targeted grants. As discussed in the Paper on Fiscal Decentralisation and Sector Funding, this will depend on the type of functions and the overall decentralisation policy, but in most countries there is room for better coordination of the various grant systems in terms of harmonising the planning, budgeting, reporting and auditing modalities across the support schemes to LGs – see e.g. the comprehensive review of this in the Danida funded reports on links between the WS and decentralisation/governance reform in Bangladesh, which identified areas in need of harmonisation of grant allocation criteria, triggers for releases and reporting requirements.²⁶ In other countries like India (centrally

²⁴ This is often the case in anglophone African countries whereas in the francophone countries, the sector funding is typically controlled by central ministries (or deconcentrated agencies), see the General Paper on Fiscal Decentralisation and Sector Funding.

²⁵ Danida (2007).

²⁶ Danida (2007), by Webster, Neil; Steffensen, Jesper and Rahman Khan, Zarina: "Joint Mission for Danida Support to Local Governance and Decentralisation in Bangladesh", 2007, which includes an analysis of the various procedures and links between the WS, Agriculture and decentralisation reforms, and Danida (2008): Joint Local Government Support Programme – Annual Review 2008, Field Mission Report, 2008.

sponsored schemes) and Cambodia²⁷, where funds for investments to local WS are routed through the deconcentrated channels challenges have been observed in the links between the deconcentrated units and LG service provision to ensure synergy and coordination

The use of government systems has often led to both a strengthening of those systems and institutional capacity at the local level. A good example of on-budget sector budget support with local benefits has been the sector conditional grants for WSS in Uganda, see below.

Box 6: The district water conditional grant in Uganda

In the late 1990s, the rural water sector was having severe problems delivering water and sanitation services. The projects working with local governments at the time faced severe capacity constraints at the local level, and no government systems existed. In 2000, a decision was made to establish the district water grant to support local governments. Yet, the mechanism for channeling grants to local governments only existed on paper in the sector (although other sectors were using grants to fund local government service delivery). The government allocated additional resources from debt relief, and subsequently general and sector budget support through the newly formed grant conditional grants to local governments where donors had been struggling to establish capacity, simultaneously developing systems around the grant.

The new conditional grant not only supported service delivery, but also explicitly supported the establishment of offices and recruitment of qualified staff, and this was instrumental in building capacity at the local level. The fact that funds were transferred for delivery while building capacity meant that there were stronger incentives to attract and retain qualified personnel.

In addition, the focus of the Ministry of Water, Lands and Environment has turned to supporting local governments and not implementing projects. The establishment by the ministry of regional Technical Support Units built the capacity of district water offices to play their role effectively and understand national policies.

Source: Abstract from Williamson et al, 2008.

Below is an interesting example of new funding modalities for rural WSS, which have pursued to avoid tight earmarking of funds and/or promoted better coordination of the WSS investments with other LG investments to strengthen local planning and cross-sectoral prioritisation.

Box 7: Ghana - Change of support modalities within the WSS from a strongly earmarked system

Danida's support to Ghana within the WSS is designed in a way to change from a system of area-based, highly earmarked support to LGs, to a system with support to the multi-sectoral performance-based grants under the District Development Facility (DDF). The focus will be on feeder roads, water and sanitation for the first three years, but with the intention to move away from earmarked support and towards discretionary funding, based on local priorities allowing LGs more flexibility to prioritize across the sectors and activities. Performance will be measured annually and improved performance will be rewarded by an increase in the funding allocated to each District Assembly from the DDF. The system focuses on the generic performance within the areas under the District Assemblies' command, and within areas of

²⁷ World Bank (2006) and UNICEF (2009).

importance for all service delivery sectors. A midterm review will assess ' the functionality of the new fund, the status of the decentralization process, including the wider fiscal decentralisation framework, Government priorities and DP harmonisation. In the case that the evaluation is positive, the DDF will in 2012-13 be used as the sole funding mechanism for investment funding, including sector funding. The earmarked sector funding will cease and the support will from then on be nation-wide and multi-sectoral. The system will be a major move away from the sector earmarked support, where issues such as the number of latrines, the construction features of these, as well as location are decided by the program to a system based on-budget multisectoral grants with larger amount of LG discretion.

Source. Based on Danida' Program Document: Local Service Delivery and Governance Program (LSDGP), Program Document, Final Draft, 2008. See also progress reports of the programme, which documents tight control on the input side within e.g. sanitation investments.

The grant system in Tanzania provide another interesting example of links between sector and multi-sectoral funding and a move towards common modalities using sector-specific windows in the general grant system, see below.

Box 8: Tanzania – Support to the Multi-sectoral performance-based Local Government Development Grant (LGDG) - example of common grant modalities

The LGDP is designed in a way to ensure common procedures and systems for the various types of development grants to LGs in Tanzania and to strengthen the LG incentives to improve performance across the board.

The LGDG system includes both discretionary as well as sector-specific grants. All development grant schemes, including sector funding, consolidated into the LGDG system should adhere to the following five basic principles:

- 1) The allocations for every LGDG system transfer will be based on an objective, equitable, efficient and transparent allocation formula;
- 2) The allocations for every LGDG system transfer will be performance-based and subject to a common performance assessment;
- 3) The rules of the LGDG system will be universally applied. All councils that qualify for LGDG system transfers under the performance assessment should receive their allocation in strict accordance with the respective allocation formula;
- 4) There will only be a single approval and disbursement process for all windows of the LGDG system, managed by PMO-RALG/DLG under the guidance of a single LGDG System Steering Committee; and
- 5) The LGDG system transfer resources, in combination with other recurrent and development grants as well as own source revenues, will be spent by the LGAs based on their own local level planning and budgeting priorities to promote local governance, autonomy, accountability and ownership.

The LGDG system is currently (2009) designed to include five sector-specific grant programmes linked to agriculture, water, education, health and roads. The Government through the Rural Water Supply and Sanitation Programme (RWSSP) is allocating funding to enhance local water activities including monitoring local access to potable water and implementation of the new local water schemes to unserved communities.

The majority of the RWSSP expenditures will be at the LGA level and provided through two fiscal grant transfers: Development Grant and Capacity Building Grant. The amount of RWSSP to be received will be determined by the performance as measured by the assessment scores on the minimum conditions and performance measures of the LGDG discretionary development grant (CDG), see above.

The RWSSP funds are allocated on the following criteria: i) Total unserved population: Maximum of 70% and ii) Technological options: Maximum of 30%. Each council will receive an amount from the water grant based on the same minimum conditions and performance measure scores received for the general non-sectoral LGDG capital development grants. Council meeting the minimum conditions will receive 100% of the water grant amount if it receives an aggregate score of more than 75 points on a scale from 0-100 while obtaining a minimum passing score in each of the functional areas. Lower performance leads to reduction in the eligible funding. Councils which do not meet the minimum conditions will receive 50% of the WSDG amount, subject to strict oversight by PMO-RALG and the Regional Secretariats serving as the external monitoring agent.

Source: Prime Ministers Office: Regional Administration and Local Government: Local Government Development Grant System, Manual for Assessment of Councils against Minimum Conditions and Performance Measurement Criteria, November 2008.

Modalities for DP funding

As for other sectors, DPs apply various tools for funding of the WSS, ranging from GBS, SBS, basket funding, and various projects. WSS funding is sometimes fragmented and generally characterized by numerous projects with a large range of DPs, where only 29 % of support to WSS in Africa is through budget support and 71 % is channelled through separate programmes and projects, often with own implementation units.²⁸ However, attempts have been made in e.g. *Uganda, Burkina Faso, Tanzania and Ghana* to ensure that funds are routed through the government systems, using evolved SWAPs with gradual improved harmonisation and alignment²⁹. Various Basket funding arrangements with various levels of deviations from government systems and procedures, are used in many countries as a step towards future genuine SBS and GBS.

Although the formula-based grant systems, mentioned in the text-boxes above, have been very useful in the rural areas, there have been larger challenges in ensuring equitable coverage and distribution of funds in urban areas, where there is need for pooling of resources for larger initiatives, often with high level of one-off investments.

Funding of sanitation – special issues

The funding of sanitation has been particularly contentious³⁰. A very comprehensive review of the funding modalities on sanitation³¹, notes the heated debate on subsidies, but discusses the way forward in the design of smart systems. Among the main conclusions are that supporting software (including awareness raising and CB support) in rural areas is pertinent. In the urban areas, there is need for engagement with wider urban systems and support. The review discusses advantages and disadvantages of subsidies and the way forward on the design principles for “smart” subsidies, which need to ensure that they: i) have clarity on objectives, ii) reach the intended target groups, iii) are financially sustainable, and iv) are clear and transparent.

²⁸ Capacity; ”A Gateway for Capacity Development”, Issue 36, April 2009.

²⁹ See e.g. Danida (2006) for a review of the experiences from on-budget funding systems and moves towards SWAPs.

³⁰ World Bank, WSP (2010) ”Financing of on-site sanitation for the Poor, Tremolet, Sophie, World Bank 2010.

³¹ See Water Supply and Sanitation Collaborative Council, Geneva, Switzerland, Public Funding for Sanitation – the many faces of sanitation subsidies (2009)

With respect of LG funding, there is a general agreement that LGs when given autonomy within WS tend to pay less attention to the sanitation issues, and various means such as targeted funding (e.g. Ghana), mobilization and awareness raising³², CB etc. have been used to ensure that the LG put sufficient emphasis on this is in accordance with the national strategies and objectives. However many projects and initiatives have focused significantly on establishment of latrines, and less on other areas such as general promotion of hygiene. There is room for further considerations and studies on the intergovernmental funding system to establish better incentives to tackle these problems.

4. HUMAN RESOURCE MANAGEMENT

Decentralisation in the WS has often been constrained by lack of a conducive intergovernmental institutional environment and lack of local capacity in core areas. Institutional and HR frameworks to handle operations in WS are often not in place. However³³, a number of countries have started to address the Human Resource (HR) issues and gaps at the LG level as a pertinent component of the reform process. Examples of this are the establishment of technical support units and various forms of regional and district based technical advisory units to enhance LG capacity in WS. The box below provides an interesting example of this.

Box 9: Technical Support Units (TSUs) in Uganda.

TSUs have been established in *Uganda* to support the districts enhancing their capacity³⁴. As quoted by a recent report by Tim Williamson et al: *"The establishment by the ministry of regional technical support units (TSUs) helped in providing an enabling environment for district water offices through capacity building, focusing of clusters of districts through assessments, support, training and other TA. This has enabled district water offices to play their role effectively. TSUs provide specialised skills relevant and specific to the offices, although some respondents felt that actually some offices were sharper and brighter than TSU staff. There is now capacity in the district water offices to perform their designated functions and deliver services to the public. ..."* *"In contrast, the urban water sector has up to now not built local institutions properly and effectively as implementers of urban water schemes"*.³⁵

However other factors in the overall reform environment has reduced the impact of the CB support such as the proliferation of districts, transfer of skilled man-power and the lack of sufficient funding of the LG restructuring process.

Another example of support to the HR area is shown below:

Box 10: Capacity building support to LGs in Ghana.

³² See e.g. Sari, Kumala (2003).

³³ Danida (2007), p. 9.

³⁴ ODI, 2008.

³⁵ The Advisory board for Irish Aid: Report by Tim Williamson et al: Working Paper 6- *"Building Blocks or Stumbling Blocks? The Effectiveness of New Approaches to Aid Delivery at the Sector level"*, 2008 (Williamson 2008).

Capacity building support is provided to districts in *Ghana* from the Danida supported programme LSGDP to strengthen their role in WSS³⁶. The aim here is to ensure a realignment of sector specific departments at district level, including the establishment of District Works Departments (DWDs), which will integrate feeder roads, water, sanitation and rural housing departments under the LG council. The program supports the establishment and enhancement of the capacity of these integrated units. A new legal instrument will change transform a number the central government deconcentrated agencies (incl. the ones related to WSS) to a system whereby they will be integrated under the LG assemblies, although under a Local Service arrangement with some checks and balances. Danida supports the preparation of this process through the program.

The general challenge is that most of the lower levels of LGs have no technical officials, but have to rely on the upper tier for support. In some countries- e.g. many francophone African countries -, this support function to newly established LGs may be undertaken by deconcentrated arms of the sector ministry. The challenge in this type of arrangement will be to clearly defined the respective roles of the LGs and deconcentrated offices and to ensure that the central offices have sufficient incentives to provide this support to LGs. These roles may also change over time with central government branches gradually withdrawing to focus on purely regulatory functions.

Some countries have pursued a strengthening of the HR component through separation of regulatory functions and water resource management from actual service delivery (e.g. in *Kenya* and *Zambia*), and through strengthening of the contract management systems, e.g. in *Mali* with contracts between the municipalities and the service providers³⁷. CB support to LG's in contract management is important as this is often a high-risk area.

The autonomy on the HR issues, including hiring and firing of staff in WSS has been subject to tense discussions in most countries when it comes to decentralisation in the sector. The experiences range from devolution of staff to the LGs such as in *Uganda* and *the Philippines* to continued deconcentrated management and appointment by central authorities (e.g. *Ghana* – in future staff will be under the LG assemblies, but the hiring and firing will be under a centrally appointed Local Service Commission).

In *Zambia* the authority in staffing matters have changed several times between central service commissions and LG decision-making over the past decades and there are plans to recentralise appointment of LG staff through establishment (again) of a central service commission – an initiative which will be in sharp contrast to the plans to pursue functional and fiscal decentralisation. Double accountability of LG staff is also experienced in a number of countries. In the coming reform in *East Timor*, the staff will be accountable first and foremost to the new municipal councils but still have some technical links with the Ministry responsible for WSS. Appointment of staff will be made in a joint cooperation between the Central Civil Service Commission and the municipality and both parties have to agree with any proposal on transfers of staff. Staff will have a kind of double accountability towards the municipality, but also towards the Ministry of Infrastructure - National Directorate for Water Supply and Sanitation for compliance with technical regulations. The details of this are still to be

³⁶ Danida, 2008.

³⁷ SDC, 2007, p. 24.

worked out, but the plan is a kind of compromise between various objectives and a part of a phased approach toward sector devolution.³⁸

Lack of LG control of staff has been identified as a major implementation problem in many countries e.g. India³⁹, Pakistan⁴⁰, El Salvador⁴¹ and Mongolia⁴² and the need to ensure a balanced development in 3 "f"s, which are: i) functions, ii) funding and iii) functionaries (staffing issues) – has often been neglected in the WS as well as in other sectors.

Core LG service delivery issues, LG HR management and autonomy in the WS has also often conflicted with line ministries objectives to keep control and has not in general received sufficient attention in the overall public sector reforms. How to overcome the resistance from strong sector ministries has been a major concern in most sector reform processes.

Modes of provision impact on the HR required

The modes of service delivery, whereas it is central government, LG in-house provision (own staff) or contacted out to private company, or community based delivery mechanisms impact on the type of HR resource capacity and needs required at the LG level. Many countries have good experiences from the community delivery models in the WS, but mostly in rural settings, and the use of these modalities are most suitable where the services are relatively simple, and the links to LGs in areas such as planning, support and coordination becomes very important, see below.⁴³

Establishment of various kinds of water boards, particularly in the urban centres, such as in *Kenya*, has also changed the roles of LGs from direct implementers that take care of all operations including fee collection and operational expenditures to board members that take care of oversight together (in coordination) with other stakeholders (LGs are often minority shareholders). However, some of the transformation processes have not been easy as seen from the case of *Zambia* where redundant staff are kept in the LG administration due to civil service restrictions, creating fiscal constraints for local councils.

Adjust and right sizing of staff

Adjustment and right sizing of staff has been another great challenge in many sectors but particularly in the WS, as there are often excessive numbers of staff in the low qualification groups, and lack of experts within skilled areas such as engineers and other highly qualified staffing categories. LGs cannot solve these problems without major central (and DP) support in form of e.g. retrenchment schemes, retraining activities and support to adjustment of the LG structures.⁴⁴

³⁸ Ministry of Infrastructure (2009) – National Directorate of Water Supply and Sanitation (East Timor): “*Sector Decentralisation Strategic Framework*”, Draft 26 th June 2009.

³⁹ World Bank 2006.

⁴⁰ National University of Singapore: Community Driven Development as Drivers of Change. Water Supply and Sanitation Projects in Rural Punjab, Pakistan, August 2009.

⁴¹ Hoogerwerf, 2001.

⁴² UNICDF&UNDP, 2008

⁴³ UN- Habitat, 2005, p. 242.

⁴⁴ GTZ 2008, p. 20 ff.

5. LOCAL ACCOUNTABILITY STRUCTURES AND PARTICIPATION

Accountability and participation

A vast amount of literature rightly emphasizes the need to ensure strong accountability structures in the WS. Accountability needs to be strong between Central Government and LGs, LGs and their constituencies, but also internally between the administrative staff and the local politicians (councillors), and between the LG and the contracted service provider when services are outsourced.

Some of the problems with up-ward accountability have been weak systems of M&E, reporting, and dialogue on targets, as well as conflicting funding channels and parallel systems of service delivery (fragmentation of support). To strengthen the downward accountability has also been a major challenge in most places.

Various reviews observe that LG can have important roles in establishing the links between communities and public authorities, delivery of more complex services, ensuring conflict resolution⁴⁵ and providing support to investments and O&M in medium size and larger schemes. But communities have often received significant support from various programmes, without involvement of, and coordination with, the LG system.

Involvement of communities in the LG planning, budgeting, funding of O&M, project implementation and supervision has shown encouraging results and is being supported in various countries, although there is room for improvement.⁴⁶ Communities, where mobilised and sensitized, particularly in areas where public authorities are weak, have been able to mobilise resources, organisation distribution and cater for O&M⁴⁷. However, to establish the link between the community roles, user committees, private initiatives and DP supported schemes and the more institutionalised LG service delivery system has been a major challenge in many places. LGs have an important role to play even where there are strong community based systems, particularly within areas such as sharing of knowledge of local needs in the entire LG territory, mobilisation of resources and ensuring equitable coverage of services, ensuring inclusiveness, conflict resolution and within their ability to support with technical expertise, and/or draw upon the technical skills from the line ministries. Empowering LG while ensuring accountability to communities is therefore important to improve WSS.

As per the other sectors, transparency measures such as involvement of communities in all phases of the decentralised project cycle, information about use of funds, social audit, etc. are utmost important to strengthen downward accountability. Various studies show that if sanitation should be improved, peer support and peer pressure as part of awareness raising efforts can be a strong motivating factor behind improved

⁴⁵ This is emphasized in the article from Sano, Yoshiko: Water Management Decentralization in Honduras, July 8, 2009. Early findings of this are available in the World Bank review, which documented that establishment of user committees has a positive impact on contribution to O&M and general cost recovery – World Bank 1993: Policy Research Working Paper 1219, "Decentralising Water Resource Management", 1993.

⁴⁶ World Bank 2006, World Bank 2003, Sano 2009, UNICEF&UNDP, 2008, Danida (2007) and ADB (2007) which has documented that participatory projects are often related with the successful projects.

⁴⁷ Capacity: Issue 36, 2009, p. 6.

participation.⁴⁸ Lack of involvement of the citizens and poor awareness raising can easily lead to local elite capture and bias in the service delivery and reduction in coverage of services, hence there is need for CB support not only of LGs, but also of the citizens, CBOs and various stakeholders.⁴⁹

The institutional arrangement in the WS is also characterised by prevalence of a number of *Water boards* and councils in many countries. The advantages of these are often the involvement of core stakeholders, representation of citizens, bringing LGs, users and providers together with central government representatives and other decision-makers, but these authorities, if not clearly defined, can also lead to confusion with the LG main operations, and may put undue pressure on the established system of governance, etc.⁵⁰

Public information campaigns within the WS have often been effective but not sufficiently promoted. Good examples of efficient support to this are ADB supported projects in the Philippines and Sri Lanka⁵¹. A recent ADB study (2007) review documents that participatory approaches are typically linked with the most successful projects. However, other studies show that there is need for a proper balance between the focus on “participation” versus service delivery technical efficiency.⁵² Reference is made to comprehensive literature with good examples of mobilisation of people in area such as sanitation and hygiene and the involvement of LGs in these activities.⁵³

Gender issues and other cross-cutting concerns

When services become decentralised, issues arise on how the overall gender issues and the gender strategies as well as the aim to support disadvantaged, poor and vulnerable groups, and involvement of these groups in planning, decision-making, implementation and benefits of activities in WS are taken care of at the local (LG) level and how to improve the policies and implementation hereof.⁵⁴ Similar issues on how to ensure that sufficient environmental and health concerns are included in all LG project cycle steps become increasing important. One of the important prerequisites for efficient targeting of these issues is a proper gender analysis, both overall at the country level and for the sector as such⁵⁵. Initiatives need to go beyond just formal representation of women in committees and various fora, including initiatives such as sensitization, capacity building, guidelines, economic incentives, etc. Experiences from e.g. Uganda, Tanzania, Nepal and Bangladesh on the use of fiscal incentives are seen successfully applied in the multi-sectoral grant systems, which promote LGs’

⁴⁸ Sari, Kumala, et al: Participatory Monitoring of Sanitation: the case of Wotawati Hamlet, Pucung – Indonesia, 2005.

⁴⁹ Subramanian, Saravanan V: Dancing to the Tune of Democracy – Agents Negotiating Power to Decentralise Water Management, Bonn 2009.

⁵⁰ See Water Aid, 2009, p. 9 for a discussion of these issues.

⁵¹ ADB, March 2007: Best Practices in Water Supply and Sanitation (ADB 2007)

⁵² UNDP, UNICEF and UNCDF: (2007): *“Improving Local Service Delivery for the MDGs in Asia – Water and Sanitation Sector in Cambodia”*, 2007.

⁵³ Rural Water Supply and Sanitation Programme in Nepal: Community Led Total Behavioural Change in Hygiene and Sanitation (CLTBCHS) How to implement Clean District? An approach proposal from RWSSP-WN

⁵⁴ See e.g. Danida (2008) Country Gender Analysis, 2008.

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTGENDER/0,,contentMDK:20167522~menuPK:489177~pagePK:148956~piPK:216618~theSitePK:336868,00.html>

⁵⁵ A detailed overview of the challenges are presented in Wallace, Tina (2003 – Summary): Water – A Gender Issue – Findings from research in India and Nepal, 2003 based on Phd by Joshi Deepa et al. .

incentives seriously to include gender issues, poverty targeting and environmental concerns within areas such as planning, budgeting, decision-making and project implementation⁵⁶.

6. CENTRAL INSTITUTIONS FOR REFORM COORDINATION AND OVERSIGHT

Within the rural WSS activities there is generally an increasing coordination of the support to the reforms, often through various SWAp arrangements although great challenges remain. Within the support to the urban authorities, which is often characterised by larger on-off investments, the harmonisation and alignment has sometimes been less pronounced, although there are good examples of improved coordination in many countries.

Danida's support to the WS has ranged from: i) indirectly funding to the sector through general budget support (GBS), ii) sector budget support (SBS) (e.g. part of the support in Uganda), iii) support through the budget, using basket fund arrangements (e.g. Benin and Zambia), iv) on-budget project support (e.g. Bangladesh) to v) specific projects in a number of countries. As mentioned in a Danida review (2006), a number of issues need to be considered in the choice of aid modalities, although the preferred modality, to the extent possible, is SBS.⁵⁷ It should also be noted that the various aid modalities may be complimentary. An example of this is the support through the SBS modalities (earmarked support to rural water supply to finance grants to LGs) and the joint facility for capacity building (more project mode modalities) in Uganda, which are co-existing.

In brief, some of the main challenges and lessons learned have been:

- *Conflicts between the Ministry of Local Government and Ministry in charge of WS.* In several countries, there have been persistent conflicts in this relationship, fuelled by unclear LG acts and conflicts between these and the sector legislation⁵⁸. Ministries of Local Governments (particularly when these cover "local development" functions as well) are often seen as a threat by the line ministries (particularly in the WS), and coordination arrangements between ministries in the overall decentralisation process have often been missing or not worked efficiently. Some countries, such as e.g. *Mongolia*, also suffer from lack of a central ministry to coordinate the reforms in the WS⁵⁹;
- *Unclear roles between the line ministries on the links between related services:* In several countries, unclear portfolios within the WSS cause problems in the coordination of the reform process. E.g. in *East Timor*⁶⁰ there are issues on division of tasks between Ministry of Health and Ministry of Infrastructure

⁵⁶ E.g. the Assessment manual on MC/PM for DDCs in Nepal, 2008.

⁵⁷ See <http://amg.um.dk/en/>

⁵⁸ E.g. see GTZ, 2008, p. 13.

⁵⁹ UNICEF&UNDP, 2008.

⁶⁰ Ministry of Infrastructure, June 2009.

(responsible for water supply), and in *Uganda* discussions have taken place on the right location of the function: “water for production”. This increases the challenges in coordination, poses problems in the intergovernmental relationship between central and LGs, and calls for a multi-sectoral approach with involvement of all parties to ensure proper synergies. It is also important to support a clarification of the roles of the central ministries dealing with the WS and establish fora for coordination with regular and comprehensive interactions and dialogue;

- The *SWAPs* have been pursued in many other countries to ensure a better coordination, harmonisation and alignment of the support to the WS, but efficient operations have often been problematic, particularly within the urban sub-sector, which is characterised by larger off-off investments and initiatives. Second, the *SWAPs* in the WS has often suffered from the general weaknesses in the tendency to focus on the sectors in a silo-based manner without sufficient cross-sectoral considerations and/or considerations of the LGs’ roles and functions. What is important to note here is that a *SWAP* can support a mix of inputs, using preferred modalities as long as the activities are integrated in a joint reform agenda. DPs should work to promote linkages between the *SWAP* for the sector and the cross-sectoral issues and promote that the *SWAP* is not working in a silo manner with clear fences around without views on the cross-sectoral issues and without links to the decentralisation policy and implementation plans.

7. SUMMARY CONCLUSIONS AND RECOMMENDATIONS

Some of the overall problems and challenges within the sector, related to the issue of LG service delivery have been⁶¹: i) inappropriate or insufficient policy set by central government, ii) underfunding of the sector, particularly in the sub-sector sanitation impacting on LG options for efficient provision, iii) government unwillingness to allow local institutions revenue raising powers, v) unclear roles of LGs and user groups, v) urban centres developed without public institutions to govern them, vi) lack of LG capacity to handle new functions and weak support to enhance this and vii) fragmentation of the development partner (DP) support⁶².

The main lessons and recommendations are summarised below.

Regarding functional assignments, legal framework and policy:

- The importance in the overall sector strategy to have clear links with the decentralisation strategy (if such one is in place) and to ensure *clearly defined roles* of LGs and links with other stakeholders. DPs can support this process through promotions of links and dialogue and support to clarification of tasks;
- The importance of having a clear and non-ambiguous *legal framework* for division of tasks and functions with clear description of the functions of CG, LGs, communities groups, private companies, harmonisation various pieces of laws, etc.;

⁶¹ UN-Habitat: Water and Sanitation in the World’s Cities – Local Action for Global Goals, 2005 and UNICEF 2008

⁶² See e.g. UN-Habitat, 2005, *ibid* for a general discussion of these issues.

- The importance of acknowledging that various functions, such as water resource management and sanitation requires various institutional set-ups, with the view on the possibilities for ensuring linkages and synergies across the sub-sectors;
- The general recognized principles for expenditure assignments are useful⁶³, but need to be customized to the local political situation, economy and structures and the specific features of the WS;
- In many countries, there is lack of clarity on the division and roles of the LGs vis-à-vis the *communities*, e.g. within areas such as operations and maintenance, and this has hampered development. This calls for support to develop clear guidelines and capacity development;⁶⁴
- Many smaller activities, such as simple boreholes and springs are highly localized, but LGs often encompass a much larger territory with a large number of such systems, hence the need to define the status of smaller community groups and the links between these and LGs;
- Need to ensure strong involvement of user groups and citizens in the planning, implementation and contribution to the services, with clear links to the LGs in terms of involvement, information exchange and accountability;
- Need to ensure that core stakeholder are represented in the management of the *water resources*, which ensure that all benefits and cost beyond the individual LG are considered and catered for;
- Streamlining of the *multiple agencies*, which have been looking after the WS may in some countries generate significant efficiency gains and improve LGs efficiency.

Regarding financing of water and sanitation services through local governments:

- The need to ensure a proper balance between on the one hand the wish to achieve *national sector targets* and use of conditional grants (earmarked grants) and national minimum service standards and on the other hand - the decentralisation objectives, ensuring local priorities and efficiency in spending, reducing transaction costs for LGs. Some countries have introduced so many strings in the overall intergovernmental fiscal framework, that LGs are heavily restrained in achieving operating efficiency and required flexibility, related with overly complicated systems with high transaction costs;
- Some areas such as sanitation⁶⁵ where LGs seem to have lower incentives to prioritize should be supported through awareness raising, guidelines, CB and fiscal incentives through the grant system, keeping an eye on the above balance;
- Operational and maintenance issues and costs recovery are particularly challenging in the WS and should be carefully considered in the view of the types of services, scope of investments, level of localized benefits and costs, affordability, etc. Strategic plans and clarity on responsibilities in this respect are utmost important. If there is collection of fees for O/M by

⁶³ See the Paper on Fiscal Decentralisation and Sector Funding.

⁶⁴ E.g. World Bank 2006, p. 6.

⁶⁵ Sanitation is often given lower attention due to historical and cultural reasons, often perceiving this area as being a "private" matter, see e.g. Capacity, 2008.

citizens/communities, it should be clarified how these are merged with eventual LG contributions, how financial management streams are organised, etc.

- Community involvement and user payment can enhance sustainability and operational and maintenance, but needs to be carefully designed to ensure affordability and fairness in payment systems. LGs have a strong role in coordinating these issues, but one of the main challenges is to ensure a proper interplay between the community contributions and the LG funding (through e.g. taxes);
- LG co-funding requirements for WS investment systems may have a positive impact on building ownership, involvement of citizen and longer term sustainability, and should be carefully designed in the view of affordability and the prevailing poverty level;
- Top-down planning and budgeting needs to be changed towards involvement of citizens in LG decision-making to ensure a better reflection of citizens' real needs, ownership and longer-term sustainability.
- LGs can be promoted through the grant system and capacity building support to open up for an improved involvement of citizens in all phases of the service delivery on WS from planning, implementation to auditing and follow-up;
- Decentralisation often encompass transfer of ownership to the facilities in WS, but the implications of this, e.g. in terms of maintenance and up-keep, are should be considered in the strategy or implementation arrangements;
- The importance of having clear fiscal relations between central and LGs and funding systems promoting good performance and incentives.

Lessons learned on HR Management in the Sector

In brief, some of the core lessons learned have been the importance of:

- Having some level of LG autonomy on the staffing issues to ensure strong accountability with clear guidelines;
- Clear lines of accountability in all links between LGs and companies, which deliver services, LGs and constituencies, LG and central government and staff and politicians,
- Conducive environment for restructuring of the WSS administration with efficient administrative procedures and strong incentives to improve performance. DP support to this process with high initial costs is often necessary;
- Support to decentralisation shall not only focus on technical issues in CB within the WS, but also on water governance issues, including support to strengthening good governance such as participation, involvement, management etc.⁶⁶;
- Ensuring strong central government support and CB of LGs in areas such as clear guidelines, technical support and CB (experiences from Ghana and Uganda are interesting examples within this area).

Lessons regarding enhancing local accountability in decentralisation of water sector services

⁶⁶ Please see Tropp, Håkan (2007) for a good discussion of this issue.

In brief, some of the challenges and lessons learned in the WS accountability seen through the lenses of decentralisation have been:

- Multiple and blurred funding of WSS, fragmentation of support as well as unclear tasks are factors which constrain accountability at the local level. It is therefore important for the DPs to pursue a harmonised and aligned approach to development support;
- Proper links between communities and LGs needs to be established with clear division of tasks and LG coordination of the support to the communities – it is not a question of communities versus LGs, but how they may be able to work together⁶⁷. DPs should not pursue to by-pass the existing LGs, if there are chances of establishing proper links between communities and LGs;
- Strong vertical links of accountability within the SWAPs may constrain downward accountability. Hence, there is a need to consider this in every policy and implementation plan and to link up with the existing cross-sectoral decentralisation implementation plans;
- Need to promote gender, poverty and environmental concerns at the LG level by use of various tools such as CB, awareness raising and fiscal and non-fiscal incentives and through support to strengthening of the ties between the communities and the LGs.

Lessons regarding sector coordination:

- The challenges regarding coordination of the water sector and decentralisation reforms are similar to the challenges of other sectors – however, they are further complicated by the problems of coordination of water and sanitation sub-sectors, the need for special institutional arrangements for wider water resource management and significant different scope for local government management in rural and urban settings. Useful lessons from several countries include:
- Development of sector strategies in close consultation with decentralisation strategies (when in place),
- Supporting clarification through legislation of roles and responsibilities between central government, local government and private sector and consumers.

⁶⁷ Tropp (2007) Focuses on the late introduction of governance in the water sector, but also the recent trends to focus exaggerated on communities and private provision, leading to problems in the links between these and the need for management by public authorities, regulatory framework etc.

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