

CLOSING THE GAP:  
WASH SECTOR DEVOLUTION AND  
DECENTRALISATION IN MALAWI 

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# ABBREVIATIONS

|         |  |
|---------|--|
| ACGF    | African Catalytic Growth Fund  |
| AfDB    | African Development Bank   |
| AusAID  | The Australian Government's Overseas Aid Program                     |
| DFID    | Department For International Development (United Kingdom)            |
| DC      | District Commissioner  |
| DCT     | District Coordinating Team   |
| DP      | Development Partner  |
| DPD     | Director of Planning and Development                                 |
| DWDO    | District Water Development Officer                                   |
| EWB-C   | Engineers Without Borders Canada                                     |
| GoM     | Government of Malawi   |
| GRF     | Generalised Resource Fund  |
| IFI     | International Funding Institution                                    |
| LDF     | Local Development Fund   |
| M&E     | Monitoring and Evaluation  |
| MASAF   | Secondary Cities Project and Poverty Reduction                       |
| MoAIWD  | Ministry of Agriculture, Irrigation and Water Development            |
| MoF     | Ministry of Finance  |
| MLGRD   | Ministry of Local Government and Rural Development                   |
| MWK     | Malawian kwacha  |
| NWPD II | National Water Development Programme                                 |
| OPC     | Office of the President and Cabinet                                  |
| ORT     | Other Recurrent Transactions   |
| SPR     | Sector Performance Report  |
| SWAp    | Sector Wide Approach   |
| SWG     | Sector Working Group   |
| SWSME   | Strengthening Water and Sanitation Monitoring and Evaluation project |
| TST     | Technical Support Team   |
| TWG     | Technical Working Group  |
| UNICEF  | The United Nations Children's Fund                                   |
| WMA     | Water Monitoring Assistant   |
| WB      | World Bank   |

# 1 ABSTRACT

Current water sector reforms in Malawi are taking place against the backdrop of a broader pan-governmental effort to decentralise service provision authority to local government. The newly established Local Development Fund (LDF) is a mechanism with the potential to increase fiscal decentralisation and build capacity at the local level to address delivery of rural water services, alongside many other technical sectors. Part of the logic of the fund is to provide a common funding basket that will encourage greater local control and improved coordination between sectors at the local government level. According to the Ministry of Finance as of June 2011, the fund had channelled MWK 9.4 billion (US\$ 54.9 million) to local government. But after two annual cycles there is only limited evidence to determine if this fund will provide a viable and effective means to support decentralisation in general. Specifically for the WASH sector, the fund has to date drawn limited support from development partners (DP) in favour of various other financing approaches unique to each partner.

The main WASH stakeholders are also in the process of designing a number of important building blocks for improved sector-wide performance. These include some form of common funding mechanism, national level monitoring system and a sector-wide approach intended to provide a forum to continually identify emerging sector issues and enable collaborative efforts to address them. For all sectors, the Local Development Fund still faces a number of challenges, including the balance between donor earmarked and so-called 'open menu' financing and lack of awareness about access to the funds for both infrastructure and capacity building.

In this case study the gap between these two parallel processes is explored and the apparent disincentives to a closer integration are outlined. Despite the limitations of the current Local Development Fund the authors point to a number of opportunities for improved alignment and suggest options for the way forward. These include a possible two-step process of firstly improving internal WASH sector coordination with a view to much closer integration with the Local Development Fund in the medium-term. Ultimately, political pressure and leverage of central government, development partners, and local government on the Ministry of Agriculture, Irrigation and Water Development (MoAIWD) will be instrumental in determining the pace and scope of devolution in the sector.

## 2 BACKGROUND AND PURPOSE OF CASE STUDY

The rural water sector in Malawi has reached an important juncture. Huge effort and investments have been made to provide first time access to infrastructure for a relatively large number of the rural population, with coverage levels estimated to be at 77%<sup>1</sup>. Donor financing continues to support new construction to meet the needs of the remaining unserved population, and the country is basically on track to meet the specific MDGs for rural water. And yet, despite these gains in coverage, the sector is in transition and must reconfigure the way it is structured and financed to meet the new challenges of second generation functionality, as well as increasing demand for higher service levels. This must be done against the backdrop of a highly aid-dependent sector (indeed the entire national economy), in which donor appetite and knowledge of how to invest in the capacity that can enable sustainability, rather than only new or rehabilitated infrastructure, is limited.

Current water sector reforms in Malawi are taking place against the backdrop of a broader pan-governmental effort to decentralise service provision authority to local government. This process is currently being led by the Ministry of Local Government and Rural Development (MLGRD) in an attempt to both strengthen local capacity and improve coordination between sectors at all levels. In order to put this into operation, the Ministry of Finance (MoF) has established the Local Development Fund (LDF) as the intended countrywide funding mechanism to increase fiscal decentralisation and address delivery of all technical public services, including rural water services.

Whilst the ministry responsible for water service, the Ministry of Agriculture, Irrigation and Water Development (MoAIWD), has a stated policy commitment to devolve functions and commensurate funds to local councils, so far the only function to have been fully devolved is that of operation and maintenance. Other functions are variously held at the centre or delegated to districts as part of individual development partner (DP) projects. With the broad devolution policy in place, the primacy of the local government at the district level also means that districts are responsible for coordinating the efforts of literally dozens of NGOs active in the water sector, including in operation and maintenance. In practice, the vast majority of investment in the rural water sector is still channelled through the second National Water Development Programme (NWDPII), which relies primarily on large-scale loans from the World Bank, the African Catalytic Growth Fund, and the African Development Bank (AfDB), as well as grants from bilateral donors such as the UK's Department for International Development (DFID) and the Australian Government's Overseas Aid Program (AusAID). NWDPII serves as a mechanism to channel these large investments and, in most cases, manages the funds centrally rather than seeing the donors have funding agreements directly with districts, with the notable exception of the United Nations Children's Fund (UNICEF).

In parallel with NWDPII, and envisaged as a potential long-term alternative to it, stakeholders in the WASH sector are working to undertake a sector-wide approach (SWAp), which includes exploring various options for pooled funding. Although WASH sector stakeholders are aware of the LDF, there

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<sup>1</sup> WHO/UNICEF, 2010. The figure for coverage in rural areas is disputed and reflects the absence of a comprehensive monitoring framework. Most commentators in Malawi agree that access to improved rural water services is between 65% and 70% when accounting for non-functional and abandoned infrastructure.

currently does not appear to be strong buy-in to this as a potential vehicle for channelling funds to local government, strengthening local level planning, or enabling coordination. Instead energies are focused on improving coordination and harmonisation *within* the WASH sector itself, decoupled from the broader public sector change process of decentralisation, of which the LDF is part. Such improvements are being targeted via several discrete sector processes managed by MoAIWD and Technical Working Groups (TWGs) or the Sector Working Group (SWG) under the SWAp. These include, for example, a sector financing mechanism, a national framework for monitoring and evaluation (M&E), and reviews of devolution plans and financing. While there is intense debate within the WASH sector as to how to approach each of these processes, there is an apparent consensus that reforms within that sector are the priority over adherence to pan-governmental efforts, including mechanisms such as the LDF.

In part, this choice reflects the state of institutional evolution of a sector which is less mature in its devolution process than many others, including health and education. This case study seeks to explore the apparent gap, or decoupling, between the WASH sector and broader efforts to decentralise functions and financing to local levels, and to understand the processes and incentive structures that may reduce this gap (see FIGURE 1). The case study is based on information from existing documentation, sector policy and interviews with a range of stakeholders at both national and district levels<sup>2</sup>. The case study is intended to identify lessons regarding fiscal decentralisation for global dissemination and to inform the debate and ongoing research that still needs to happen in Malawi regarding rural water service delivery. It seeks to provide answers to some critical issues as follows:

- The sequencing of interventions: whether the LDF is a viable tool for the WASH sector as it is currently composed, whether it would be more appropriate in the longer-term, or whether any relationship between the WASH sector and the LDF can be planned for at all at the current juncture.
- The alignment between the devolution aims of MoAIWD and the objectives of the LDF, particularly in the areas of capacity building and local development financing.
- The incentives for stakeholders to cooperate in supporting local government as the mandated service authority under decentralisation.

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<sup>2</sup> This case study is the result of a collaboration between the Sustainable Services at Scale initiative (see: [www.waterservicesthatlast.org](http://www.waterservicesthatlast.org)) and Engineers Without Borders Canada (<http://www.ewb.ca/africa/>).

### 3 DECENTRALISATION AND THE ROLE OF LOCAL GOVERNMENT

Malawi has been constitutionally committed to decentralisation as part of its poverty reduction strategy since the principal legislation underpinning this process was established in the Local Government Act of 1998. Since the late 1990s there have been a series of initiatives to address this commitment through so-called ‘pan-decentralisation’ efforts across government. As well as becoming a separate level of political representation, complete with its own local government election process, the act clearly articulates that local government be mandated to ensure adequate services to people in rural areas, including the provision of water, sanitation and hygiene services.

Local government elections have been scheduled and rescheduled several times in the past years and have currently been postponed until 2014, meaning that the districts have no elected councils for the time being. Thus local government is not currently a fully functional and politically representative level of government in Malawi. Malawi’s experience with decentralisation and building the organs of local government are therefore only relatively recent. Ghana, for example, which passed its Local Government Act in 1993, has managed to devolve significant funding independently to the districts, although they still suffer from severe human resource shortages at this level. In the devolved water departments in Malawian districts, head count deficiencies and funding shortages abound, and the sector faces a number of critical challenges.

The first such challenge is the slow pace of devolution of resources, staffing and financing from central line ministries to the local level. According to the MLGRD, which is coordinating the decentralisation process, many ministries have not devolved far or fast enough. This is often due to passive, but at times active, resistance to changes in their roles from direct implementers to coordinators and facilitators. The water sector has been resistant to ceding control over both resources and decision-making, and cites the ‘lack of capacity’ at local government level as the issue that stands in the way. According to MLGRD the process for decentralisation in Malawi sets out a clear and substantive role for central ministries to continue to provide support, guidance and oversight of lower tiers of government.

Certainly, one view is that the MoAIWD is one of those central ministries that have so far not devolved far enough, but this is also a question of perspective and interpretation (see section 4 below). It is also the case that efforts of line ministries to devolve staff positions are dependent on a series of bureaucratic procedures, particularly around the issuing of warrants of establishment for the transfer of staff, over which line ministries have no direct control. The formal transfer of such positions is the remit of the Office of Public Services Management, which sits directly under the Office for the President and Cabinet (OPC).

Considering that differing views on the devolution process are informed by perception and interpretation from the different actors - in particular MLGRD and MoAIWD - the reality reflects a politically complex situation rather than one where one or other of the actors are ‘to blame’. MoAIWD has indeed devolved the majority of the resources it controls directly as transfers from the treasury into its own accounts, but the majority of resources in the WASH sector do not come from the central budget. Indeed, approximately 75% of the resources in the sector are earmarked funds from the World Bank and the African Development Bank, which are centrally controlled by NWPDI.

In addition, the human and political dynamics of the sector are such that the communication of different institutional visions varies between development partners and MoAIWD. Put simply, each stakeholder defines the ‘problem’ differently, and the only platform that exists as a forum for communication - the SWAp - does not directly address these differences in perception.



Although it is very difficult to obtain accurate and commonly agreed upon data for financial devolution, the order of magnitude of such transfers within sectoral line ministries can be illustrative<sup>3</sup>. It is generally accepted that current levels of funding within the WASH sector that are devolved to local levels are around 3%. This includes the earmarked funds from the development banks, with the vast majority of funding still being controlled by the MoAIWD through large-scale centrally driven financing under the NWDPII.

The local government elections, having been postponed until 2014 at the earliest due to lack of political will at the centre, make it challenging for development banks to accelerate devolution by challenging funds directly to the district level. A non-elected local government cannot guarantee loan repayment to these institutions and the money is therefore effectively 'stuck' at the central level. In terms of perception and communication - or lack of - this issue is generally not well understood in the sector and particularly not at the local government level, which tends to see the issue as MoAIWD as somehow ring-fencing the funds for their own control.

Comparing this to the health sector, where 30% of funding is now estimated to be placed under the direct control of the districts, this shows the relative progress that these two sectors have made in terms of fiscal decentralisation. Unlike in the WASH sector, health benefits from a relatively well-established Sector Wide Approach (SWAp) are worth noting, which may be one reason that the devolution of funds has been more advanced.

The real, or perceived, resistance to cooperate more fully with the pan-decentralisation process raises the issue of incentives to improve intra-governmental coordination and alignment (see box 1). According to the MLGRD, coordination at national level with the WASH sector on decentralisation process has been 'patchy'. For example, the requirement for attendance at annual devolution review meetings has not been regularly met and, where engagement has taken place, specific agreements have rarely been followed up on. The fora in which such issues are meant to be tackled tend to have unclear mandates and the conclusions from them, particularly in terms of role definitions for next steps, do not seem clear enough to participants, or close enough to the actual bottlenecks for action to take place by either the MoAIWD or MLGRD. As such, an issue such as the integration of water department staff into the local government system remains unsolved. Again, this compares to a reportedly much more intensive process for the health and education sectors.

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<sup>3</sup> The figures relating to fiscal devolution are based on a series of interviews carried out with line ministries, the Ministry of Local Government and the National Local Government Finance Committee in Lilongwe, August 2011.

**BOX 1: Perspectives on integrating water department staff into the local government system**

The authors of this report interviewed senior representatives of MLGRD, MoAIWD, and local government to understand the issue of integration of water staff into the local government system. Such integration would see District Water Development Officers (DWDO) reporting to the District Commissioner, and would see salary administration and recruitment, hiring and firing functions completely managed at the district level. According to MLGRD, the bottleneck is on the side of MoAIWD, who they claim must first delete DWDOs from their establishment so that MLGRD can then re-establish them under the local government system. According to MoAIWD however, the challenge comes from MLGRD, who has not provided the necessary guidance needed for this change in establishment to take place. According to one DWDO, moving from MoAIWD to the local government system may be a career threat because there are no clear pathways for promotion in that sector, whereas in the water department the career pathways are well known and the steps needed to get ahead well understood. The differing views and understanding around this issue of staff transfer may shed light on some of the challenges to communication of perception in the sector.

Source: Author interviews, August 2011.

As mentioned previously, the second major challenge to the pace and scope of decentralisation has been the lack of local elections and local councillors. The last local council elections since the Local Government Act was established were in 2000 and have been postponed at each period since then. Apart from the aforementioned funding issues this may cause, the situation also presents a serious constraint to local political representation, as well as more practical or administrative measures such as decision-making, passing of by-laws, or promulgation of staff terms and conditions. Furthermore, this means that there have been no regulations set at the district level for local services. This has resulted in many decisions being effectively recentralised, an over-reliance on ad hoc committees and greater likelihood for influence by local members of parliament. In the words of one professional closely associated with the decentralisation process “local authorities are crippled” and the ability to develop capacity systematically has “ground to a halt”. The lack of political representation obviously works against the basic logic of decentralisation in moving decision-making closer to the population that uses and prioritises services.

The democratisation challenges associated with a lack of local elections notwithstanding; there are perspectives in the sector that the administrative decentralisation need not depend on political decentralisation. An approach more akin to deconcentration or delegation, in which administrative functions and resource control are decentralised, rather than devolution, which implies locally elected representatives, seems to be prevailing in the WASH sector in Malawi. While there does appear to be more political will to undergo administrative decentralisation rather than full devolution, including locally elected representatives, the WASH sector still has a great deal of progress to make even on the administrative side.

Despite the efforts of the MLGRD and other technical support programmes, the prevailing incentives appear non-conducive to rapid decentralisation, particularly in the water sector. Without very high level pressure and leverage (i.e. from the OPC) there appears to be limited incentives for sector ministries to do more to devolve in the current climate. In the WASH sector specifically, since the majority of the resources in the sector are tied to IFI funded centrally-managed projects, the devolution question is not one that MoAIWD can answer on its own. Without the strong push from OPC to find a solution that increases devolved resources, the political economy is one that will continue to present significant challenges to improving resources and direct control at the district level.

### 3.1 Fiscal transfer mechanisms

A number of mechanisms are in place to channel financing from central to local level in Malawi, including the transfer of international development partner aid. The most important of these include the following:

- **Other Recurrent Transactions or ORT:** One of the most important channels of government funding to support local government activities, ORT is meant to finance overheads such as utilities and stationery and the mobilisation of staff (but not salaries). However, in reality, the ORT for water staff at local government level is very low, typically in the order of US\$ 4,000 to US\$ 10,000 per year, making all but the most basic office operations difficult unless there is an externally funded project active in the district (see box 2). The ORT in the health sector, by comparison, is in the order of US\$ 1 million a year per district. It should be noted however that this figure is potentially misleading as it includes massive expenditures on medicines and other hospital supplies. The stark difference however is illustrative of the difference in magnitude of resources in these sectors.
- **Generalised Resource Fund or GRF:** The GRF is an unconditional grant that local governments can use according to local priorities. Because of the small amount of this fund much of it gets spent on administration, however local governments are encouraged to spend at least 25% of the GRF on development projects.
- **Local Development Fund or LDF:** The LDF is approximately three years old and has the twin objectives of providing financing for locally prioritised development projects and increasing local government capacity. Decentralised financing still largely focuses on recurrent expenditures with the majority of development financing being retained under the control of central ministries. In part this is because the country relies heavily on loans and donor grants for development expenditure. In the absence of an effective and efficient mechanism for disbursement, free from political interference, many development partners are not yet ready to channel support directly to local government.

However, this situation is starting to change and, in particular, in the WASH sector. For example, UNICEF's WASH programme has established funding agreements with local government directly, and apart from WaterAid, which does something similar at a much smaller scale, UNICEF is the only DP in the sector providing significant funding directly to the districts. This approach does come with its own challenges as not all districts are immediately able to respond to such an arrangement gracefully right away. Indeed many of the DWDOs may have had little experience preparing and managing a budget for funds that will be managed using their local system rather than relying on parallel structures set up by other organizations. UNICEF's hypothesis is that this direct funding arrangement is the best way to prepare districts for devolution and create the opportunities for capacity to increase, whereas other funders make use of district level consultants or central management of funds by NWDPII.

There have been notable differences in the financing approaches taken up by UNICEF and those under the NWDPII of the MoAIWD. The divergence in approaches may be rooted in a difference in vision as to how institutional structures will evolve. The approach taken under the NWDPII seeks to build capacity of the centre by transitioning its role to a strengthened MoAIWD in the medium-term, with the logic that this is a necessary precursor to establishing adequate capacity at district level. It is only then that the districts will be able to absorb additional funds not managed by the centre. This difference in vision of how the sector is evolving, or potentially should evolve, highlights the lack of a shared vision for the institutional design of the sector and possibly reveals the limits of existing sector dialogue processes.

**BOX 2: Implications of low locally controlled development budgets**

District Water Development Offices in Malawi have a very complex mandate to fulfil. They must simultaneously coordinate and regulate the NGOs, attempt to plan locally and govern as the steward of local public resources, and execute on centrally driven projects, for example from AfDB or World Bank funds. Their primacy as a local governing authority is also called upon by many in the sector, including on policy, commitment to enable the private sector in water repair services, and to educate communities about their role in water and sanitation service delivery. With recurrent, locally discretionary funding being so low in the DWDO, the greater part of their energies are directed towards the management of off-budget projects, which may or may not fall within the locally developed sector investment plans. Such an arrangement obviously affects the incentives for undertaking realistic local planning and, without more discretionary funding, their ability to undertake any activities that are not associated with such projects is low. These could include, for example, understanding the market for repair services or regularly following up with communities to support them. In fact, even basic functions such as routine water point functionality monitoring have typically been paid for by NGO project funds rather than incorporated into the regular district budget, which is challenging with such low recurrent funding.

Source: Author interviews, August 2011.

According to the statement made by the Minister of Finance for the financial year 2011-2012, the total approved budget was for MWK 304 billion (equivalent to US\$ 1.8 billion) of which, it is estimated, 79% will come from domestic revenues and 21% from grants. Of this total budget the estimated transfer to local government under all fiscal mechanisms is estimated to be in the order of approximately MWK 21 billion (approximately US\$ 125 million) in total for 2011-2012 (see TABLE 1).

**TABLE 1: Estimated fiscal transfers to LG by mechanism based on budget statement estimates for financial year 2011-12**

| REGULATED FISCAL TRANSFER MECHANISMS | SCALE OF FINANCING FLOWS   | NOTE  |
|--------------------------------------|--|---|
| ORT – Other Recurrent Transactions   | MWK 13.7 billion (US\$ 81.5 million).  |   |
| GRF – General Resource Fund          | MWK 1.13 billion (US\$ 6.7 million).   | The GRF is the primary source of funds for the District Commissioners' Offices.   |
| LDF – Local Development Fund         | MWK 4.9 billion (US\$ 29 million) of which: <ul style="list-style-type: none"> <li>• Performance Window – MWK 868 million (US\$ 5.1 million).</li> <li>• Community Window – MWK 1.7 billion (US\$ 10 million).</li> <li>• Local Authority Window – MWK 660 million (US\$ 4 million).</li> <li>• Urban Window – MWK 1.7 billion (US\$ 10 million).</li> </ul> | Of this amount MWK 3.8 billion is from development partners. The Community Window fund has a large proportion of earmarked funding for the construction of teacher housing. |
| CDF – Constituency Development fund  | MWK 772 million (US\$ 4.6 million).  |   |
| City Awards                          | MWK 360 million (US\$ 2.1 million)   | Four cities.  |
| <b>Total</b>                         | <b>Approx. MWK 21 billion (US\$ 125 million).</b>  |   |

Source: Interview with Latim Lawrence, GIZ/Malawi-German Programme for Promotion of Democratic Decentralisation.

### 3.2 The Local Development Fund

The Local Development Fund, or LDF, was set up in 2008 as a financing mechanism for local government investments to support improved service delivery across a range of sectors. The fund grew out of the amalgamation of three previously existing projects (MASAF, Secondary Cities Project and

Poverty Reduction) and is being managed by the MoF. The original idea behind the LDF was to provide a more transparent and inclusive financing mechanism, which could be open to both government and DP funding streams. MoF's vision for this mechanism is for it to become one of the main funding vehicles to support increased decentralisation and thereby increase decision-making at the local government and community level. The LDF is designed to have locally driven priorities, as informed by village level planning as the key driver of resource allocation from the fund. The underlying goal of the LDF is to contribute to poverty reduction. In addition the mechanism is seen as an opportunity to improve aid effectiveness at the local level by making funds intended for all local development initiatives available in one common basket.

According to the official MLGRD performance window handbook, the LDF has a number of specific objectives, including:

- To support planning and management of development resources at the local council and community levels.
- To facilitate the implementation of the Integrated Rural Development Strategy.
- To provide resources which ensure development investments respond to prioritised community needs.
- To protect financial resources for pro-poor development activities and service delivery at local council and community levels.
- To enhance the accountability of local councils to their constituents.
- To finance capacity enhancement of local governance institutions at national, local council and community levels.

To achieve these objectives the LDF has four so-called 'windows' (see box 3), which allocate funding for different types of investments that support development projects across a range of sectors. Investment in water supply appears in three of the four windows dealing with capital investments. Most investment in rural water supply is designated under the **Community Window**, although this may also be accessed under the **Local Authority Window** and the **Urban Window** (for rural growth centres). It is important to note that water is also a relevant field in the **Performance Window**, which is specifically for capacity building of local councils and where WASH is included as one of the functional areas under the annual performance assessment.

### **BOX 3: Local Development Fund Funding Windows**

The **Community Window** to finance demand-driven community socio-economic infrastructure investments and services directly managed by communities. Various WASH interventions fall under this window, including new and rehabilitated rural water infrastructure.

The **Local Council Window** to finance capital investments, labour-intensive public works programmes and local development initiatives contained in Local Council Plans through projects managed by Local Councils. Various WASH projects managed by local government are eligible for funding through this.

The **Urban Window** to finance socio-economic infrastructure in urban areas (including growth centres), which are both labour and capital intensive as prioritised in the District Development Plans or Urban Development Plans.

The **Performance Window** to finance capacity development requirements of Local Councils in the management of their core functional areas and to reward good performance through annual performance assessments. WASH is one of the five sectors included as a key functional area for the annual performance assessment.

Source: GoM MLGRD, *Performance Window Handbook*, 2011.

The establishment of the Performance Window, alongside the three other direct financing windows, is an important and deliberate element in the design of the LDF. According to the MLGRD, the Performance Window has the aims to both strengthen the capacity of local authorities through incentives for good performance, and to provide a mechanism for identifying capacity development activities, both at national level (for central government agencies that are linked with local authority capacity assessments themselves) and local levels. Therefore, the Performance Window is viewed as a key step in the process of accessing the (larger) funding available through the other three windows. It does this through three main groups of activities:

1. Conducting local council annual performance assessments.
2. Capacity building.
3. Provision of performance grants.

The performance assessment process applies to both general functions (for example, governance, financial management, budgetary oversight, planning etc.) and to a number of sector-related performance indicators. The designers of the performance handbook specified a number of core indicators specifically for the WASH sector during its development in 2009 (as shown in TABLE 2). The handbook and performance assessment process is still in its early stages. The indicators are still under development and, after having been used for an assessment in 2010, were revised at the end of that year for the next assessment, which took place in October 2011.

TABLE 2 below shows an example of an assessment using the original indicators, which focused solely on coverage and on relative change in coverage of water and sanitation. Engineers Without Borders Canada (EWB-C), having built a relationship with the LDF Technical Support Team (TST) who manage this process, was invited to the December 2010 workshop by the LDF TST in order to help address three hypothesized shortfalls:

1. The indicators have minimal emphasis of internal district processes (such as coordination and monitoring data collection), which are under the direct control of districts and therefore can be correlated to performance more easily than access, which is highly dependent on external factors such as DP resources.
2. No emphasis on sustainability or any proxy indicators for sustainability such as water point functionality. When the word 'sustainable' is used it is not defined, leaving no way to truly distinguish between 'access' and 'sustainable access'.
3. Indicators that referred to 'access' referenced data collection processes that districts do not currently have in place, thereby weakening any real accountability around that indicator.

**TABLE 2: Ntchisi District Assembly performance assessment**  
**FUNCTIONAL AREA G: SERVICE DELIVERY – RURAL ASSMEBLIES – 2010**  
**Sub-area: Water and sanitation sector performance**

| PERFORMANCE INDICATORS  | BASELINE DATA | INFORMATION SOURCE, ASSESSMENT & SCORING PROCEDURE   | SCORE |        | OBSERVATIONS                             |
|---|---------------|--|-------|--------|--|
|   |               |  | Max   | Actual |  |
| Proportion with sustainable access to an improved water source<br><ul style="list-style-type: none"> <li>absolute level</li> </ul>  | 40%<br>77,930 | Obtain and review data on the indicator for previous year. If the indicator is between 0-25 score 0; between 26-50 score 1; between 51-75 score 2; and between 76-100 score 3.   | 3     | 1      |  |
| <ul style="list-style-type: none"> <li>relative change</li> </ul>   |               | Obtain and compare data on the indicator for previous year and previous year but one. In case of no increase score 0, if increase is between 1-5% score 1, if increase is between 6-10% score 2, and if increase is above 10% score 3. | 3     |        |  |
| Proportion of health facilities with functioning running water (functioning water pumped into facilities)<br><ul style="list-style-type: none"> <li>absolute level</li> </ul> | 70%<br>7      | Obtain and review data on the indicator for previous year. If the indicator is between 0-25 score 0; between 26-50 score 1; between 51-75 score 2; and between 76-100 score 3.   | 3     | 2      | 7 out of 10                              |
| <ul style="list-style-type: none"> <li>relative change</li> </ul>   |               | Obtain and compare data on the indicator for previous year and previous year but one. In case of no increase score 0; if increase is between 1-5% score 1; if increase is between 6-10% score 2; and if increase is above 10% score 3. | 3     |        |  |
| Proportion with sustainable access to improved sanitation<br><ul style="list-style-type: none"> <li>absolute level</li> </ul>   | Not available | Obtain and review data on the indicator for previous year. If the indicator is between 0-25 score 0; between 26-50 score 1; between 51-75 score 2; and between 76-100 score 3.   | 3     | 0      | Information not available at the moment. |
| <ul style="list-style-type: none"> <li>relative change</li> </ul>   |               | Obtain and compare data on the indicator for previous year and previous year but one. In case of no increase score 0, if increase is between 1-5% score 1; if increase is between 6-10% score 2; and if increase is above 10% score 3. | 3     |        |  |

Source: Adapted: Local Authority Performance Assessment Baseline Data Collection, Central Zone, July 2010.

TABLE 3 below shows the revised performance indicators based on the review in December 2011. These revisions were intended to address the three issues cited above and make the indicators more service-delivery oriented by making them focus on factors over which the districts have direct control, thereby incentivising improved performance rather than measuring performance and then providing feedback that cannot be acted upon. This change in indicators however still represents a hypothesis test that such measures will incentivise performance.

This theory of performance competes with the original theory of the performance assessment measures. This stated that even if access is not easily controlled by councils now, in the future it will be and therefore setting the norms around access performance is wise to do at this stage. The question is one of sequencing - the 2010 indicators did not measure internal district process, and the 2011 assessment did - and one can compare the results from the two assessments and collect qualitative data from districts to determine which has been a larger driver of performance and why. At the time of writing, the 2011 assessment results had not been released, so the outcome of this hypothesis test has yet to be determined. However, it is clear that the performance assessment measures provide an interesting

opportunity to create performance incentives at the district level and that it will be useful for the WASH sector to pay attention to the system's evolution over the coming years.

**TABLE 3: Revised performance assessment handbook**  
**FUNCTIONAL AREA G: SERVICE DELIVERY - RURAL ASSEMBLIES - 2011**  
**Sub-area: Water and sanitation sector performance**

| PERFORMANCE INDICATORS  | INFORMATION SOURCE, ASSESSMENT & SCORING PROCEDURE  | SCORE |        | OBSERVATIONS |
|---|---|-------|--------|--------------|
|   |   | Max   | Actual |              |
| Evidence of Information on functionality and availability of water points and sanitation facilities updated on a quarterly basis.   | Get copies of quarterly water point monitoring and sanitation reports.<br><br>If more than 3 reports are available score 3; between 2 and 3 reports score 1 and less than 2 score zero.               | 3     |        |              |
| Evidence of district driven monthly coordination meetings between key sectors (maybe of DCTs if they exist) working in water and sanitation, especially between health and water (and maybe community development). | Obtain copies of reports from DC's office. If more than 6 reports available score 1 if less than 6 score zero.  | 1     |        |              |
| Quarterly progress and financial reports for grants funded under the water sector from previous financial year submitted to council.  | Obtain copies of reports from DC's office.<br><br>If more than 3 reports are available score 3; between 2 and 3 reports score 1 and less than 2 score zero.   | 3     |        |              |
| Water Information System is linked to the LAMIS.  | Obtain updated information on water and sanitation from MISO, if available score 1, if not score 0.   | 1     |        |              |
| Increase in services provided from previous year on key indicators (WASH sector defines).   | Obtain data from MISO's office, look at key indicators compare data for the past two years In case of no increase score 0, if increase is between 1-5 % score 1, if increase is more than 5% score 3. | 3     |        |              |

Source: Government of Malawi, Ministry of Local Government and Rural Development, Performance window handbook, 2011.

As of June 2011 the LDF had distributed some MWK 9.4 billion (US\$ 54.9 million) from both government and DP sources and has an expected capitalisation of some US\$ 103 million over the next several years, with the biggest contributors being the World Bank (commitment of some US\$ 64 million), the African Development Bank (approximately US\$ 25 million) and the German Development Group KfW (some US\$ 14 million). So far, financing made available via the LDF has concentrated on two of the four windows (Community and Local Authority) and within these windows there has been a further emphasis on school housing construction for teachers, being taken up through earmarking of funds (some three-quarters of the World Bank funding has been set aside for this specific programme). According to a recent report commissioned by WaterAid Malawi<sup>4</sup> the amount of funding under the LDF

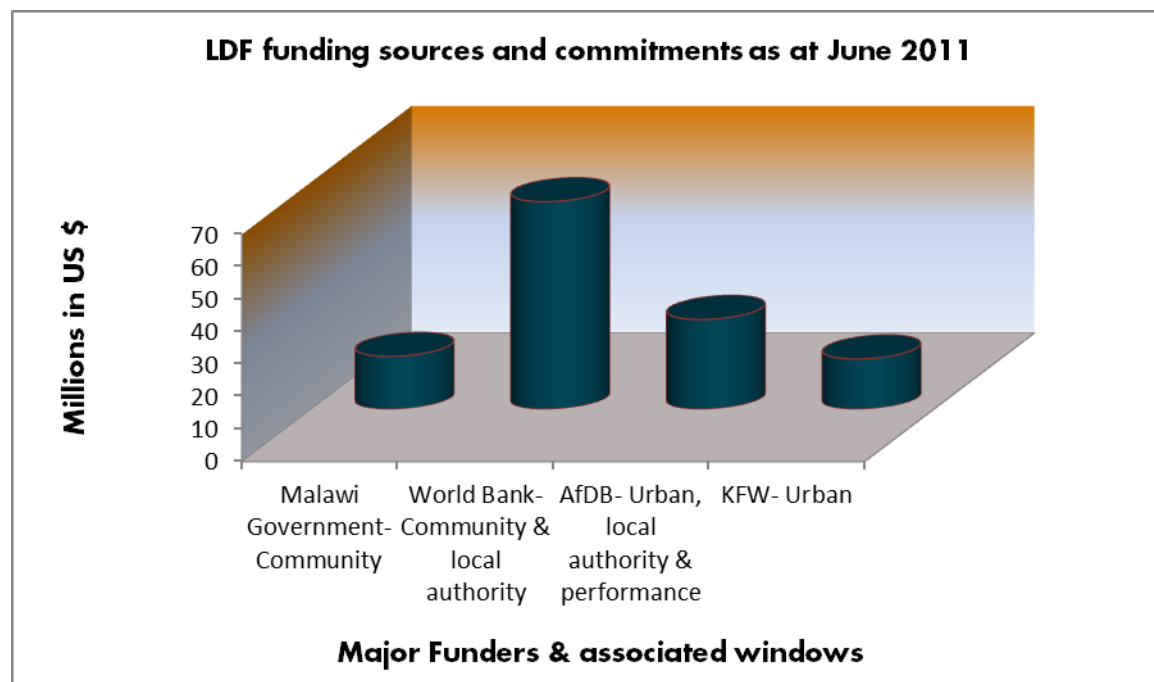
<sup>4</sup> Chiweza, Dr. A.L., 2011.



that remains for unearmarked or 'open menu' priorities are minimal, amounting to some 10% at aggregate national level. FIGURE 1 shows a breakdown of LDF funders as of June 2011.

In particular, usage of LDF funds for water and sanitation activities, while variable from district to district, has been consistently low (for example, Nkhata Bay, which used 6% of its LDF funds for borehole rehabilitation), reinforced by the fact that so much of the funds have been earmarked for other purposes.

**FIGURE 1: LDF funding sources and commitments as at June 2011**



Source: Chiweza, Dr. A.L., 2011.

### 3.3 Emerging lessons from the Local Development Fund

Even though the LDF is still a relatively young mechanism, there are high expectations among decentralisation stakeholders and it is seen as a highly relevant tool for the coming years. Following on from the first full baseline performance assessment and after two years of functioning some early lessons can be captured with the specific perspective of the rural water sector.

Firstly, and according to LDF officials, support for rural water supply has been concentrated in the Community Window, where water supply is often a high priority on the Village Action Plans, and under the Local Authority Window for more complex and multi-village schemes. However, the ability to meet expressed demand for investment in new or rehabilitated rural water services is being severely constrained by the lack of open-menu funding, which is all too often insufficient to meet such demands. The result is that local, bottom-up planning processes are not being responded to with satisfactory availability of funds. As a funding mechanism designed to allow for locally led planning and resource allocation, the LDF is not currently able to fulfil its own stated purpose completely. Comparing this with the state of financing in the WASH sector, the LDF does not offer an obviously better solution for WASH sector stakeholders for a financing mechanism, and thus does not provide any sort of 'magic bullet' for devolving resources to the local level.

Secondly, some reports have cited political influence in the determination of local planning priorities within districts using LDF resources. In these reported cases the local planning processes and the criteria for allocation of funds under the LDF (i.e. poverty alleviation to address the neediest) are not always adhered to and resources are diverted towards other communities. Certain reports have indicated that

political influence is a more intense issue for LDF funds than it is for project funding from WASH development partners because the funding is understood to be ‘government money’ rather than ‘NGO money’ and therefore more susceptible to influence<sup>5</sup>.

Thirdly, there are clear challenges with the degree of inter-sectoral coordination at district level as well as planning capacity and simply the knowledge about what the LDF can and cannot offer and how to access support. For example, most of the District Water Development Officers have little awareness of the LDF, the links between various funding windows for development projects and how this relates to support that is received directly from the MoAIWD. This was also true in terms of what kind of support would be possible under the Performance Window in terms of ‘rewards’ for well-performing districts.

The first full performance baseline assessment was carried out under the Performance Window in the first half of 2010. This attempts to take a snapshot of all local councils in the country and lays the benchmark for subsequent annual assessments<sup>6</sup>. It looks at a wide range of aspects of management and capacity, as well as specific sector performance. It was also considered to be a test case for the actual performance assessment process and framework itself and one of the key objectives was to review the utility of this mechanism. Some of the main conclusions of this review, as well as interviews carried out for this case study, indicate the following:

- The performance assessment and scoring system is very lengthy and involves a large number of indicators (the first iteration had 180 indicators for each district to address).
- Despite its complexity and length many districts view this as a positive way of improving their performance with the aim that it can be used by local councils as a self-monitoring tool.
- There is a need for more direct communication between the LDF and WASH sector stakeholders on the selection of performance criteria. The view of the LDF TST is that MoAIWD is tasked with developing sector performance indicators, while the MLGRD is tasked with developing district council performance indicators. However, in practice, both the sector performance indicators being used in the WASH sector and the council performance indicators used by LDF TST serve parts of both functions, so there is overlap, inconsistency and, at times, confusion about the unique utility of either process.
- There is the need to better disseminate how the performance assessment works, what its function is and to explain what happens after the assessment stage in terms of ongoing capacity building at the district level.

The MoF is aware of many of these challenges and is seeking ways in which to address the learning that has emerged from this first round of assessment. In spite of these challenges and early problems there are also positive lessons emerging from the first years of operation. The LDF still represents the only countrywide multi-sector financing mechanism that has the potential to support decentralised decision-making. It has also made some progress in the comprehensive assessment of local capacity, with a benchmark from which to build on for future initiatives. More specifically for the WASH sector, if more funding can be made available to respond to local level planning priorities, it is likely that the LDF will become an important source of funding, whilst at the same time embedding planning and decision-making processes closer to the end users of services.

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<sup>5</sup> Chiweza, Dr. A.L., 2011.

<sup>6</sup> DR Consulting Services, 2010.

## 4 WASH SECTOR REFORM AND DEVOLUTION

In common with many countries in the region, the WASH sector in Malawi has been in a process of reform and transition over the past ten to twenty years, from highly projectised and donor driven investments towards a more programmatic approach based on national level planning. Since the late 1990s the GoM and its partners have introduced reforms to strengthen the sector and improve the sustainable delivery of water and sanitation services. These include the National Decentralisation Policy (1998)<sup>7</sup>, focusing on service provision to the lowest appropriate level; the National Water Policy (revised in 2005)<sup>8</sup> which sets out the sector's long-term goal of sustainable management and utilisation of water resources, and the National Sanitation Policy (2008)<sup>9</sup> designed to transform the country's hygiene and sanitation situation. To support these various processes MoAIWD has established a number of technical working groups (TWGs) focusing on diverse sub-sectors including water supply, water for productive uses, sanitation and hygiene, institutional development and capacity building, and monitoring and evaluation.

The focal point for development partner engagement has been the National Water Development Programme, which is now in its second major phase, running from 2007-8 to 2013, with an estimated investment of US\$ 250 million over the six year period. The NWDP is the main vehicle behind the sector reform and includes planning to develop a more formalised sector wide approach (SWAp), for which the first planning steps were set out in early 2008 under the so-called *Mangochi Road Map*<sup>10</sup>. Efforts are continuing to develop such a SWAp in order to better harmonise government and DP investments in the sector, to improve institutional performance and the planning and management of resource allocation. One concrete outcome of this effort has been the adoption of joint sector review processes and the production of annual Sector Performance Reports (SPR) since 2009, as well as a performance monitoring framework for the sector and establishment of definitions for improved/non-improved water and sanitation.

The quality of the SPRs has steadily increased in each year of its writing; however, to date, the production of each report has required substantial technical assistance to MoAIWD. As of March 2012, the plan of the team who is managing the SPR development for the 2012 JSR is to completely hand over its development to MoAIWD in 2013 and have that report be the main accountability tool in the sector. Although the SPR can accomplish little in terms of sector change if not fully owned by the GoM its increase in quality in the past years is encouraging.

While the SWAp has been a positive step for the sector in that it has created a space for dialogue about the key issues of coordination, reporting, financing, and sustainability, it has so far failed to provide a swift response to sector fragmentation. The SWAp is under the leadership of MoAIWD, whose capacity, particularly in the planning department with responsibility for the SWAp, is limited. As such, it has been challenging to establish a clear purpose statement for the SWAp, and the result is that most participants understand the SWAp from their own perspective. In practice, many participants appear either to not make the time to be fully present for TWG meetings or to use the space to influence the sector towards

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<sup>7</sup> GoM, *National Decentralisation Programme II*, MLGRD, 2008.

<sup>8</sup> GoM, *National Water Policy*, 2005.

<sup>9</sup> GoM, *National Sanitation Policy*, 2008.

<sup>10</sup> For further details of the SWAp process in Malawi see: <http://waterswap.org/index.php/theroadmapmghg>.

their own agendas rather than contributing to genuine dialogue. The notable exception is the Sector Working Group, chaired by the Principle Secretary, which meets quarterly and provides a fairly functional space for policy dialogue. This forum still has its challenges as it has not been able to communicate regularly with the TWGs, who are responsible for the technical input and execution of undertakings as established at the annual JSR because the TWGs have not been meeting often enough. The TWGs have unfortunately been designed around an expectation that sitting allowances will be paid for the meetings, adding administrative steps that slow their progress and limit the momentum that can be built.

Representatives within MoAIWD characterise the SWAp as an ideal arrangement whose purpose is currently being largely already served by NWDPII, as explained in section 3.1. According to the MoAIWD the current NWDP represents a 'bridging phase' for a much longer-term investment plan that will run from 2013 to 2025 and will seek to address aspects such as rural growth centre service provision, lack of functionality of rural water points and demand for higher service levels. Current efforts are focused on putting in place all the necessary elements to underpin the SWAp, with particular focus on those areas that remain weak, including:

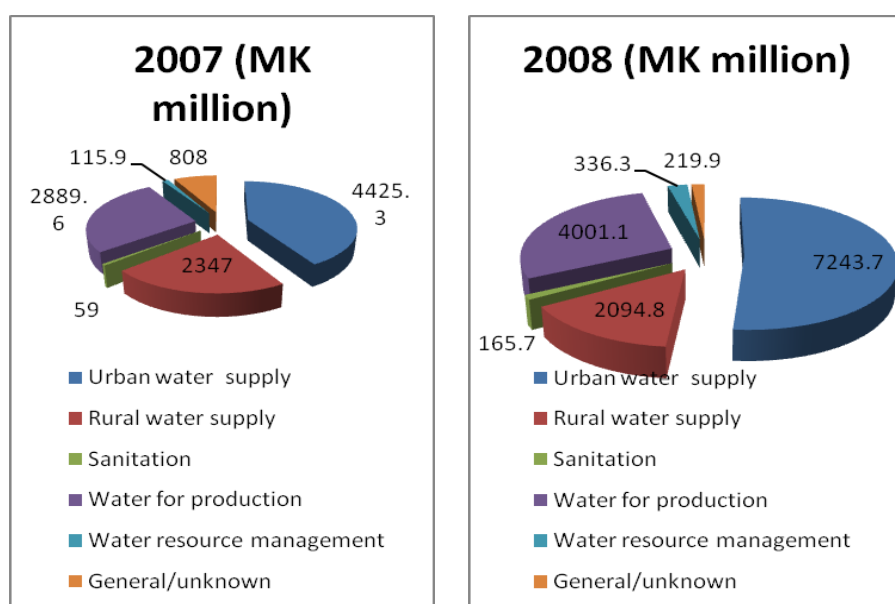
- A comprehensive, nationwide monitoring framework. Currently monitoring of rural water provision is very weak and patchy across different districts and usually driven by project funds, with the quality and accessibility of data often depending on the presence (or absence) of externally funded development projects. National level data aggregation and analysis is also fairly weak due to the fact that a national framework has yet to be established.
- A financing mechanism that supports decentralisation efforts within the sector by defragmenting the funding in the sector, either with a basket fund or other arrangement to be determined. The most recent joint sector review process agreed on the need to develop a funding mechanism for the sector to support the SWAp, which reflects a greater commitment to fiscal devolution. Decentralisation purists may label such a funding mechanism as against the principles of devolution because it would maintain sector control of funds rather than using the LDF or another public financing system. However, with the water department not close to being fully integrated into the local government system, the notion of pure devolution as the next step may be unrealistic in Malawi at the moment.

A further factor in the WASH sector is the close relationship between public health under which the District Health Officer also has a mandate to deliver services. However, there is no national level MoU between health and water, so the coordination of efforts takes place at the district level via the District Coordinating Team (DCT), which includes health, water, community development, and any other departments deemed by the Director of Planning and Development (DPD) as relevant. This arrangement presents an opportunity to the water sector as the health sector is much better provisioned; for example, a typical district will have approximately 100 times as many Health Surveillance Assistance (health field staff) than they have Water Monitoring Assistants (water field staff), and has much higher ORT. This opportunity can only be effectively captured if the DCT is functional, which is highly dependent on the leadership capacity of individual district officers, particularly that of the DPD. A key opportunity in the sector to strengthen the DCT has presented itself in the form of the performance management system being implemented by MLGRD. If that system can create performance incentives for District Commissioners to hold the DPD accountable for a functional DCT, the health-water collaboration opportunity could be potentially more promising than waiting for water to get its own resources, and could be captured at scale.

## 4.1 Financing of rural water supply

According to the draft Sector Performance Report for 2011<sup>11</sup>, the amount of spending on rural water supply fell from MWK 2.3 billion to 2.01 billion (US\$ 14.1 to 12.8 million) from 2007 to 2008, a drop of some 15% (see FIGURE 2). Given that the population in Malawi is still overwhelmingly rural (estimated at some 85% of the total) the sub-sector spending per capita for 2008 is approximately MWK 190 (US\$ 1.16) in rural areas and MWK 3,600 (US\$ 22.00) in urban areas. Whilst it is difficult to directly compare these figures because of differences in population densities, type of technology, levels of community self-financing, and existing coverage levels, these order of magnitude figures certainly suggest that the rural sub-sector may have received a less than equitable share of financial resources.

**FIGURE 2: Estimates of the distribution of sub-sector spending**



Source: Ministry of Finance budget estimates, water board annual reports<sup>12</sup>

One of the most striking aspects of financing of rural water in Malawi is the very low level of fiscal devolution to district authorities. Analysis of Ministry of Finance (MoF) budget estimates for 2009-10 shows that MWK 12,486 million (US\$ 76.6 million) was allocated to the local assemblies for recurrent transactions (ORT) across all sectors. Of this amount, only MWK 35.2 million (US\$ 2.1 million) relates to the water sector and in addition the budget headings suggest that the bulk of this money is used to fund transport and allowances for staff (i.e. national government allocations under the ORT).

By far the lion's share of (WASH) development funding remains under the direct control of the MoAIWD at central level and is administered through the NWDPII, representing some 97% of total WASH sector financing. There have been calls to increase the share of this funding going directly to district government from the current 3% to 30% by the financial year 2012-13. Whether such an ambitious uplift is possible within such a short time frame is questionable, given the recent assessment in the draft annual sector performance report for 2011, which states: "It is GoM policy to decentralise more

<sup>11</sup> GoM, *Draft Sector Performance Report, MIWS, 2011*.

<sup>12</sup> *Ibid*; page 13.

*spending to the district level. So far this has not happened in a significant way in the Irrigation Water and Sanitation Sector”<sup>13</sup>.*

Given that the bulk of the resources in the sector are DP project funds, it is clear that the near-term opportunities for devolved funding are discrete rather than sector-wide and change will take time. Two key opportunities for changing in sector financing arrangements are notable in the sector, a recently approved US\$ 120 million loan from the World Bank via the NWDPII, and an approximately US\$ 20 million five-year DFID funded water and sanitation programme. As of March 2012, the World Bank in Malawi has stated that its financing arrangements will not change until and unless there is a financing policy supported and driven by government. The DFID programme has yet to fully select a financing approach, though it does appear likely that they will sub-grant the bulk of their funds to NGOs and create central coordination structures for implementation, but are also considering disbursing part of their funds via models more similar to UNICEF’s than to those currently used by the lending banks.

## 4.2 WASH sector devolution

Under the current reform process WASH delivery is arranged around five parastatal water boards for urban services, two of which are found in the cities of Blantyre and Lilongwe, and the remaining three covering the northern, central and southern region respectively, and 28 districts councils for rural services. The revised National Water Policy (2005)<sup>14</sup> clearly sets out the objective of ensuring a “smooth transfer of all devolved functions of the rural water supply and sanitation services” (objective 6.2.1.7). To achieve this aim it outlines a number of strategies including the creation of water management arrangements such as cooperatives, trusts and water user associations; encouraging professionalism in management and promoting a greater role for private sector participation. MoAIWD is also committed through the water policy to create awareness of devolution of water and sanitation services and for developing and disseminating standards and guidelines in liaison with local government.

According to the MoAIWD, devolution efforts are part of a very long-term plan that has the goal of transitioning from the ‘safety net’ approach of point sources with hand pumps to higher service levels for an increasing proportion of the rural population provided by reticulated systems with more professionalised management arrangements. The introduction of Water User Associations as legalised bodies who are able to contract out to private sector for services is an integral part of this plan. In addition, when the Ministry first came into effect, Regional Water Offices (RWOs) were established that were meant to house technical and engineering capacity to be drawn upon when needed at the district level.

In rural areas the district government are legal owners of all water supply assets. But under devolution arrangements to date local government has only been made responsible by MoAIWD to ensure the operation and maintenance of point source supplies. Support for rural piped systems is provided by MoAIWD, using the expertise of the respective RWOs as needed. Activities related to the design and construction of these systems are still under the mandate of the central ministry and occasionally delegated to districts, and in the case of the current AfDB funded project in Malawi, design is undertaken by district level consultants hired by MoAIWD.

As part of this long-term plan MoAIWD has, by their own admission, gone against the decentralisation guidelines (which only refer to central ministries or agencies and local government), by introducing

<sup>13</sup> Ibid; page 14.

<sup>14</sup> GoM, *National Water Policy*, 2005.

another tier of regional water offices at sub-national level to provide support to districts. This has been done deliberately to provide more effective support to district water and sanitation staff and as a means to building their capacity. It is also necessary, according to MoAIWD officials, in order to achieve economies of scale. For example, the Ministry argues that it would be simply impossible to find adequately qualified staff for all districts, let alone pay for them (i.e. meaning a complement of 28 hydrologists, 28 water quality experts etc.). This approach of MoAIWD is consistent with sector practice in other countries such as Ghana and Uganda.

The view of MoAIWD is that their unique arrangement is a legitimate design that is more realistic given the institutional history of the Ministry. The slow progress in devolution is also explained in part by MoAIWD as being the result of the historical evolution of their Ministry, which has had a much shorter institutional life-span - or even an existence as a coherent 'sector' - than many of the other main technical line ministries (for example, health, education, agriculture). Because these other ministries were already well-established, even during the colonial period at the local level under District Commissioners, they have existing staffing allocations, assets and an 'institutional history' in the districts, making current devolution efforts easier.

Under decentralisation policy it is the role of the parent ministry to provide policy guidelines, higher-level expertise, training and to advise on international partnerships and representation. As part of this process, and in common with other line ministries, MoAIWD must produce a devolution plan and guidelines that spell out the respective roles, functions and responsibilities of local level. It was not possible to obtain a copy of the WASH sector devolution guidelines and these were not known of at district level amongst staff interviewed for the research into this case study<sup>15</sup>. This situation may be characterised as a mismatch between nation-wide government decentralisation policy, for MLGRD advocates, and the institutional reality of WASH sector in that full devolution is difficult, both because of the history of the Ministry and because of the low resource profile of the sector.

### 4.3 Devolution and field realities

As previously documented there are currently a number of initiatives to support devolution to local government. These are driven by different agendas, are moving at different speeds and have differing antecedents. But how does this affect the reality of those mandated with supporting rural water supply at the sharp end of operations?

At the local level it is the District Water Development Officer who is responsible for local level planning, coordination and support for the operation and maintenance of systems. In theory his/her office is supported by a number of technical staff and Water Monitoring Assistants (WMAs), all of whom work under the broader local government structure of management. This officer is also expected to coordinate with Health Surveillance Assistants from the Ministry of Health in aspects of water quality. What do we know about how well they are being supported and whether they have the tools to take on an increasing role in ensuring sustainable service delivery at the local level? Both investigations for this case study and recent research commissioned by WaterAid in Malawi indicate a generally challenging picture.

Firstly, the transfer of staff positions from MoAIWD to districts has been a major problem. The Local Government Act and subsequent policy makes very clear that local governments are responsible for adopting these positions. However, in many instances local government has not been able to absorb staff positions on a permanent basis. Rather these are often financed on the back of external aid projects, which are temporary in nature, often lasting only a few years. Research done by WaterAid

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<sup>15</sup> GoM, *Guidelines for the Managements of functions Devolved to District Assemblies*, 2008.

indicates that in three of the eight districts surveyed the actual number of WMAs deployed was only 10%, 25% and 33% of the officially sanctioned positions respectively. In two other districts (Machinga and Lilongwe) the number of permanent WMAs was being augmented by ongoing development projects financed by the African Development Bank, with the “assumption that they [these positions] will be absorbed in the system once the project comes to an end”<sup>16</sup>.

Limited staff capacity has a direct bearing on the ability of districts to provide monitoring and support to existing systems. For example, the DWDO in Lilongwe reported that the WMAs under her office have an average of 500 borehole schemes to attend to and have received no follow-up or guidance from the NWDP which installed these systems under a programme of funding from the African Development Bank.

The capacity gap at local level extends beyond staffing and includes a lack of transport (half of the WaterAid survey districts had no vehicle for the water team), limited Internet access (six out of eight districts did not have Internet access for the DWDO) and basic surveying and water monitoring equipment, which are often lacking. The collection and analysis of data is often limited to very basic aspects and in all districts surveyed, there is no link between the collection of WASH data and the broader district level monitoring and data management system. This system, the district data bank, was developed centrally for the Monitoring and Evaluation (M&E) Office at the district level as a tool for storage and analysis of data across sectors. However, this databank does not include water and sanitation data, so the WASH sector is sidelined by the design from the outset.

The lack of support from the centre and confusion over the role of MoAIWD in supporting district staff appears to be another common set of issues facing district level staff. An absence of devolution guidelines from the Ministry and lack of transfer of funding and (control over) human resources was cited as an issue by a number of district level staff interviewed<sup>17</sup>. While the Ministry does indeed have a devolution plan (draft 2002), soft copies of the plan do not seem to exist and it is not well understood by district staff. Several staff at this level were not aware of efforts on the part of the Ministry to help build capacity and stated that they have limited support. Most engagement is reported to be under ‘project’ activities and is therefore associated with the brand of the DP involved, whether this may be an agency such as UNICEF or one of the many NGOs operating in Malawi, including WaterAid, Water for People and indeed EWB-C itself. District staff noted that the role of NGOs is sometimes not helpful, with many of the smaller organisations simply working without coordinating or informing district government.

In summary therefore, the field reality of WASH sector devolution in Malawi appears to be one characterised by a patchwork of capacity development, often driven on a ‘projectised’ basis by DP-funded initiatives that are not always – or not always perceived to be - linked with MoAIWD oversight. Indeed, even the more innovative activities such as Interaide’s work on post-construction support and the piloting of monitoring tools by WaterAid and EWB-C are based on specific projects, with the risk that learning and good practice may not be scaled up to sector level. Perhaps the most critical aspect of the current situation is the apparent limited scope for district staff to fully understand and engage with the sector reform and devolution processes.

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<sup>16</sup> Chiweza, Dr. A. L., 2011.

<sup>17</sup> District water office staff interviewed in Salima, Lilongwe and Mzuzu districts, August 2011.



# 5 ADDRESSING CURRENT CHALLENGES AND FUTURE OPPORTUNITIES

It is quite apparent that there is a substantial gap between the stated policy position of devolving the mandate for sustainable service delivery in rural water to local government and the reality on the ground. Constraints are evident both within WASH sector efforts at devolution and under the broader decentralisation initiative.

MoAIWD has a long-term vision to move from point source provision to higher levels of service offered by reticulated networks. This implies the need for professionalisation of community management, improved monitoring and some form of regulation to establish and maintain adequate service levels. In order to support this process and play the role of a competent service authority, district level staff will need to be better trained, have more support and greater resources for mobilisation and oversight. This will apply even under the scenario whereby the private sector takes a greater role in the operation and management of water supply systems. The current pace of devolution within the sector and the fragmented activities of various DP projects mean that capacity needs have not yet been addressed in a systematic way. The broader decentralisation process has been given a new impetus in the last two years or so by the roll out of the LDF, but this mechanism still faces a number of critical challenges, particularly around the level of non-earmarked funding and a clearer strategy and follow-through in one of its core objectives for capacity building.

## 5.1 Gap between WASH sector reform and broader decentralisation

Broadly speaking, the gap between action in the WASH sector and in the 'decentralisation' sector, which includes development partners working with MLGRD on strengthening local government capacity and governance structures, can be characterised in terms of five critical functions as follows:

### 5.1.1 Financing

Sector financing is a key area in which the decoupling between the WASH sector and the decentralisation sector is obvious. The decentralisation policy, as led by MLGRD<sup>18</sup>, proposes the LDF as the key mechanism for financing, whereas the WASH sector has historically used earmarked funds from development partners and off-budget NGO projects managed by NWDPII. The WASH sector is considering the development of a funding mechanism that does not use the LDF, which has both advantages and disadvantages.

### 5.1.2 Performance Management

Broad public sector reforms in performance management present a potentially large opportunity for the WASH sector. However, the current efforts by MLGRD to establish a performance management system for local government, which would see each local government office (including water) reporting directly

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<sup>18</sup> GoM, *Guidebook on Decentralisation and Local Government in Malawi*, 2008.

to the District Commissioner (DC), are not being harmonised with the reality of local government performance in the water departments in districts. Those departments have no formal performance management system (donor reporting and promotions managed by MoAIWD are the key performance influences), and no analysis or dialogue is evident between MLGRD and MoAIWD on how to integrate water into the performance management reforms.

### 5.1.3 Monitoring, Evaluation, and Reporting

District level plans for sector investment, a strategic planning process led by MLGRD and reporting to MLGRD from the district M&E Office, are the key processes for M&E for districts. However, the DWDOs are responsible for separate reports to MoAIWD and to WASH donors and rarely have a close working relationship with the M&E Office. Meanwhile the WASH sector is developing a national M&E framework, with funding from the AfDB, and the Strengthening Water and Sanitation Monitoring and Evaluation project (SWSME), which currently have no provision to integrate M&E processes with those managed by MLGRD.

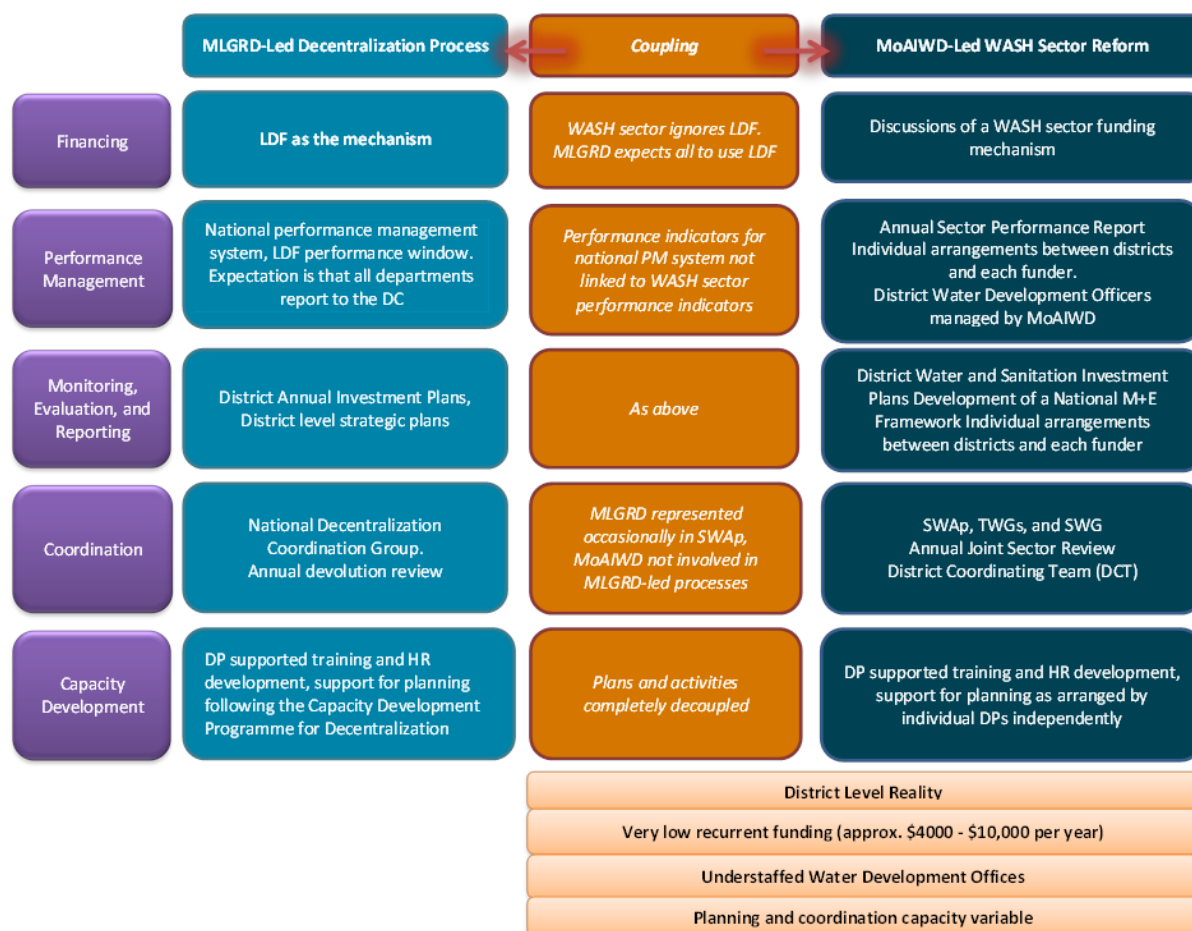
### 5.1.4 Coordination

The decentralisation sector has national coordination meetings every two months led by MLGRD, and an annual review of the devolution process in which each line ministry is meant to participate. The WASH sector is undertaking a MoAIWD-led SWAp process that has some representation from MLGRD, but that representation appears to have little effect on MoAIWD's ability to keep MLGRD updated on devolution progress. MoAIWD does not usually attend the devolution update meetings led by MLGRD.

### 5.1.5 Capacity Development

MLGRD, with the support of decentralisation development partners, has created a Capacity Development Program for Decentralisation (CDPD), which includes a strategic plan for local government capacity development. For example, under this process, GIZ and Irish Aid jointly funded the hiring of financial analysts at the district level to support financial reporting and expedite auditing. In the WASH sector, capacity development has fallen under donor-led projects and has not followed the framework of the CDPD or coordinated with decentralisation capacity development efforts. This is largely because they have targeted the Water Office at the district level specifically, which is not integrated within the local government system.

**FIGURE 3: Gap analysis between WASH sector reform and broader decentralisation**



Source: EWB-Canada, Malawi programme, 2011.

Continuing with the ‘business as usual’ approach - large water and sanitation projects meant to be coordinated by a SWAp toward rural water service delivery provision in Malawi - will mean an ever-increasing demand on local government to provide oversight and support at the community level as new systems are constructed, without the commensurate resources and capacities to meet this challenge. What then are the prospects for greater alignment between these twin processes of WASH sector devolution and broader decentralisation in being able to support a common aim?

- **Sequencing:** as with most things in life, timing is everything. The LDF is still a relatively young mechanism and as such understandably faces a number of shortcomings and weaknesses. How soon and how well these can be worked through remains uncertain. However, there is an urgent demand within the WASH community to improve coordination and to push for greater fiscal decentralisation, which is likely to happen more quickly than the refinement of the LDF and its possible adoption as a channel for WASH funding at scale.
- **Alignment:** on paper there is a close alignment between the devolution aims of MoAIWD and the objectives of the LDF and MLGRD, particularly in the area of capacity building. But in practice there are clear differences in application and approach. MoAIWD, as a technical agency, has legitimate reservations about the practicality of rapidly devolving all functions to local level and therefore it is keen to see a slower devolution process that includes, first of all, building central capacity to coordinate and devolve as more resources, and more coherence of programming can be utilised.

Part of this intermediate step includes Regional Water Offices (i.e. to set up regional support units that can provide specialist functions in certain key areas such as hydrology, engineering design, water quality etc.), which will eventually be phased out under full decentralisation. In the long term, Regional Water Boards would be then used to support the eventual reticulated schemes they aim to install.

- **Incentives:** this is probably the dimension of greatest divergence between the WASH sector and the broader decentralisation programme. As long as the majority of financing and programmatic control over that financing is channeled through the NWDPII at central level, MoAIWD is unlikely to champion an increased role for local government with true control over resource allocation. In part this incentive structure is reinforced by the status quo of the sector in recognising and ‘rewarding’ the measurement of simple coverage, rather than placing a greater emphasis on long-term functionality and quality of service. The advent of a Sector Performance Report and a performance monitoring framework, which will include functionality measurements, may begin to change these incentives. But it is not clear how quickly this will translate to resource devolution, as currently the relationship between discretionary resources at the district level and improved sustainability of water and sanitation services is not well recognised in the sector.

## 5.2 Scenarios for the future

Broadly speaking there are three possible scenarios facing decentralised financing for provision of rural water services in Malawi, each with different advantage and disadvantages. These are:

### 5.2.1 SCENARIO 1

A continuation of the current trajectory with limited engagement between the WASH sector and the MLGRD-driven initiative, resulting in largely separate and parallel financing and capacity building mechanisms to support local government.

#### Advantages

1. Would reduce the burden of coordination between the WASH sector and the decentralisation stakeholders, who are already stretched with the number of policy input meetings they are expected to attend.
2. Would allow the WASH sector to focus on its own policy issues, including internal coordination.

#### Disadvantages

1. Would see no end to the incoherence of capacity development efforts between the sectors, which may have unpredictable effects in the future and become more difficult to change once structures are established independently and entrenched over time.

### 5.2.2 SCENARIO 2

The development of a WASH-specific sector financing mechanism that operates in parallel to the LDF but is understood and developed as a *temporary solution* until a nationwide multi-sector approach to financing, such as the LDF, is fully functioning, efficient, accountable and attractive to DPs.

#### Advantages

1. Would allow the WASH sector to focus on coordination of resources and address the fragmentation issue, potentially seeing more resources at the district level even before more public budget at the national level flows into MoAIWD.

2. Would allow the WASH sector to understand its stance and needs more clearly, having experienced the development of a funding mechanism, thereby strengthening its ability to assert these needs when eventually integrating their system into that of the broader public service.
3. Would allow for the WASH sector to develop its own mechanism but leave provision for its integration into other systems in the future, which would ideally reduce the challenges of such an integration.

#### Disadvantages

1. It is difficult to manage the development of an institutional structure that is expected to eventually disappear. Even if decision-makers understand this, at the outset use and familiarity with a system across the sector may increase the challenges and pain of eventual integration.
2. Potentially reduces the pressure to get fully devolved resources allocated according to local priorities because it further entrenches the norm that earmarking of funds from DPs is an effective way of delivering services.

### 5.2.3 SCENARIO 3

A closer alignment between the decentralisation process, spearheaded by the LDF, and the WASH sector under which this funding mechanism is refined, and the capacity building component is more closely linked with MoAIWD devolution planning.

#### Advantages

1. Removes the issue of future pain of integration as it integrates as early as possible, which is likely the easiest time to bring closer alignment.
2. Allows the WASH sector to take advantage of the substantial institutional infrastructure and process development investments that MoF and MLGRD have already undertaken with the LDF, thereby reducing the costs both for MoAIWD and for the overall public service of developing a financing mechanism.

#### Disadvantages

1. It is a great deal of change to manage all at once given the WASH sector is already struggling to manage coordination of resources internally. Tackling this management challenge could prove premature and lead to unforeseen issues that spawn greater problems in the future.
2. Will only meet the vision of the LDF if the funds become truly locally managed rather than earmarked, which may largely remove control of the WASH sector from its own priorities and resources. This arrangement may be unpalatable to WASH funders and would have unpredictable effects on service delivery given that the LDF has yet to show that it can effectively perform.

In all cases DP support and policy advice will be a critical factor and may, in the end, determine which of these three routes or scenarios prevail. The authors believe that there are a number of positive steps that can be taken to improve the likelihood of closing the gap between efforts in WASH sector devolution and the broader decentralisation initiative. These include the streamlining of the LDF and the opening up of unearmarked funding opportunities, as well as introducing performance assessment indicators that focus more closely on service delivery and the performance of local councils as service authorities (rather than coverage alone, as discussed in section 3.2 above). An important and pressing

part of such a transition for the managers of the LDF will be to communicate the aims and mechanics of the fund more clearly with WASH sector stakeholders.

Equally for the WASH sector it is an opportune moment to consider the implications of the LDF and how a greater role for local government may be incorporated into the current design of the national monitoring framework and pooled funding mechanism as part of the SWAp development. Much will depend on the precise timing of these respective processes and the political pressure which may be exerted to speed up the pace of WASH sector devolution (for example, the MoF has much greater leverage over line ministries than the MLGRD and may push for faster devolution). It is likely that some form of improved common funding mechanism in the WASH sector may be a necessary but intermediate step before funding support can be channelled at scale through an improved LDF at some point in the mid-term future. The immediate challenge is how to structure these mechanisms within a planned longer-term progression towards a more complete decentralised framework of service delivery for rural water services.

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