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## Tanzania: Public Expenditure Review (PER) of the Water Sector

Tanzania initiated a forward-looking National Water Policy (NAWAPO-2002) to promote an integrated approach to water resources management and improve water supply and sanitation service (WSS) delivery in both urban and rural areas. To do this, the Government initiated in 2004 a doubling of budget allocations to the water sector from \$60 million to \$120 million. It also has shifted the role of the Ministry of Water and Irrigation (MOWI), moving from central control of water projects to facilitating and funding projects and strengthening sector institutions and capacity at the national, basin, and local government levels.

Much of Tanzania's capital budget goes to fund water supply infrastructure, largely driven by the focus on achieving the Millennium Development Goals. Donors supply most of the capital funding and are coordinating funds through a Sector Wide Approach to Planning (SWAp) to maximize effectiveness.

This Public Expenditure Review focuses on the quantity and quality of Tanzania's public funding process to assess how well budget allocations for the water sector actually translate into better water and sanitation service delivery.

### Overview of the Tanzania Water Sector

Unlike many of its neighbors, Tanzania is endowed with sufficient freshwater resources—many rivers,

lakes, aquifers, and wetlands—to meet all of its current water needs, but it faces a complex water sector challenge. The consequences of under-investment in water resources have compromised its WSS and irrigation and hydropower systems. Among the key constraints to effective sector development are the following:

- **Low and Unreliable Investments in Infrastructure for other Water Using Sectors.** Tanzania has the highest levels of natural water storage capacity per capita in Africa, and yet the country depends on rain-fed agriculture.
- **Weak Water Resources Management Framework.** The current platform for water resources management (WRM) remains inadequate, highly under-funded and under-resourced and this has a significant consequence on key sectors of the economy and on the livelihoods of many people.
- **Low Water and Sanitation Services Levels.** Over 15 million people out of the current population of 35 million are without safe water supply. Since 1990, there has actually been a decrease in percentage of urban population served because urban population growth outpaced the expansion of WSS.
- **Inadequate Sector Coordination and Institutional Capacity.** The sector still suffers from uncoordinated sector-wide and cross-sectoral planning and development.

The following P-note summarizes key points of *Tanzania: Public Expenditure Review of the Water Sector*, by Caroline van den Berg, Eileen Burke, Leonard Chacha, and Flora Kessy. Readers may download the complete document from [www.worldbank.org/water](http://www.worldbank.org/water).



The NAWAPO-2002 set the stage to correct these problems in a sustainable and decentralized way. The water sector's contribution to the Tanzanian National Strategy for Growth and Reduction of Poverty (the MKUKUTA objectives) is a three-pronged strategy: (i) scaling up water and sanitation services delivery to achieve the Millennium Development Goals; (ii) establishment of a sustainable platform for water resources governance and development; and (iii) strengthening of sector institutions and accelerated capacity building at the national, basin, and local government levels as well as in the public and private sector.

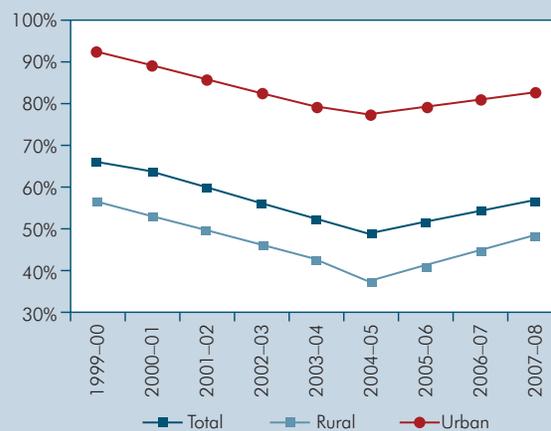
To achieve the MKUKUTA and MDG sector objectives, in 2004, Tanzania initiated the doubling of its budgetary resource allocation to the sector from \$60 million annually to the current \$120 million annually. To support these objectives, the Government has adopted a National Water Sector Development Strategy (NWSDS-2006) aimed at accelerating the implementation of NAWAPO. Because of the government's policy of decentralization and devolvement, an increasingly larger share of the government's budget is now channeled through local and regional governments.

MOWI has moved away from being an implementer of projects to become more of a facilitator. A larger part of MOWI's budget is used for supporting activities such as policy and planning, coordination, monitoring and evaluation, project preparation, and studies. Most of the investment budget is provided through transfers to urban water authorities and river basin agencies instead of Ministry directed project implementation. This transformation of MOWI from implementer to facilitator is far from complete as the changes in roles and responsibilities requires the Ministry to improve its capacity to plan, monitor and provide assistance to utilities and the districts—key elements of this new role. Consequently, there is extra value to this PER in helping assess how well MOWI is guiding funds and where strategic improvements can be made.

## Review of Water Sector Spending

The increase in funding is starting to have an impact on the access to improved water sources. Preliminary data from household surveys conducted in FY2007–08 show that the access to improved water

**Figure 1. Access to improved water sources**



Source: DHS and AIS surveys, various years

sources has been increasing since FY2004–05, albeit that access in FY2007–08 is still below the levels of 2000, especially in urban areas where rapid urbanization has put pressure on utilities to improve access (see figure 1).

Despite recent progress, the sector deals with a number of issues that explain why the goal of improving access to water supply and sanitation services is moving slower than expected. Increasing funding resources alone is not enough, and even though budget allocations have increased rapidly, budget releases have lagged behind significantly. Some of these issues are systemic in nature, i.e., they are mostly outside the control of the water sector, but they do influence the progress in the sector. Other issues are within the direct control of the water sector and need to be addressed to ensure that the sector can move more quickly to achieve its goals.

### **Sector-specific issues play a major role**

in explaining the performance of the sector in translating funds into actual outcomes. The sector currently requires significant subsidies for rehabilitation and operation and maintenance, crowding out funding for other priorities such as expanded and improved access to water services. More efficient use of funds would improve the absorption capacity of the sector, increase the efficiency of public expenditure, and ensure that access to services is improved. To that effect, the following measures are suggested

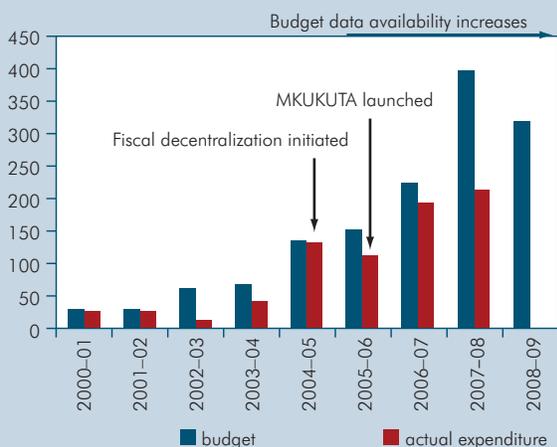
(i) improve sector investment planning, (ii) improve the capacity in the sector to conduct procurement and disbursement, (iii) a sharper focus on including incentives in the allocation of funding; (iv) efficiency gains that lower the operating cost and/or capital costs; and (v) promote sustainability in tariff setting while guarding the affordability of access.

**Systemic issues must also be addressed by the government** to increase the actual release of funds allocated to the water sector.

## Assessment of Funding Flows

The water sector budget is almost entirely made up of development expenditures. Compared to the total budget, the water sector has a very specific pattern characterized by low recurrent funding and high development funding. In general, 55 percent of the total government budget is allocated to the development budget, in the water sector 85 percent of the sector budget is dedicated to development expenditure. The high level of development funding makes the water sector vulnerable in times of macroeconomic stress. In case of budget re-allocations, governments tend to find it easier to cut development rather than recurrent budgets (see figure 2).

**Figure 2. Water expenditure (in TzS billion) has increased significantly in the past decade.**



Source: Ministry of Finance data and author's calculations.

There are three main observations concerning the flow of funds:

- Government disbursement procedures of funds should be improved, especially to local government authorities, which could significantly benefit when funding is provided to them on a more reliable basis. As the sector's dependence on donor funds is high, it is important that donors improve their disbursement procedures accordingly to ensure that water agencies are better able to plan and implement their investments.
- Government and donors should also agree on a harmonization of procurement, disbursement and monitoring procedures to reduce the duplication of effort at both central and local levels. The recent shift towards a programmatic approach in funding should be accompanied by measures to ensure that a SWAp can generate economies of scale. When adjusted for the local counterpart funding, the disbursement rate for foreign funding under the SWAp has been similar to that for the rest of the sector. The Water Sector Development Program is the logical place to start these donor harmonization efforts because of the size of this program in relation to overall sector funding and the history of donor coordination in this program;
- Donors should improve the predictability and reliability of their funding to the sector. Although part of the unpredictability of donor funding is linked to the procedures and capacity bottlenecks in Tanzania, there are also donor issues. The use of parallel systems as mentioned before is resulting in high transaction costs for the implementing agencies. A second relates to administrative bottlenecks in donor countries. A survey of aid donors found that 29 percent of delayed or lost disbursements were due to administrative problems in donor countries. These inefficiencies are heightened by the still high levels of fragmentation of donor funding, which results in high transaction costs for donors and government alike.

## Financing Future Water Investments

The MKUKUTA and Africa Infrastructure Country Diagnostic investment requirements far exceed the

actual funding for the sector. Though budget allocations have reached 1.8 percent of GDP recently, actual expenditures have never surpassed 1 percent of GDP. Though household fees can cover the cost of operation and maintenance in urban areas, the overall sector is faced with a significant investment gap.

Given Tanzania's high unit cost for connecting and servicing households, especially in rural areas, the level of resources and timing needed to meet the MDGs are highly sensitive to efficiency improvements. Efficiency can be realized in several different ways:

1. **Improving the capacity of the Government to stretch its funds further by improving sector planning and streamlining procurement and disbursement procedures.** The PER shows that although budget allocations have increased rapidly, budget releases have lagged significantly behind. This is an issue confronting all agencies with responsibilities in the water sector, especially among local government authorities. To improve the absorption capacity of the sector, increase the efficiency of public expenditure and ensure that access to services is improved, the Government will have to (i) improve sector planning and (ii) improve implementation of procurement, disbursement, auditing, and monitoring arrangements to ensure more efficient use of resources.
2. **Materialize efficiency gains that translate into lower operating and/or capital costs.** The volume of subsidies that are still provided to the sector can be used as a proxy for investment efficiency. The high breakdown rates of rural water supply infrastructure ensure that a significant amount of funding in local government authorities is used for rehabilitation and maintenance; similarly, operating subsidies to urban water authorities are not negligible. Efficiency gains that can lower operating and/or capital costs can be affected by (i) better technology choice; (ii) standardization of technologies; and (iii) efficiency improvements in utilities' performance.
3. **Efficiency in setting and collecting tariff revenues without disregarding affordability.** Tanzania has set up different cost recovery policies for different water services. Urban water authorities are required to meet full cost recovery. In the case of rural water supply, communities are required to pay the full operation and maintenance costs (and costs for any service levels higher than the standard), while managing their own schemes. A *polluter pays* principle is to be applied. Yet, none of these policies is applied consistently, with water tariffs varying widely. Thus, a relatively large part of the budget has to be used to pay for operation, maintenance, and rehabilitation of existing systems, slowing expansion of WSS services to the unserved.



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