Allocating National Resources in the Water and Sanitation Sector

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.


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

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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.

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.

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.

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 within types of expenditure and by geographical area.
- Ensure that sector financial and performance monitoring mechanisms are well developed and 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.
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BRIEFING NOTE 11

Monitoring, Evaluation and Auditing

Improving Resource Allocation

Resource Allocation

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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.

**Step 1: Sector goals and target setting**
- Allocate performance ‘gaps’ for each sub-sector
- Identify sub-sector targets to fill the ‘gaps’
- Calculate resource requirements to fill the ‘gaps’
- Prepare overall resource allocation

**Step 2: Sector ‘gap’ and resource allocation**
- Water resources management
- Urban water supply
- Rural water supply
- Sanitation

**Step 3: Sector performance monitoring and evaluation**
- Review overall sector performance
- Assess performance of sub sectors

### Option 2. Sector-objectives driven approach

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

**Step 1: Sector goals and target setting**
- Agree sector objectives and indicators
- Determine current levels of performance
- Set targets levels of performance for the future (to 2015)

**Step 2: Sector ‘gap’ and resource allocation**
- Assess performance ‘gaps’ for each sub-sector
- Identify sub-sector targets to fill the ‘gaps’
- Calculate resource requirements to fill the ‘gaps’
- Prepare overall resource allocation

**Step 3: Sector performance monitoring and evaluation**
- Review overall sector performance
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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.