2021
Policy Brief

Public Expenditure Review in the Water, Sanitation, and Hygiene Sector (WASH) of Malawi

Government of Malawi



INTRODUCTION

This policy brief summarizes the key findings of the Water, Sanitation and Hygiene (WASH) public expenditure review (PER) carried out by the Government of Malawi (GoM) in 2019/20, with financial and technical support from UNICEF, through the Oxford Policy Management (OPM). The brief isolates key recommendations on how to improve the efficiency, effectiveness, equity and sustainability of WASH sector financing in Malawi.

OBJECTIVES OF THE PER

This WASH public expenditure review (PER) is a concise and focused study, aimed at understanding the spending patterns and financing of WASH services in Malawi. The overarching goals of the PER are to assist the Government of Malawi to analyse public expenditure and performance in the WASH sector and improve expenditure management. More specifically, the PER generates evidence and analysis on the efficiency, effectiveness, equity and sustainability of WASH expenditures, as guided by relevant WASH strategies and sector plans. Findings from the PER are useful to inform development, financing and implementation of WASH interventions in Malawi.

The PER is anchored around three primary objectives:

- To assess sources of revenue and financing structure of WASH programs and interventions in Malawi.
- To analyze the size, composition, equity and effectiveness of WASH spending.
- To set out a range of options and recommendations to improve the quality of WASH spending in order to benefit all children in Malawi.

Through a collaborative UNICEF-GoM approach, a secondary objective of the PER was to build the capacity of the Government of Malawi staff in public expenditure analysis.

The PER covers a period of five fiscal years from 2014/15 to 2018/19. The review included a wide range of components, focused on four key areas: (i) a review of the Malawi WASH context; (ii) a sector review of financing, budget allocation, and national expenditures on WASH in Malawi, and an analysis of sector performance; (iii) an assessment of the critical budget and expenditure challenges and how they influence service delivery and (iv) district-level insights into the factors affecting budget decisions, and those factors affecting budget execution, efficiency, and equity.

WASH SERVICE DELIVERY IN MALAWI

The legislation underpinning the sector establishes clear roles and responsibilities. Service delivery functions are performed by the district councils and the water boards, with the water boards focused on urban areas. Operation and maintenance functions for rural water systems are performed by water users' associations (WUAs). At the national level there are three key ministries: the then Ministry of Agriculture, Irrigation and Water Development (MoAIWD) (most of these functions have now been moved to the Ministry of Forestry and Natural Resources) has overall responsibility for water service provision and water resource management; the Ministry of Health and Population (MoHP) leads on sanitation and hygiene promotion, including the management of frontline staff; and the Ministry of Local Government and Rural Development (MLGRD) is responsible for supporting sector ministries to reform in line with decentralisation, and to support district governments to adopt their devolved functions.

Malawi has realized considerable progress on some key WASH outcomes, scoring substantially better than the regional averages. Access to improved water source, for example, increased from 79.7% in 2010/11 to 87.2% in 2015/16[1]. Access to improved sanitation facilities in Malawi surged from 8.2% to 51.8% between 2010/11 and 2015/16[2]. Open defecation (OD) rate in Malawi declined from 15.7% in 2000 to 6.5% in 2015. However, using standardized SDGs indicators for basic access to water and sanitation services, Malawi stands at 69% and 26% respectively[3].

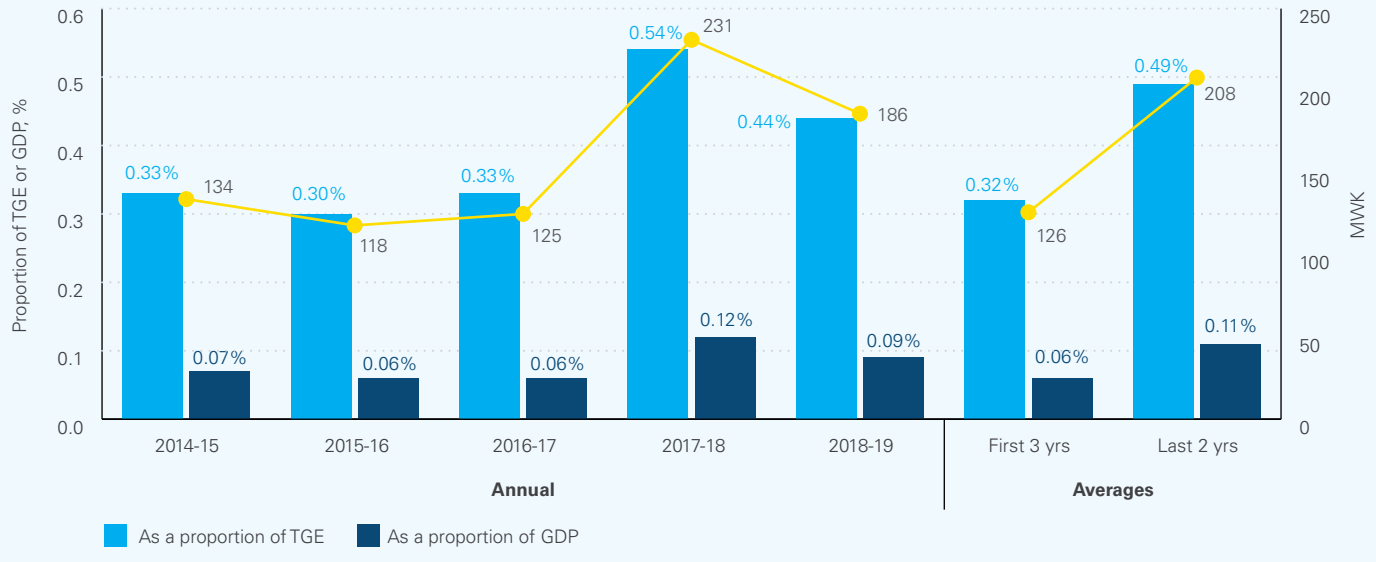
WASH FINANCING

Government increased its spending on WASH services since 2017/18 (Figure 1), mainly due to the introduction of the Borehole Fund. Government spending on WASH averaged 0.39% of total government expenditure (TGE), or just under 0.1% of GDP between 2014/15 and 2018/19. The average in the three years before the Borehole Fund was 0.32% of TGE, and then 0.49% the two years after its introduction. Compared to its regional peers, Malawi's spending on WASH is relatively low as a proportion of GDP.

Malawi's WASH sector is heavily dependent on external support. The ratio of Malawi's external funding to financing from domestic resources is 8.8, much higher than Kenya's 2.9 and Zambia's 2.0, and higher still than Mali's and Ghana's.

The sector's reliance on external finance presents a key sustainability risk to sector progress considering the unpredictability in donor funding flows. External funding to the sector has fallen sharply in recent years, with many bilateral donors leaving the sector. Additionally, the composition of external finance has changed over the PER period as new external funding is almost exclusively directed to urban WASH, via the water boards, and as loans as opposed to grants. Since 2014 donors to Malawi are apparently giving less priority to WASH. While total official donor development assistance (ODA)

FIGURE 1 Trends in GoM Spending on WASH, as a share of TGE and GDP and in per capita terms (MWK 2014/15 prices)



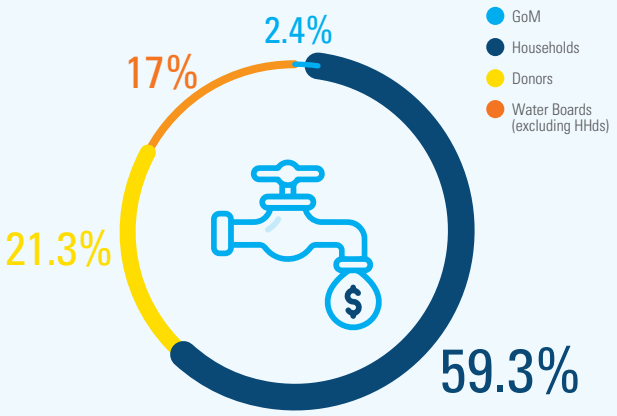
1 Malawi Demographic and Health Survey (MDHS), 2015/16
2 MDHS (2015/16)
3 Joint Monitoring Programme for Water and Sanitation (JMP), 2019 UNICEF and WHO https://washdata.org/data/household#!/mwi

to Malawi has risen since 2014, the proportion of ODA provided to the WASH sector has dropped by two-thirds.

Household expenditure is the single largest source of financing to the sector, accounting for nearly 60% of sector financing (Figure 2). In 2016 households were estimated to spend Malawian Kwacha (MWK) 35 billion (2016 prices) on water, 36% of which was directed to water boards. About 64% of household expenditure on water is spent on other providers. These are likely to include: fees paid to WUAs; expenditure on self-supply; and expenditure on purchasing water from informal and formal private sector actors. Government contribution account for only 2.4% of total sector expenditure.

The Water Sector Investment Plan (SIP) (2012) outlines that $140 million is needed annually between 2015 and 2030 for the sector to achieve 98% access to improved water supply by 2025 and 90% access to improved sanitation by 2030. A comparison of the sector expenditure against the SIP target highlights the sector is currently funded to just above 30% of the target level. A critical assumption behind the SIP projections is that donors would 'step up' grant financing to the sector. The withdrawal of many donors is a key reason for this financing gap emerging.

FIGURE 2 Sources of Financing for the WASH Sector in Malawi, Average 2014-19



Source: Analysis from the WASH PER (2020)

COMPOSITION OF WATER SECTOR EXPENDITURE AND PROGRESS

WASH sector expenditure is heavily weighted towards water supply services, mostly for development projects, as compared to sanitation and hygiene services. Over the PER period, an average of 65% of GoM funding was directed to the water sub-sector while 35% covered hygiene and sanitation services. The bulk, over 80%, of the expenditure on water supply are for development projects, largely managed at the central level. The Government invested relatively little capital resources at local level, until the introduction of the District Development Fund (DDF) in 2015/16, which was followed by the Borehole Fund in 2017/18, leading to a sharper increase.

Water board revenue has increased over the PER period, both in absolute and real terms. The growth in revenue has primarily been driven by increased revenues from institutional and commercial sources, and due to price increases, rather than an expansion in services. Across all sources, revenue per m3 increased, in real terms: 32% between 2014/15 and 2018/19 – equivalent to a 123% rise in prices in nominal terms.

There is no independent regulator for water services in Malawi. As per the Waterworks Act (1995), it is MoAIWD that regulates tariffs in the sector. The current tariff policy is implicitly pro-poor in that there is a substantial cross-subsidy between commercial and institutional rates and kiosk users. However, the loose regulatory environment and cross-ministerial responsibilities for water board oversight, combined with the recent substantial price rises, point towards the need to review tariff rates and policy, as well as the need for greater oversight of utility performance. While the water boards report year-on-year increases in the number of connections, the volume of water supplied has not increased greatly and non-revenue water remains stubbornly high.

A large proportion of the household expenditure is spent on providers other than the water boards. This expenditure is potentially a 'blind spot' in policymaking as these expenditures are not regularly tracked. This non-water board household expenditure is substantial and represents 16.8% of funding to the sector, as much as two-thirds of GoM and donor (ODA) expenditure combined. Much of this expenditure is likely associated with WUAs, and more effectively leveraging this expenditure towards sector outcomes requires a focus on professionalising the community-based management models used in Malawi.

Access to basic water service is high in Malawi, at 85% as per 2018 census. However, there has been little progress in last four years, and improvements have not been pro-poor. While the Borehole Fund has increased funding to the sector, there are concerns surrounding how efficiently this is being spent. Funds are often spent by constituency members of parliament (MPs) on private contractors, without the District Water Development Officer having a role in technical oversight.

In recent years there has been moderate progress on improving water point functionality in some districts, but a marked drop in others. Nationally, water point functionality fell from 77% to 71% between 2016/17 and 2017/18. Efforts to improve functionality in rural areas have centred on training area mechanics and linking these to shop partners who stock parts. This PER also highlights challenges associated with low other recurrent transactions (ORT) funding and inadequate staffing. The number of water monitoring assistants (WMA) per person in the district averages 1:230,966. The sector vacancy rate for established positions was 68% in 2017/18.

COMPOSITION OF SANITATION AND HYGIENE EXPENDITURE AND PROGRESS



GoM expenditure in the sanitation and hygiene sub-sector is dominated by salaries. This reflects implementation activities, which are predominantly based around district-level health promotion activities. District-level salaries are nearly 70% of GoM sub-sector expenditure. There is no identified GoM-funded development expenditure on hygiene and sanitation, and over the PER period there was no substantial change in GoM funding to the sector (in real terms).

Nationally, open defecation rates fell from 13% in 2008 to under 6% in 2015 but have since risen to over 7% in 2018[4]. The progress in the period 2008–2013 was related to a crowding in of external investment in the sector in the run-up to the MDG deadline, and progress in rural sanitation is heavily dependent on external funding. The number of 'open defecation free' (ODF) traditional authorities is a key measure of progress in sanitation.

As at December 2018, 112 of Malawi's 263 traditional authorities (TAs) had been declared ODF. Implementation in 86 of these 112 TAs had been funded by external partners. The rising rates of open defecation are seen to be associated with a lower level of donor engagement in the sector, and with the physical collapse of household latrines.

Progress in rural sanitation is heavily dependent on frontline staff being able to travel to communities to conduct health promotion. There is a target ratio of one Health Surveillance Assistant (HSA) per 1,000 of population. The current average ratio of HSAs to population is 1:1,921, well below the target rate. This suggests that frontline preventative healthcare is understaffed.

Analysis of access by wealth quintile and region highlights that the progress on open defecation has largely been pro-poor, although inequalities still exist. In all regions and nationally the rate of reduction was largest among the poorest wealth quintile. While this is partially a reflection of the fact that rates were higher to begin with it does highlight that spending and efforts in reducing open defecation benefit the least wealthy in society. Eliminating open defecation will entail reaching all households in Malawi and this unambiguously requires targeting the very poorest.

4 2008 and 2018 data are census data; 2015 data are DHS data.

ALIGNMENT OF EXPENDITURE WITH POLICY OBJECTIVES

Overall, all spending is aligned with elements of national policies. The critical challenge is that the sector is substantially underfunded against the investment plan, meaning some aspects of policy receive little attention. The different sub-sectors rely on different funding streams. The sanitation sub-sector is comparatively exposed to changes in donor financing. In water, the Borehole Fund has been successful in mobilising funds for the rural water sub-sector, though there are concerns surrounding how efficiently this is being spent and functionality remains a critical issue in rural areas. In sanitation and hygiene, the lack of a dedicated sector fund may be a contributing factor to the extremely low GoM allocations to the sector.

Progress in any of the individual sub-sectors is dependent on the degree to which different financing sources align. This PER has highlighted the importance of household, donor, and water board expenditure in achieving sector outcomes. MoAIWD and MoHP have a central role in effectively coordinating these funding streams through policy, regulation, and sector leadership.

Where donors and non-governmental organisations (NGO) focus their programmes has a strong influence on who is reached with services. The recent trend in donor funding to be primarily channelled to urban areas and through the water boards means that the funding for rural areas, where the majority of those without services are located, is disproportionately low in relation to need.

A sector-wide approach (SWAp) in WASH has long been considered and is a stated policy aim of GoM and is also an international policy commitment. There are some institutional apparatuses associated with a SWAp (joint sector reviews, technical working groups, etc), and these are beneficial to sector functioning. However, many donors remain unwilling to pool funds due to fiduciary risks. Even without budget support, other SWAp financing models are available. Both the health and education sectors now have new SWAp funding models – such as Health Services Joint Fund (HSJF) and the Education Sector Joint Fund, which avoid the risks associated with budget support – that offer a blueprint for the WASH sector.

The 2017/18 sector report highlights the need to agree an approach to achieving the Sustainable Development Goals (SDGs), as well as deciding the degree to which global progress indicators can be integrated with national progress indicators (especially in rural sanitation). As Malawi approaches universal access to basic services much of the effort to meet the SDGs needs to be focused on raising service levels and ensuring the quality and sustainability of supplies. The level of ambition in the SDGs as regards 'safely managed' services is substantially above that of the MDGs' references to access to 'basic' or 'improved' services.

RECOMMENDATIONS

RECOMMENDATION AREA 1

Increased government financing of WASH, especially ORT. Despite limited fiscal space for overall financing of WASH, funding for operation and maintenance is such a small proportion of the total that a large increase in funding may be possible. Related to this, it is appropriate for the sector to lobby for enhanced budgetary decentralisation, so that allocations between sectors of expenditures, such as ORT, can be decided at the local authority level.

RECOMMENDATION AREA 2

The use of conditional grants and funds for financing WASH services at district level. The development of a targeted preventative health fund to support sanitation and hygiene promotion may contribute to increasing sector financing, following the example of the Borehole Fund. However, there is a need for strong oversight of these funds by district councils or ministries, departments and agencies (MDA); and there is currently a need to strengthen the oversight of the implementation of the Borehole Fund.

RECOMMENDATION AREA 3

Enhanced identification of GoM WASH expenditures. A separate 'sanitation and hygiene' sector (or cost centre) at district level (as for water) is likely to empower environmental health staff with more funds and more attention to sanitation; and would also facilitate better tracking of overall WASH expenditures.

RECOMMENDATION AREA 4

Professionalising the community-based management model. Dedicated capacity-building packages should be developed to support WUAs in service delivery. MoAIWD should lead in providing clearer policy guidance on their governance structures and links to the formal sector (water boards or district councils). Where appropriate, WUA service delivery functions should be more clearly linked to the service delivery functions of the water boards or district councils. Investing in WUA capacity is likely to contribute to improved sector outcomes on functionality if it means non-water board household expenditure is spent more effectively in the sector.

RECOMMENDATION AREA 5

Sufficiency of frontline staff. There is a shortage of frontline staff in both the water and sanitation sectors. New recruitment of frontline staff should be prioritised in those districts with the greatest staff deficit per population and in relation to service levels.

RECOMMENDATION AREA 6

Adjusting to reductions in external funding. In the more constrained external funding environment, there is a need for increased donor and GoM coordinating in prioritising remaining resources around 'core' sector functions that need to be in place (including monitoring and oversight). The new large injections of external resources to the sector that are channelled to water boards underscores the importance of effective sector coordination between the water boards, MDAs, and donors.

RECOMMENDATION AREA 7

Adoption of stronger SWAp processes in the WASH sector. It is recommended that stronger SWAp processes be adopted both centrally and at district level, including an added emphasis on aid coordination. This approach could include SWAp funding, preferably at district level, with special fiscal controls. The health and education sectors are already adopting innovative approaches that can be mirrored for the WASH sector. The use of stronger SWAp processes can facilitate higher efficiency and effectiveness in the use of donor and NGO resources.



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