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Operational Guidance for World Bank Group Staff

Rural Water Supply, Sanitation and Budget Support — Guidelines for Task Teams

Param Iyer, Barbara Evans, Jason Cardosi, and Norman Hicks



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& Sanitation
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FOREWORD

A key development challenge of the early 21st century is to bring the fight against poverty to scale. There are millions of people living in the world today without access to basic services and the means to reach their full economic potential. The scale and depth of the challenge is nowhere more evident than in rural communities without access to safe water and basic sanitation. While much has been learned over 25 years about how to make investments in rural water supply, sanitation and hygiene (RWSSH) effective and sustainable, applying these lessons at a scale which is sufficient to meet Millennium Development Goals remains a huge challenge for most countries.

In part, the solution appears to lie in moving towards a programmatic approach whereby external funds and expertise are aligned with a well-designed national program driven and delivered by national and local governments. Channeling financial support directly to national budgets, combined with capacity building and technical assistance, shows promise as an approach to scaling up sustainable RWSSH service delivery. Such budget support can enable broad-based sector reform, improve the predictability of funding, remove externally imposed bottlenecks, and optimize the impact of both government and external finance.

In the Bank, budget support is delivered through development policy lending (DPL). In IDA countries a DPL operation designed to support the implementation of a poverty reduction strategy paper is generally termed a poverty reduction support credit (PRSC). PRSCs are powerful instruments for tackling policy change and scaling up implementation, but they present challenges to sector teams who have to engage with a wide-ranging public sector reform process and work within a framework that addresses policy constraints in many sectors. To date, budget support in the RWSSH sector has been limited to a few IDA countries, but it is clear that this is set to increase. For this reason, the Water and Sanitation Sector Board and Energy and Water Department of the Infrastructure Vice Presidency of the World Bank have set out to develop guidance and to identify resources that can help sector staff engage with budget support operations effectively, and thus keep RWSSH on the reform agenda.

These guidelines, the result of a productive collaboration between the Energy and Water Department and PREM, should serve as a starting point for water supply and sanitation staff in the design and implementation of budget support operations such as PRSCs. They are also intended to provide resources for macroeconomists and PRSC task team leaders and their clients as they seek to identify appropriate approaches to RWSSH. Supplementary materials and resources will continuously be made available to staff through the Web site of the Rural Water Supply Thematic Group. We see these guidelines as an important contribution to the Global Millennium Development Project to scale up access to basic services and tackle poverty worldwide.

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Chair, Water and Sanitation Sector Board

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September, 2005

SUMMARY: WHY THIS DOCUMENT?

BUDGET SUPPORT PRIMER

BUDGET SUPPORT TOOLBOX

PRSC SNAPSHOTS FROM MADAGASCAR AND UGANDA

BUDGET SUPPORT JARGON BUSTER

SUMMARY: WHY THIS DOCUMENT?

The budget support challenge in the water sector

Budget support operations channel funds to national budgets and engage with fundamental policy reforms. In countries where governments and donors have recognized its potential, budget support represents a unique opportunity to scale up the fight against poverty and work towards the Millennium Development Goal (MDG) targets. Where rural water supply, sanitation, and hygiene (RWSSH) are included as a focus or maintenance sector in budget support operations, the potential for significant policy change and progress is immense. Where this is not the case, the sector risks being marginalized in the development policy debate and, more immediately, being starved of investment funds (table S1).

Despite this, and despite generally strong client demand and high potential impact on poverty, few World Bank budget support operations include RWSSH. Of the 120 International Development Association (IDA) countries, for example, approximately 80 have prepared a poverty reduction strategy paper (PRSP).¹ Out of these 80, about half are preparing or implementing poverty reduction support credits (PRSCs, as budget support is termed in IDA countries) but less than 10 PRSCs currently deal directly with rural water supply and sanitation.

Clearly, Bank staff working on water and sanitation need to:

- identify how and when budget support can be used to drive RWSSH reforms and progress;
- understand and address the reasons why RWSSH may have been excluded from current budget support operations; and
- improve the quality and quantity of analytical work that can serve as an underpinning to future budget support operations.

The RWSSH challenge to country teams

RWSSH plays a central role in national efforts to alleviate poverty. Access to adequate water supply and means of safe disposal of excreta, coupled with hygienic practices such as handwashing, have a significant impact on health, educational participation, educational attainment, economic productivity, and dignity in rural areas. The benefits of improved access to safe water and sanitation result in growth and an improvement in living standards. Rural water supply and sanitation cross the boundary between infrastructure and the social sector, contributing in ways that are reminiscent of both rural infrastructure (such as roads) and rural social development (health and education). Rural water supply and sanitation are a prerequisite for benefits to flow from many health and educational interventions and can be financed on the budget, unlike urban water supplies or more traditional rural infrastructure. It has long been accepted that the role of the community is central to the development of sustainable rural water supplies, while sanitation and hygiene affect the development and empowerment of the household. Successful investments in rural water supply and sanitation thus contribute to social development and community empowerment and can pave the way for greater developmental progress in general. Furthermore, rural

¹ IDA countries are those defined by the International Development Association (IDA, an agency of the World Bank) as poor developing countries with an average annual per capita income of less than US\$875.

Table S1. Potential impact of budget support on RWSSH

Status of RWSSH in the budget support operation	Potential for policy change	Implications for investment
Focus sector	High: Normally one or two key policy triggers (out of around ten in total) apply directly to RWSSH	Funds channeled through the budget are intended to assist in achieving RWSSH outcomes
Maintenance sector	Medium: Cross-cutting policy changes likely to impact on RWSSH performance	
Not specifically included but engaged in PRSC dialogue and impacted by core or cross-cutting reforms	High: Removal of bottlenecks outside the sector	RWSSH investments may continue to be funded off-budget or funds may be earmarked in the budget to assist in achieving RWSSH outcomes
Excluded	None/negative: Loss of traction with ongoing reform processes, particularly if budget support development policy lending (DPL) crowds out RWSSH investment lending	If Bank and/or government policy is to reduce stand-alone investment lending, funding levels to RWSSH may fall

water supply and sanitation come high on lists of priority interventions when these are developed by communities themselves. Converting this expressed demand into viable national investment programs is essential if the poverty reduction agenda is to be realized.

Over the past 25 years the World Bank has invested approximately US\$ 5.5 billion in rural water supply and sanitation. This experience has created a well organized sector with a strong consensus about which approaches can maximize long-term benefits to poverty alleviation. Now, however, sector specialists are seeking ways to scale up successful projects into national programs; budget support offers the key to achieving this, and RWSSH offers a tool for effective poverty alleviation in rural areas.

Target audience

This document has been prepared by the Energy and Water Department for:

- task teams working on water in countries with significant budget support in their country portfolios (the primary audience) or staff interested in budget support in a more general sense; and

- PRSC task managers and country teams who are engaging with RWSSH in budget support operations (the secondary audience).

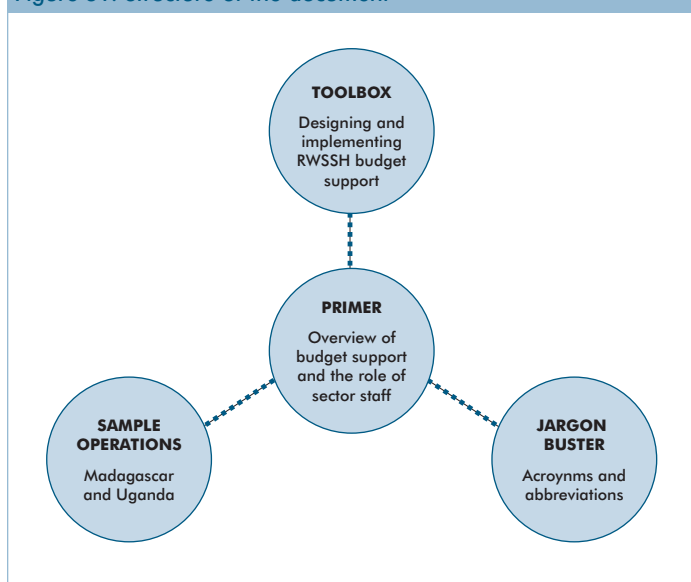
Structure of the document

The document is designed in four parts (figure S1).

The core of the document is the budget support **PRIMER**. This is a short document designed to give sector staff pointers on how to engage in budget support operations.

The primer outlines what will be expected of them and what they can do to prepare themselves and country clients for budget support operations.

Figure S1. Structure of the document



For more in-depth discussion of the tools and activities required to prepare for budget support operations, readers are referred to the budget support **TOOLBOX**. This lengthier document discusses the steps required to ready a national RWSSH program for inclusion in the national budget, and hence budget support operations. It is designed to be used as a reference for task teams engaged in developing an operation and covers budget support building blocks, analytical and advisory services (AAA) tools, and advocacy tools.

The **SAMPLE OPERATIONS** have been included to illustrate how the budget support

process has proceeded in practice in two ongoing cases. Further case material and references are given with links to Web-based materials for more detailed analysis.

Finally, the **JARGON BUSTER** contains explanations of commonly used terms and acronyms in the arena of budget support and RWSSH.

What is budget support?

Budget support is the term commonly used to describe recurrent, predictable development policy lending (DPL) in a medium-term programmatic setting. Budget support operations channel funds to national budgets and engage with fundamental policy reforms.

Budget support designed to assist the implementation of a national PRSP in an IDA country is known as a poverty reduction strategy credit (PRSC).

Budget support offers the opportunity to scale up national programs towards the MDGs. A move towards government-controlled budget support represents a shift away from donor-managed projects (figure S2).

Most budget support operations are set within a three-to-four-year medium-term framework with a series of one-year annual operations. Flexible “triggers” (which may be policy actions or outputs) are used to move onto the next operation.

What the task team has to do

Once RWSSH is identified as a sector for inclusion, the task team will be expected to produce:

- a draft RWSSH chapter for the project document;
- a long list of policy and institutional changes and timetables;
- a short list of potential triggers (usually key policy actions) for inclusion in successive budget support operations; and
- a monitoring and evaluation (M&E) framework, which will be used to monitor progress.

What makes a good policy trigger?

Current guidelines suggest that budget support operations should have no more than 10 prior actions or triggers. Triggers will generally be included only if they:

- are specific, measurable and achievable;
- have sufficient significance;
- can demonstrate a link with the reduction of poverty or promotion of growth;
- can be linked to progress indicators; and
- do not duplicate project conditionalities.

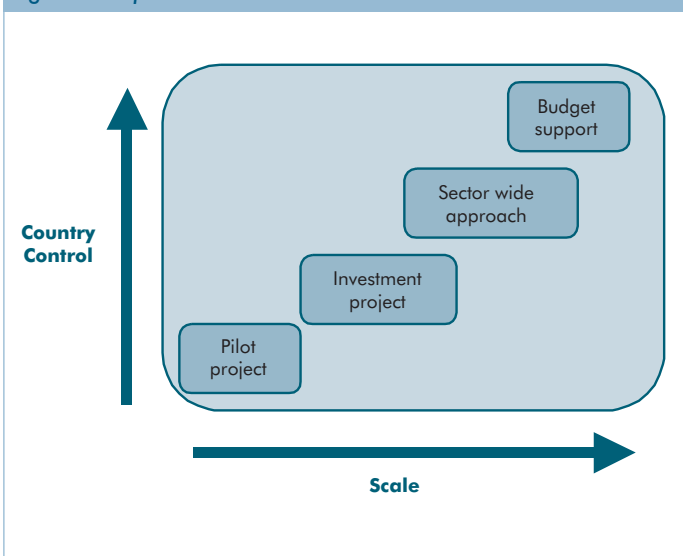
Policy triggers that address cross-cutting issues, such as those dealing with governance, financial management, or accountability, may be highly significant to RWSSH.

What are the building blocks for RWSSH to be included?

RWSSH will be considered for inclusion in a budget support operation if it has:

- demonstrated demand through country-owned processes such as the PRSP;
- demonstrated poverty impact relative to other social investments;
- shown a material impact on reducing poverty and accelerating growth;
- proved the need for significant policy changes and shown that DPL is the best instrument to achieve them;
- prepared a coherent sector plan;
- demonstrated coherence and alignment amongst key agencies; and
- designed an appropriate framework for M&E.

Figure S2. Spectrum of Bank instruments



Successive budget support operations can be used to prepare the RWSSH sector for a move to 100 percent budget support and to develop the required building blocks (figure S3). Consequently the balance of support will shift from project towards budget support over time (figure S4).

What goes into the sector plan?

Typically a sector plan that is based on solid AAA would describe:

- national goals and overall strategy;
- legal frameworks, roles, and responsibilities;
- financing structure;
- finance and cost recovery policies;
- technology options and approaches;
- sector monitoring and evaluation; and
- timeframe for reform, including time-bound indicators for inclusion in a DPL operation.

How should RWSSH staff make the case for inclusion to PRSC task teams?

The key to successful lobbying for RWSSH in the budget support is assembling a solid empirical base that proves:

- impact on poverty (and role in reaching agreed national goals);
- impact on growth;
- links to nationally agreed PRSP and MDG outcomes;
- sector preparedness; and
- linkages to other sectors.

Budget alignment and the medium-term expenditure framework (MTEF)

Budget support to RWSSH needs to be aligned with the national planning and budgeting process in the following ways:

- planning and finance cycles aligned with the PRSP calendar and budgeting processes;
- conditionality, benchmarks, and indicators drawn from the PRSP;
- financial analysis of the sector contributing and responding to the MTEF;

Figure S3. Indicative process and building blocks for budget support

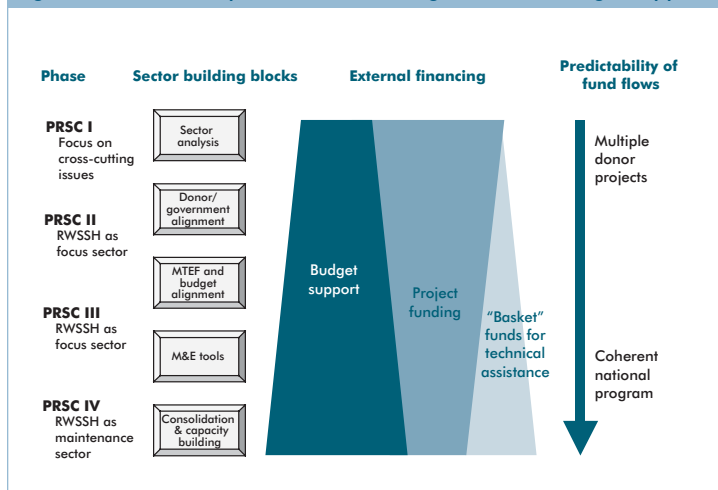
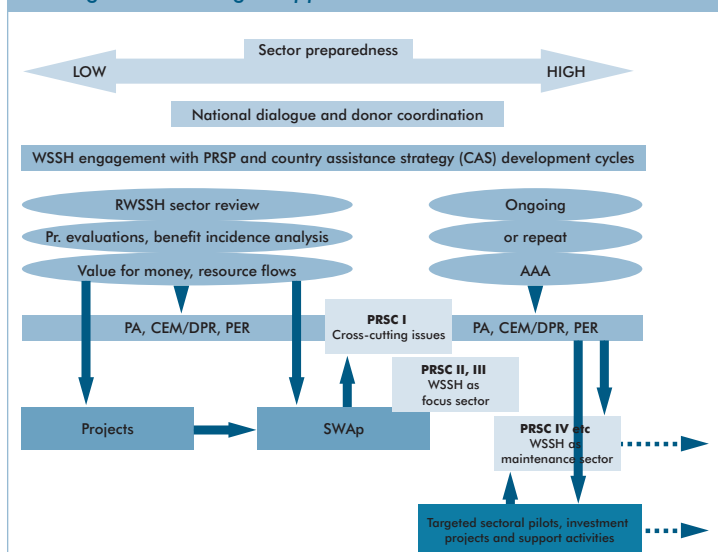


Figure S4. Progressive development of support to water sector: Working towards budget support



Note. Abbreviations used in figure include: PA = poverty assessment, CEM = country economic memorandum, DPR = development policy review, PER = public expenditure review, SWAp = sectorwide approach.

- PRSC adjustments responding to the PRSP annual cycle and the annual progress report (APR); and
- sector reviews influencing and contributing to the PRSP APR

Monitoring and evaluation (M&E)

Appropriate outcome-oriented M&E is required, based on indicators that are:

- unambiguous;
- time relevant;
- linked to interventions;
- useful for policymaking;
- consistent with decisionmaking;
- hard to manipulate;
- easy and cheap to measure;
- easy to understand; and
- reliable and consistent with the available data.

Resources on the Web

Budget support guidance is available on the Web. Readers are referred for example to:

- A Sourcebook for Poverty Reduction Strategies (2002), particularly the chapter on health and nutrition, at: web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177542~pagePK:148956~piPK:216618~theSitePK:384201,00.html
- Rapid Guidelines for Integrating Health, Nutrition and Population into PRSP in Low-Income Countries (October 2000): www-wbweb.worldbank.org/prem/prmpo/prspcd2/files/health/hnpguide.pdf
- OP 8.6 on DPL: intranet.worldbank.org/WBSITE/INTRANET/OPSMANUAL/0,,contentMDK:20240031~menuPK:64029426~pagePK:60001255~piPK:60002611~theSitePK:210385,00.html
- Good Practice Note on Poverty and Social Impact Assessments (attached to OP 8.6): www1.worldbank.org/operations/dpl/GPNonPSIA9204.pdf
- OP 1.0 which defines poverty and gives broad guidance on poverty assessments: web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20236175~pagePK:210058~piPK:210062~theSitePK:336992,00.html
- Guidance note on PAs (attached to OP 1.0): web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20236273~pagePK:210058~piPK:210062~theSitePK:336992,00.html

BUDGET SUPPORT PRIMER

1. Why budget support matters: Supporting large-scale change

While much has been learned in the past 25 years about how to make rural water supply and sanitation investments sustainable, there has been limited success in scaling up sustainable approaches to national programs. Many successes remain constrained within the geographical or institutional boundaries provided by project operations. Such “islands of excellence” often fail to transform the overall direction of a national or local investment program. Budget support offers an opportunity to change that: budget support is a way for external support agencies to *support and improve the quality of national investment programs*, to drive policy changes that affect all investments, and to influence cross-cutting issues that can significantly enhance the effectiveness of investments in the rural water supply and sanitation sector. Budget support is a critical tool as development agencies seek to work more programmatically and as governments seek to take control of the overall process of change.

2. Introduction to budget support

2.1 What is budget support?

“Budget support” is the term commonly used to describe development policy lending (DPL) that is recurrent, predictable, and embedded in a programmatic medium-term policy framework. Since August 2004, DPL has become the unifying official term used to describe operations in the World Bank that directly support national budgets. DPL, which is becoming an increasingly important component of the Bank’s portfolio, provides quick-disbursing assistance to support structural reforms in a sector or the economy as a whole. DPL designed to assist the implementation of a national poverty reduction strategy paper (PRSP) in an IDA country is called a poverty reduction support credit (PRSC).¹ Given the interest in scaling up water sector investments within a medium-term programmatic setting, this document will refer to “budget support” rather than DPL in the following sections. This definition encompasses PRSCs in IDA countries (reference box P1 and case study P1).

Most budget support operations are set within a three-to-four-year medium-term framework with a series of one-year annual operations. Flexible “triggers” (which may be policy actions) are used to move on to the next operation. In IDA countries with a PRSC, the PRSP sets the overall development strategy while public expenditure allocations are usually contained in the medium-term expenditure framework (MTEF). In theory, all budget support is tied to the recipient government budget cycle, although the reality is sometimes more complex (see figure P1 and TOOLBOX section 3).

For all DPL operations the Bank is required to undertake a certain amount of fiduciary analytical and advisory services (AAA) work, including a country financial accountability assessment (CFAA) and country procurement assessment review (CPAR).

¹ Note that “PRSC” is a label for a specific type of DPL but is not a separate instrument.

2.2 What is expected of the task team in budget support?

Budget support operations engage with multiple sectors and task teams are often led by nonsector specialists. As part of the team, Bank sector specialists will be called upon to participate both in sector-specific planning and in wider-ranging debates about the relative weight of different sectors in the overall plan.

However, budget support operations are limited in the number of policy issues that can be addressed and each social sector has to make the case for inclusion.

The best way to do this is to

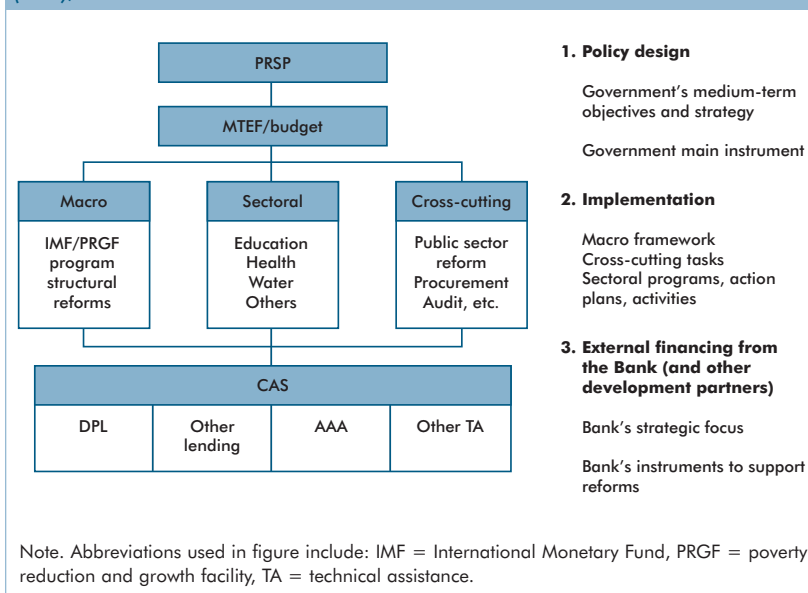
be prepared with high-quality AAA work. The ministry of finance working with the Bank task team leader (TTL) of a budget support operation determines which of the competing sectors can or should be included. Their priority will be to avoid overloading the budget support instrument with excessive conditionalities and unmanageable policy matrices. Looked at from this perspective, sectors that can be included on an ongoing basis will have to have:

- Demonstrated demand through the PRSP or similar country-owned processes
- Made the case for inclusion on the grounds of poverty impact (demonstrating its effectiveness relative to other social investments)
- Proved a material positive impact on reducing poverty and/or accelerating growth
- Proved the need for significant policy changes and shown that budget support is the best instrument to achieve them
- Prepared a coherent sector plan based on solid financial, technical, and social analysis
- Demonstrated coherence and alignment among key agencies through a sectorwide approach (SWAp) or similar instrument
- Designed an appropriate framework for monitoring progress and evaluating outcomes.

Once rural water supply, sanitation, and hygiene (RWSSH) is identified as a sector for inclusion, the task team will be expected to produce:

- A draft RWSSH chapter for the project document, which identifies the constraints to sector effectiveness and lays out what is needed in terms of both policy and implementation support to effect change
- A long list of needed policy and institutional changes and realistic timetables for their implementation

Figure P1. Links between the PRSP, the MTEF, the country assistance strategy (CAS), and the Bank's instruments



Case study P1. From adjustment to poverty reduction support: Tanzania

The transition from adjustment lending to poverty reduction support is grounded in the adoption of the poverty reduction strategy (PRS) as the guiding policy framework and Tanzania's success in achieving macroeconomic stabilization and removing key structural constraints in the economy. . . While adjustment lending relied primarily on externally monitored, ex-ante policy conditionally, the PRSC seeks to reinforce government ownership and the role of local stakeholders by emphasizing the role of local processes for policy design, implementation, and monitoring and evaluation.

Excerpt taken from *Program Document United Republic of Tanzania for a Poverty Reduction Support Credit and Grant* (Report no. 25807-TZ).

- A short list of potential triggers (usually key policy actions) for inclusion in successive budget support operations
- A monitoring and evaluation (M&E) framework, which will be used to monitor progress.

A summary of all actions and expected outcomes is included in the medium-term policy matrix that is appended to the project document. Only a very small number of sector-specific policy actions (one or two per operation) will be included as triggers in each budget support operation. **Producing a well-thought-out medium-term policy matrix and identifying key policy triggers will be essential if the budget support operation is to improve overall sector performance.**

3. Results orientation in budget support operations

3.1 Responding to the bigger picture

Crucial to the concept of DPL or budget support is the idea that funds delivered through the budget are all contributing to a larger agreed development objective. This type of thinking is challenging because it requires sectors to demonstrate not simply that money results in outputs (taps and toilets) but that money spent results in outcomes (such as functionality of taps and toilets) and impacts (reduced infant mortality, for example). The implication of this is significant: it suggests a fundamental shift in the way budgets are prepared (moving from an input/output approach towards results-oriented budgeting). It also suggests that sectors can no longer plan or operate in isolation – it will become increasingly important to work together to show that a joint strategy delivers an agreed result. In RWSSH, the simplest example of this is in the area of hygiene promotion, where budgeted activities and investments in a number of departments or ministries will be ineffective unless taken together under the umbrella of achieving a health outcome.

This is particularly important when considering which key policy triggers should be addressed in the budget support operation. The policy triggers are perhaps the single most important element in the structure of the operation. The impact of an operation may hinge on identifying meaningful, measurable, and critical triggers, and the means of verifying them.

3.2 What makes a good policy trigger?

Current guidelines suggest that budget support/PRSC should have no more than 10 key policy actions (referred to as prior actions or triggers). Additional agreed actions can be included in the medium-term policy matrix. Policy actions will generally only be included if they:

- Are specific, measurable, and achievable
- Have sufficient significance
- Can demonstrate a link with the reduction of poverty or promotion of growth
- Can be linked to progress indicators
- Do not duplicate project conditionalities.

Policy triggers that address cross-cutting issues, such as those dealing with governance, financial management, or accountability, may be equally significant to RWSSH, particularly in the early stages. Selected policy triggers from current PRSC operations are shown in case study P2. Fuller examples of budget support project documentation and policy matrices are shown in the SAMPLE OPERATIONS section. A further discussion on the importance of cross-cutting issues is included in the TOOLBOX section 1.

Case study P2. Sample policy triggers

Policy triggers that address bottlenecks in the RWSSH sector itself may be important, but cross-cutting policy changes may be equally or more effective in speeding up and improving service delivery. Task teams have to work together to identify the most effective set of key policy triggers, and are usually limited to around 10 in total for the entire operation.

	RWSSH triggers	Cross-cutting triggers
Benin	Prepare and adopt the 2004 program budget in accordance with identified priorities (e.g. construction of at least 700 water points.	Submit a draft 2004 budget law to the National Assembly consistent with 2004–06 MTEF ceilings and PRSP priorities
Nepal	Make Rural Water Board autonomous to improve effectiveness of community-based drinking water service	Prepare and enact a new Procurement Law and begin implementation
Uganda	Ministry of Public Service has approved reorganization of Directorate of Water Development and initiated its implementation	Ministry, in collaboration with line ministries, has submitted preliminary findings on cost-effectiveness and efficiency of employment/staff utilization in social sectors

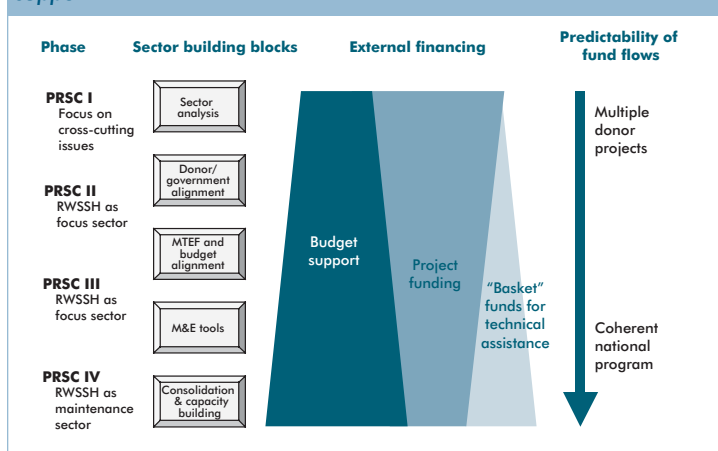
4. Sector preparedness: Upfront and ongoing requirements

4.1 Using the PRSC process to develop the building blocks

In many cases, the national RWSSH program is not ready to be funded through budget support, and it is the job of government and Bank sector teams to develop a realistic timetable to move from a donor project mode of support towards budget support. Successive budget support operations can be used to prepare the sector and also to address cross-cutting constraints. Figure P2 illustrates this process schematically, and

also shows the key building blocks needed to move towards 100 percent budget support operations. In the following sections each of these building blocks is discussed in more detail.

Figure P2. Generalized model showing the process and building blocks to move towards a programmatic approach using budget support



4.2 Sector plan

The sector plan is an agreed framework for implementing RWSSH investments. Typically a sector plan that is based on solid AAA would describe:

- National goals and overall strategy
- Legal frameworks
- Roles and responsibilities
- Overall financing structure, including availability of funds and use of appropriate instruments
- Finance and cost recovery policies, practices, and instruments
- Technology options and approaches
- General structure of sector monitoring and evaluation
- Timeframe for reform, including time-bound high-level indicators, suitable for inclusion in a budget support operation.

Depending on the context, sector plans will vary in scope. They may take any of the following as a starting point:

- Integrated water resources management, dealing with all users and including drinking water, agriculture, environmental management, industry, and leisure
- Water supply, sanitation, and hygiene
- Rural water supply, sanitation, and hygiene
- Environmental health, including but not limited to water supply, sanitation, and hygiene

Government task teams will themselves know their circumstances best; however, it is worth considering where the most significant cross-cutting policy constraints lie when debating how to organize sector planning. The absence of a considered analysis of hygiene in the context of the health sector, for example, can seriously hamper the ability of sector plans to influence hygiene outcomes if these are dependent on decisions made within the ministry of health.

Cross-cutting issues also need to be taken into account within the sector plan. An analysis and recognition of constraints and opportunities relating to a range of external factors will increase the likelihood of sector plans being converted into concrete actions. Such external factors would typically include:

- Legal frameworks
- Decentralization
- Budget and planning processes
- Financial mechanisms
- Supply chains of good and services
- Private sector development
- Utility reform
- Governance.

Details of what goes into a sector plan and tools for its preparation are included in the TOOLBOX section 2.

4.3 Government/donor alignment

Alignment among donors within government priorities enables a national program to develop. Such alignment can happen at a range of levels:

- Coordination and complementarities, sharing AAA (e.g. Honduras, Albania)
- Parallel financing of budget support/PRSC (e.g. Vietnam, Nicaragua)
- Harmonization (e.g. much of Africa)

Harmonizing independent projects and programs into a single coherent approach is not simple, but can reap significant gains in terms of easing government reform efforts and delivering investments at scale. The most common vehicle for harmonization is the sector-wide approach or SWAp. Agreements to negotiate and work together may be forged via memoranda of understanding (MOUs) or may result from an intensive process of donor coordination and mutual learning. In Mozambique, for example, up to 14 donors are engaged together in the budget support/PRSC dialogue.

Often a third party, trusted by all players, can facilitate the process and greatly enhance the speed and robustness of cooperation. The Water and Sanitation Program (WSP), for example, has played a significant role in supporting such coordination in many countries over the years.

Harmonization does not, however, mean that all donors need to put their funds into budget support. Complementary activities can support:

- Continued development and testing of new ideas
- Capacity building (as for example through the technical support units in Uganda)
- Financial investments that would normally be off budget (such as the development of significant new water sources, financing of major urban utility transactions, or development of a new financial intermediary).

With alignment, however, such stand-alone activities can be integrated into the general planning process. With alignment, technical assistance and capacity building can also be tailored so that they contribute to the overall sector program.²

Details on alignment are included in the TOOLBOX section 3.

4.4 Budget alignment and the MTEF

Support to RWSSH needs to be aligned to the PRSP, MTEF, general planning, and budgeting process of government. According to Operations Policy and Country Services (OPCS), key elements of this alignment include:

- Planning and finance cycles aligned with the PRSP calendar and budgeting processes (as for example in Uganda)
- Conditionality, benchmarks, and indicators drawn from the PRSP (as for example in Tanzania)
- Financial analysis of the sector contributing and responding to the MTEF (a good example exists for Mozambique)
- PRSC adjustments responding to the PRSP annual cycle and the APR
- Sector reviews influencing and contributing to the PRSP APR.

Details of budget alignment are in the TOOLBOX section 4.

4.5 Monitoring and evaluation (M&E)

With budget support comes the necessity of monitoring progress on a large scale. Appropriate targets and indicators for the M&E system need to be developed. In addition, care is needed when selecting conditions and elements of the policy matrix to ensure that these are:

- Unambiguous
- Time relevant
- Linked to interventions
- Useful for policymaking
- Consistent with decisionmaking
- Hard to manipulate
- Easy and cheap to measure
- Easy to understand
- Reliable and consistent with the available data.

Details on M&E are in the TOOLBOX section 5.

² See for example Carla Berke, *Embedding SPs in the PRSP Process — A Framework for Discussion*, KfW; and Task Team “Sector Programs” of the Strategic Partnership with Africa (SPA) (2002).

5. Optimizing the mix of instruments

5.1 The instruments: Opportunities and constraints

For most countries the shift from project to budget support mode will happen progressively as sectors become better prepared. At any one time each sector in the country may make use of a range of Bank instruments, including:

- Dedicated investment lending (RWSSH sector projects)
- Nondedicated investment lending (community-driven development (CDD), social funds, multisector projects, etc.)
- Development policy lending, including budget support
- Nonlending operations such as AAA and technical assistance (for example through the WSP).

While several instruments can contribute to a single coherent national program each can play a different role (figure P3 and table T1).

5.2 Designing a strategy

Within an overall sector plan, country teams may justify the use of a range of instruments, either simultaneously or over a period. At the heart of the decision is the question “What does each instrument do best?,” coupled with an analysis of where the major constraints to progress lie. In reality, support is likely to evolve over time (see figure P4 and case studies P3 and P4)

6. Making the case for water and sanitation

6.1 Why is advocacy needed for the water sector?

There is much evidence that clean water and improved sanitation, particularly when coupled with improved hygienic practices and education, can be very effective in reducing ill health, improving access to and effectiveness of education, reducing drudgery

Figure P3. Spectrum of instruments³

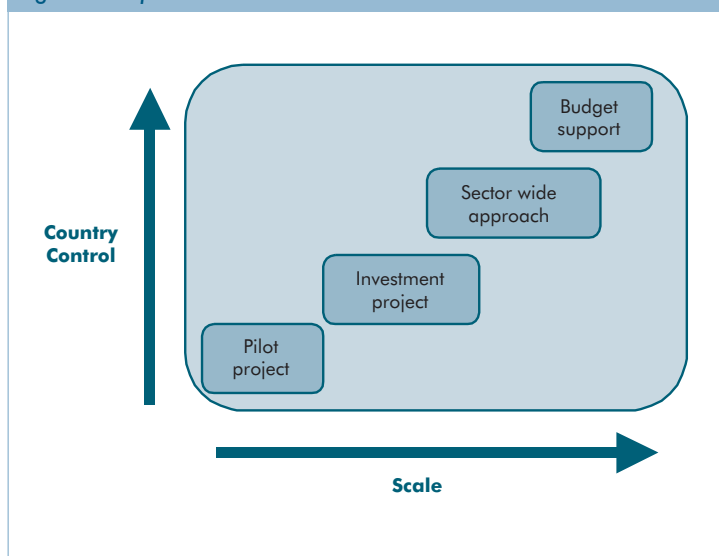
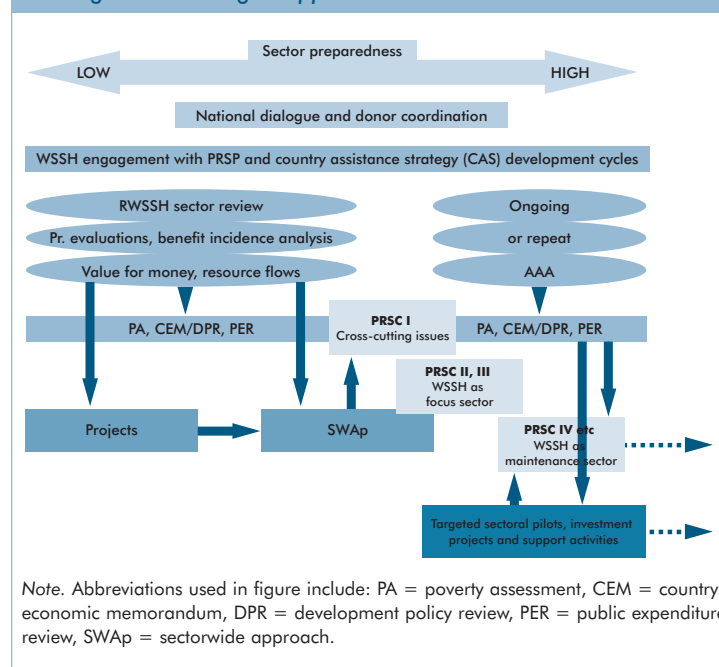


Figure P4. Progressive development of support to the water sector: Working towards budget support



³ Developed from Alain Locussol and Ato Brown, “Getting Results: The Water Sector and PRSC in Uganda” presentation.

Table T1. Instruments: Opportunities and constraints

Instruments	Opportunities	Constraints
RWSSH pilots and stand-alone sector investments	<ul style="list-style-type: none"> • Test, demonstrate and establish new sector approaches • Maintain progress in ring-fenced environments if necessary • Help build capacity (which is particularly important in the context of decentralization) • Support large investments that would usually be off budget (such as development of major new water sources, or a new private sector transaction for urban water supply) 	<ul style="list-style-type: none"> • Tend to work outside established ministerial, local government, or private sector structures • Within the project there may be high-quality activities but this sometimes runs counter to the objective of achieving long-term sustainability at scale
Other sector investments (local government projects, multisector projects, and social funds)	<ul style="list-style-type: none"> • Test and roll out approaches through more permanent institutional structures such as local government • May also influence the cross-cutting issues that influence the environment within which RWSSH operates 	<ul style="list-style-type: none"> • As above • Lack of coordination with sector ministries can increase diversity of approaches and constrain development of sectorwide approach
Sectorwide approach (SWAp) ⁴	<ul style="list-style-type: none"> • Unify financial, institutional, and implementation approaches nationally and across all government, donor, and NGO programs • Leverage needed for institutional reforms across the sector as a whole • Design and deliver a coherent approach to capacity building 	<ul style="list-style-type: none"> • Development can be time consuming and may distract from cooperation agreements with other sectors (e.g. health) • Existing local agreements between staff of different ministries may be superseded when national harmonization comes into effect
Budget support	<ul style="list-style-type: none"> • Make significant policy shifts at scale • Improve the operational environment for continued sectoral investment lending • Influence cross-cutting constraints (such as resource flows, procurement rules, etc.) • Enable RWSSH policy and institutional reforms to take effect • Allow RWSSH budgeting and planning to be mainstreamed at the national level • Empower local governments to deliver services within the national poverty reduction strategy framework • Provide a framework for true coordination between infrastructure ministries and their colleagues in health and education (although this is not always achieved) 	<ul style="list-style-type: none"> • Represents a loss of direct control over resources for external support agencies • Requires the establishment of robust systems of financial management and accountability

⁴ SWAp is not strictly an instrument, but an approach that may include the deployment of a range of other instruments.

and discrimination, and improving economic performance. Moreover, the desire for clean water and a clear environment often emerge in participatory poverty surveys (and PRSPs) as important issues, ranked in the top two or three needs by most very poor people. However, in the context of a range of social sectors competing for inclusion in the PRSC, staff of sector ministries may need to make the case to the ministry of finance that water

Case study P3. SWAp and budget support in Uganda

In 1997 the Government of Uganda prepared a Poverty Eradication Action Plan (PEAP) based on an extensive participatory poverty assessment, detailed sector analysis, and structured stakeholder consultations at both the central and local government level. The PEAP provided a clear development agenda for the country through the acceleration of service delivery in several sectors, including water and sanitation.

In rural water and sanitation, the main strategic concepts included:

- Instituting a demand-responsive approach
- Decentralizing implementation responsibility to the district level
- Integrating water and sanitation policy with hygiene and water resource management
- Focusing on sustainability by linking water supply and sanitation provision with management, community-based planning, user groups, and operations and maintenance
- Strengthening local institutions to develop local public and private capacities
- Providing an enabling environment for private sector participation.

Despite the government's new focus, funding was still delivered through distinct projects with differing agendas and structures. This silo approach to development increased the government's transaction costs at the same time that it encouraged a fragmentation of vision and dispersal of effort. Ironically, donor funding, including that of the World Bank, was actually deepening a capacity constraint centered on the government's limited management resources. This constraint was only removed once budget support (in the form of a PRSC for the Bank) was endorsed by all the development partners as the way ahead.

Case study box P4. The progressive story of Nepal

In the early 1990s Nepal's approach to rural water supply and sanitation was radically transformed by a large-scale pilot project that adapted lessons from the NGO sector and expanded on previous experience in Latin America to test and implement a community-centered demand-responsive approach to rural water supply and sanitation. The pilot project demonstrated that community control of investment decisions and capital cost sharing had a significant positive impact on the sustainability of rural water supplies. This experience was subsequently scaled up through a Bank-supported project at scale, which led to the establishment of a Rural Water Supply and Sanitation Fund Board, which was charged with delivering demand-responsive RWSS investments. After 10 years of experience in scaling up the sector has been easily assimilated into the PRSC process, since key policy decisions and the monitoring and evaluation framework were already identified.

should be favored over other sectors and be included in the budget support operation, both on the grounds of impact on poverty and impact on growth.

The key to successful lobbying for RWSSH in the budget support is assembling a solid empirical basis that proves:

- Impact on poverty (and role in reaching agreed national goals)
- Impact on growth
- Links to nationally agreed PRSP and MDG outcomes
- Sector preparedness
- Linkages to other sectors.

Fundamental to the advocacy effort in the RWSSH sector is engagement with other sectors. In Uganda, for example, investments in water supply were linked to the national goal of reducing infant mortality. Furthermore, participatory assessments showed that water was the number one priority of poor people. These two points resulted in an initial 400 percent increase in budget allocation for water supply. Further resources and information for use in AAA work are included in the TOOLBOX parts II and III.

6.2 Advocacy points and strategy

Improving the evidence base and engaging with other sectors should start as soon as possible.

Public expenditure reviews (PERs) and resource flow analysis. A solid PER forms the basis for subsequent AAA and lending decisions. The PER is a particularly good vehicle for reviewing the relative weight of RWSSH with respect to other sectors, and clearly demonstrating that there are unjustifiable financial shortfalls if this is the case. The Uganda PER (2003) is a good example and includes an efficiency chapter that discusses water sector issues.

The existence of solid RWSSH sector work, including resource flow studies, that examines public and private financial flows, and value for money survey studies, will significantly increase the chances that the PER will deal effectively with RWSSH issues.

Analysis of the sector and participation in the country assistance strategy (CAS).

Well-informed participation in the preparation of the CAS is essential to position the sector and provide the basis for implementation of the sector plan. Such participation can only take place if there is an adequate analytical base that is presented in a way that influences the sector's potential impact on poverty and its linkages across all social sectors. Understanding of the financial environment of the sector can also lead into a broader evaluation of sector performance and positioning of RWSSH within the national poverty plan and associated activities of the Bank.

More detailed economic and sector work (in single or multiple sectors) that outlines experiences, deficiencies, and opportunities, and demonstrates the poverty impact of past interventions, including health, time savings, and other outputs, is extremely useful. Good collaboration with counterparts in the national and local government and with development partners can strengthen the credibility and coherence of sector AAA. Strong contributions to AAA for other linked sectors are also critical (for example to position

Reference box P2. Analytical building blocks

The health sector has prepared rapid guidelines for health staff participating in PRSP processes. These guidelines provide a useful framework for designing AAA work and suggest a set of building blocks for preparation of sector plans and strategies. With some modification for the RWSSH sector, these building blocks provide a useful framework for staff who need to consider:

1. What is the hygiene, sanitation, and water supply situation of the poor and what is their experience of preventable water-related disease and other impacts? How does their situation compare to that of the better off? Answering this question is critical for focusing policy attention and public resources on the epidemiological needs of the poor. Moreover, it is critical for setting targets for poverty reduction.
2. Why do poor households and communities suffer more than the better off and what are the barriers faced? Asking this question is recognition that poverty is a household and community characteristic and that individual actions are critical in improving health and other water-related outcomes. Answering this question provides pointers towards needed policy actions.
3. How does the water and sanitation sector (ministries of health, infrastructure, education, etc.) fail the poor and socially vulnerable? Decisions on resource allocation, investments, and pricing lead to increasing or decreasing the access to basic RWSSH services for the poor. Answering this question can lead to policy changes within the sector that would improve the interface between the poor and concerned ministries.
4. What set of public policies can be devised to improve the equity performance of the RWSSH sector? Recognizing that in most countries resources are limited, it is important to be selective in prioritizing interventions. Once the first three questions are answered (the What, Why, and How), policymakers can develop policies at three levels: public spending, efficacy of institutions, and targeted interventions.

For a deeper discussion see *Rapid Guidelines for Integrating Health, Nutrition and Population Issues in Interim Poverty Reduction Strategy Papers of Low-Income Countries*, October 2000.

hygiene promotion within an analysis of health sector interventions). Poverty assessments, poverty and social impact assessments, and project evaluations are all important entry points for RWSSH research (see reference box P2).

Details of relevant AAA tools are in the AAA tools section of the TOOLBOX.

7. And finally . . .

Budget support represents an important opportunity for scaling up towards the MDGs. In every country where budget support is used there will be reasons to engage even if RWSSH is not a focus sector. RWSSH staffs are urged to explore the opportunities presented by budget support and to use the resources available.

Reference box P3. Resources on the Web

Good examples and guidance on participation in budget support are available on the Web and in reference material, much of which is produced in the health and education sectors. Readers are referred for example to:

- A Sourcebook for Poverty Reduction Strategies (2002), particularly the chapter on health and nutrition, at: web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPRS/0,,contentMDK:20177542~pagePK:148956~piPK:216618~theSitePK:384201,00.html
- Rapid Guidelines for Integrating Health, Nutrition and Population into PRSP in Low-Income Countries (October 2000): www-wbweb.worldbank.org/prem/prmpo/prspcd2/files/health/hnpguide.pdf
- OP 8.6 on DPL: intranet.worldbank.org/WBSITE/INTRANET/OPSMANUAL/0,,contentMDK:20240031~menuPK:64029426~pagePK:60001255~piPK:60002611~theSitePK:210385,00.html
- Good Practice Note on Poverty and Social Impact Assessments (attached to OP 8.6): www1.worldbank.org/operations/dpl/GPNonPSIA9204.pdf
- OP 1.0, which defines poverty and gives broad guidance on poverty assessments: web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20236175~pagePK:210058~piPK:210062~theSitePK:336992,00.html
- Guidance note on PAs (attached to OP 1.0): web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/0,,contentMDK:20236273~pagePK:210058~piPK:210062~theSitePK:336992,00.html

For more assistance and links to the Bank's on-line resources see:

- Budget support TOOLBOX
- Budget support SAMPLE OPERATIONS
- Budget support JARGON BUSTER

Selected terms of reference are available online: intranet.worldbank.org/. See Topics — Water Supply and Sanitation — Rural Water Supply and Sanitation Thematic Group.

Further references are listed in reference box P3.

BUDGET SUPPORT TOOLBOX

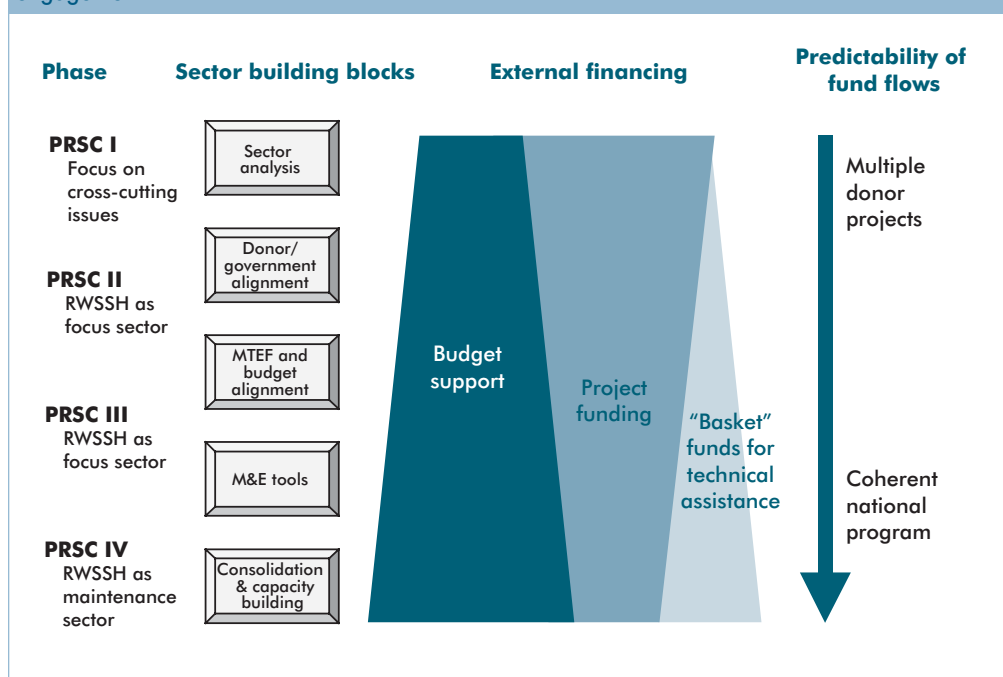
I. Building blocks for budget support

1. Preparing the sector for budget support

Budget support—understood as regular development policy lending (DPL) in a medium-term programmatic setting—can be used as a tool to drive sector reform. As such, the engagement of Bank staff in budget support processes goes far beyond the preparation of a Bank operation. Rather, staff work in support of a nationally driven reform program. Leadership is likely to come from ministries of finance and planning, who will ideally provide the framework for sector staff across all social sector ministries to work together to develop a national program for poverty alleviation. While much analytical work is needed in specific sectoral areas, more is needed that links sectors together and helps to provide the framework for prioritizing investments and planning policy reforms.

In many cases, sectors are not fully ready to be folded into budget support lending, and it is the job of sector teams and their counterparts in government to develop a realistic timetable to move from a donor project mode of support toward budget support. Successive budget support operations can be used to prepare the sector and also to address cross-cutting constraints. Case study T1 shows how this happened in practice in Tanzania. Figure T1 illustrates this process schematically and also shows the key *building blocks*. In the following sections each of these building blocks is discussed in more detail.

Figure T1. Generalized model showing the process and building blocks for budget support engagement¹



¹ Figure 1 developed by Christophe Prevost, 2005.

Case study T1. Parallel processes: the case of Tanzania

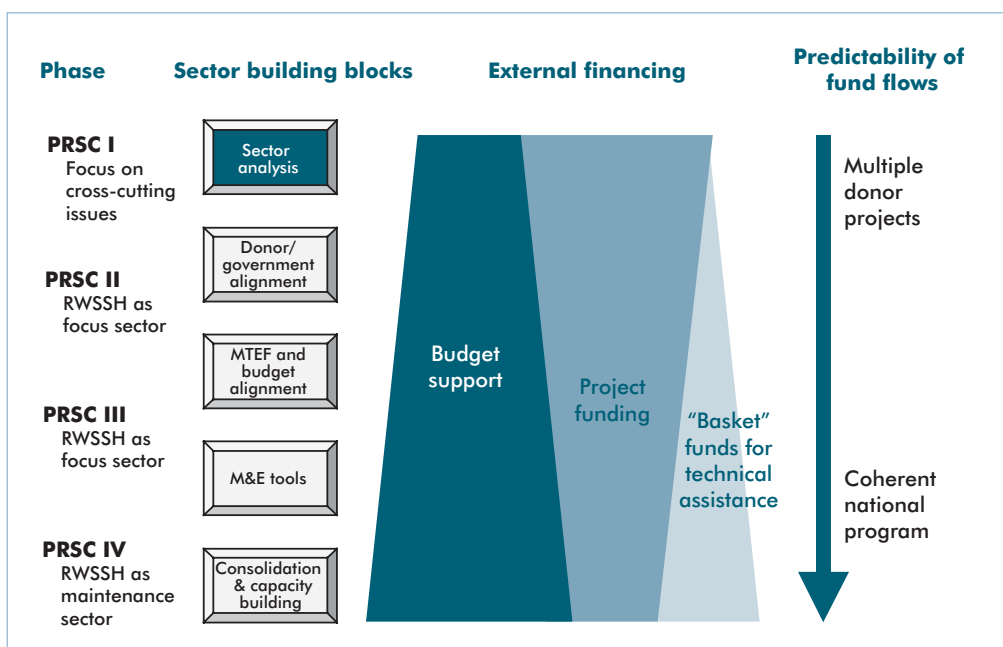
While the water sector moves slowly towards being ready for inclusion in the poverty reduction support credit (PRSC), the PRSC process itself has moved ahead, with the PRSC III being developed and policy actions for PRSC IV being identified. Anticipated outcomes of the PRSC in the water sector draw from the Poverty Reduction Strategy (as defined in the National Strategy for Growth and Reduction of Poverty, the equivalent of Tanzania's poverty reduction strategy paper [PRSP]) and were translated into the results framework for each PRSC operation, even where water was not a focus sector. In PRSC I, for example, increased access to piped or protected water was included as a target, reflecting the PRSP.

However, progress towards these targets is not simply a function of implementation of the national water policy and strategy alone. According to the Ministry of Water and Livestock Development, reforms in the water sector will also be affected through implementation of the Local Government Reform Policy Paper (1998), the Rural Development Policy (2003), and the Rural Development Strategy (2003). The Rural Development Policy is to act as "the platform on which sector policies are coordinated, harmonized and integrated to give rural development processes a holistic view."

This explains why PRSC I contains no specific policy actions for the water sector despite including the targets shown above. Rather, relevant policy triggers include:

- Implementation of the Public Service Reform Program and the Local Government Reform Program
- Resource mobilization to support the Poverty Reduction Strategy
- Strengthening of systems for cash management, procurement, payment, expenditure control, and inventory and asset management.

2. Sector analysis and the sector plan



2.1 The process

The process of developing a sector plan starts with a preliminary analysis of what is currently happening in the sector, before moving on to the development of a sector plan or strategy. The sector plan is the basis for planning future operations both for government and donors and forms the focus for alignment in subsequent stages. The sector plan can, however, be revisited and developed as time passes.

2.2 Sector analysis

The first step is to assess where the key bottlenecks to implementing sustainable rural water supply, sanitation, and hygiene (RWSSH) programs at scale arise (see reference box T1 for links to key sector documents that summarize current thinking on how RWSSH can be implemented sustainably).

Constraints to sustainable programs generally arise in one or more of five key areas:

- **Implementation:** Approaches are used that are not sustainable.
- **Sector policy and institutions:** RWSSH institutions are not organized to deliver a sustainable program at scale, or to support increased coverage at a pace that is likely to meet the Millennium Development Goals (MDGs) or national targets. No sector plan exists.
- **Cross-cutting issues:** The policy environment beyond national and local RWSSH institutions constrains service delivery at scale.
- **Finance:** There is insufficient financing available to meet the MDGs or national targets or financial instruments and rules are inadequate (see tool T1)
- **Capacity:** The institutions of service delivery are designed well but lack the capacity and human resources needed to deliver the agreed sector plan (see tool T2)

Reference box T1. Guidelines for sustainable RWSSH

In 2003 the Bank's Rural Water Supply and Sanitation (RWSS) Thematic Group developed the Toolkit for Multisector Projects in order to assist task teams in designing, implementing, and monitoring and evaluating RWSS activities. The toolkit is available online: <http://www.worldbank.org/watsan/rwsstoolkit/>

Tool T1. Rapid financial assessment checklist

This list can be used for an initial rapid review of the financial situation. For more detailed analysis use resource flows studies, value for money surveys, and public expenditure review (PER).

- Is there sufficient money available in the sector (public, private, household)?
- Is it being spent efficiently?
- Are appropriate financial instruments available (fiscal transfers, allocations, conditional grants vs. block grants, etc.)?
- Is there sufficient experience in using proven financial instruments?
- Are financial approaches being applied consistently?

Tool T1. Rapid financial assessment checklist

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- Is it being spent efficiently?
- Are appropriate financial instruments available (fiscal transfers, allocations, conditional grants vs. block grants, etc.)?
- Is there sufficient experience in using proven financial instruments?
- Are financial approaches being applied consistently?

Tool T2. Rapid capacity assessment checklist

To successfully deliver modern RWSS programs, local governments require:

- **Reliable funding flows**, which means that there is a reliable and predictable process of transferring funds from the national to the local level, that local governments have discretion over key aspects of expenditure, and that there are solid processes for monitoring and audit in place.
- **Coordination capacity**, which means that key decisions about linking water supply investments with sanitation and hygiene promotion programs can be made and implemented at the local level, and that there are no adverse incentives against water and health staff working together.
- **Skills and resources**, which implies that there is understanding of, and some commitment to, the agreed principles of the national program for water and sanitation, and that there is technical and organizational capacity at the local level to deliver it. Capacity may be built progressively, and the transfer of budgets and control to the local level is one element in the strategy to build capacity.

Small-scale/local private sector and/or support organizations require:

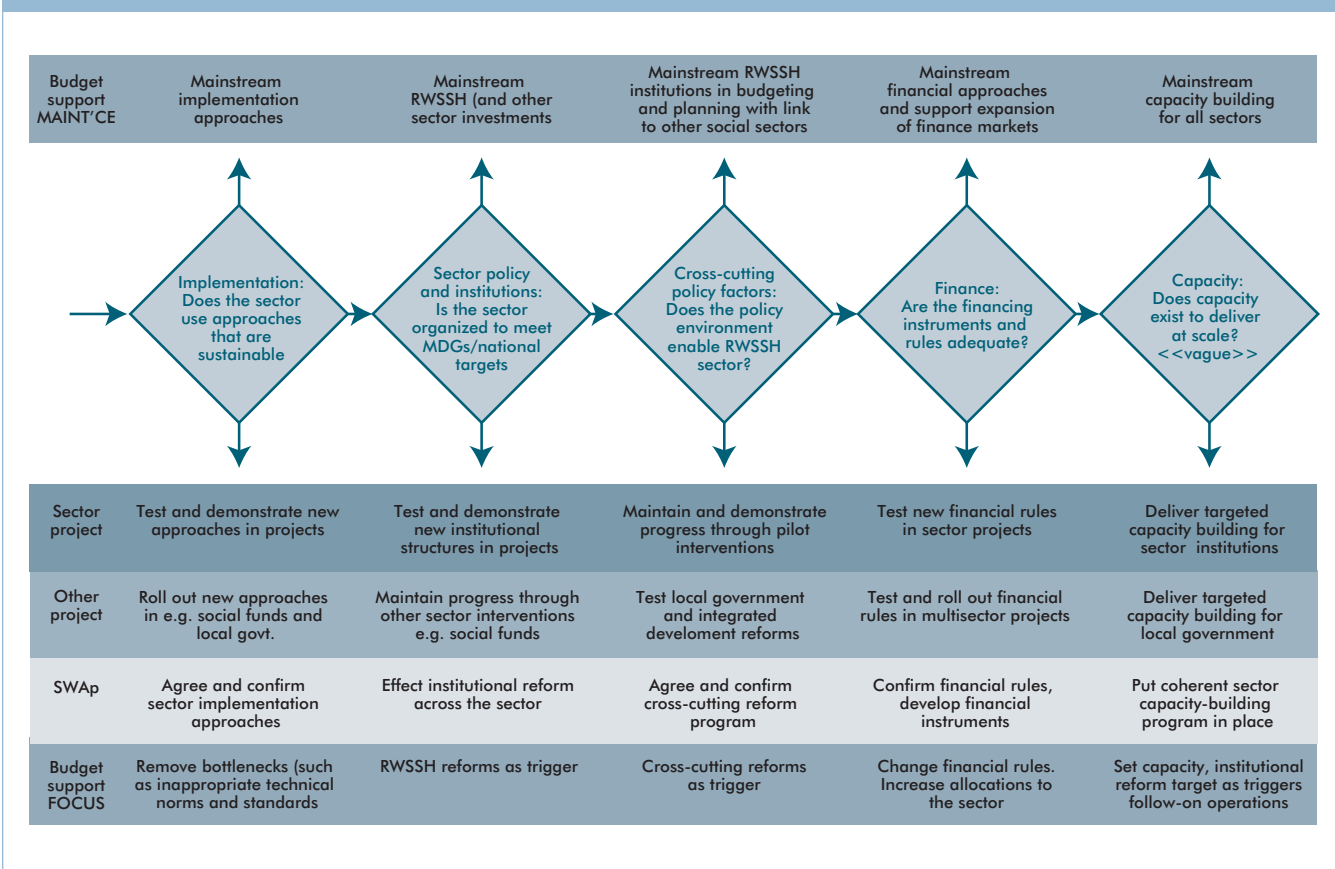
- A consistent and fair legal and regulatory framework, which means they can operate efficiently at affordable prices.
- Access to finance at affordable rates, which suggests that the legal framework and banking system is incentivized to provide access to credit.
- Skills and resources, which implies that human resources are available and there is some commitment to providing technical and other training at affordable prices, and that national programs are geared up to work in partnership or with consistent approaches over the medium to long term.

The nature of the bottlenecks in the sector should determine which blend of instruments (pilots, investment, budget support, analytical and advisory services [AAA]) is deployed at the start and how this will vary over time. It is important to recall that projects can be used alongside budget support to address specific bottlenecks as long as this is part of an agreed sector plan. Various tools can be used to assess the sector and the importance of solid AAA cannot be overemphasized. Tool T3 shows how a range of instruments can be deployed to address different constraints. Tool T4 illustrates this process schematically.

2.3 Sector plan

The sector plan lays out the policy framework and implementation approach, enabling government and development partners to debate and agree on the common approach, and enabling this approach to be translated into action, monitored, and evaluated over time. Key elements that must be described are included in tool T5.

Tool T4. Instrument selection



Tool T3. Potential bottlenecks and illustrative interventions

Constraint area	Illustrative bottlenecks	Illustrative interventions
Sustainable Implementation	Lack of experience or commitment to effective implementation approaches	Pilot and large-scale investments
	Inconsistency of approach between RWSSH sector and, e.g., social funds	Engage with social funds and local government to align implementation approaches or use a sectorwide approach (SWAp)
Sector policies and institutions	Local implementation experience with new institutional models is limited (i.e. working with NGOs, private sector, etc.)	Test and demonstrate experience through projects (dedicated or nondedicated)
	Institutional approaches and rules are inconsistent	AAA: Resource flow studies, cost-effectiveness reviews, PER, impact studies Confirm new approaches through SWAp; ministry, local government to take the lead to coordinate implementation approaches Strengthen ability of lead agency to make the case for RWSSH to ministry of finance
	Significant institutional reform and reorganization required	Detailed AAA, negotiation and development of SWAp and reform program with other development partners
	Poor alignment between RWSSH sector and national planning/budgeting processes	Participate in preparation of PER, engage with medium-term expenditure framework (MTEF) and DPL process – include macro planning of RWSSH in budget support
	External environment adverse for sustainable water supply (e.g. supply-driven local development programs)	Maintain and demonstrate progress through investment lending (dedicated and nondedicated) Test and demonstrate more effective local government operations through local government investment lending and local government reform programs Agree on external policy requirements through a SWAp process Engage with early PRSCs to gain improvements in policy environment
Cross-cutting issues		

Tool T3. Cont.

Constraint area	Illustrative bottlenecks	Illustrative interventions
Cross-cutting issues, cont.	Local government capacity and fiscal transfer mechanisms inadequate	Engage with early PRSCs to improve fiscal transfer mechanisms, strengthen coordination at local level, and build capacity
Finance	Inappropriate cost-sharing rules in RWSSH investments	Test new financial rules in sector projects
	Inappropriate cost-sharing rules in multisector projects or local government operations	Test and roll out financial rules in multisector and local government projects
	Poor financial management tools available to local governments and communities investing in RWSSH	Confirm and roll out financial tools through SWAp or budget support as appropriate
	Lack of funds available to local governments for RWSSH	AAA to make the case for water to ministry of finance
Capacity building	Lack of capacity and need for institutional change in RWSSH sector	Dedicated capacity building and technical assistance (TA) (can be done in parallel with budget support—maybe a role for Bank or bilateral partners)
	Lack of local government, NGO, private sector capacity	Deliver capacity building through public sector reform projects, local government, and social fund investments
	Inconsistent or inefficient capacity-building program	SWAp
	Increasing implementation challenges to reach marginal communities—need for new skills	Consistent capacity building planned and budgeted—budget support

Tool T5. Checklist for sector plan

National goals and overall strategy:

- What are the targets for coverage, access, functionality, level, and range of services?
- How relevant are international targets and the MDGs?
- Is the intention to integrate water with sanitation and hygiene, and what is the role of health and education?
- What is the fundamental level of implementation (is the sector working within local government, with communities directly, or through national or regional companies?)

Legal frameworks:

- What is the legal framework within which services will be delivered?
- What fundamental rights and responsibilities will exist at each level?
- Are all the required entities empowered and mandated to deliver on their responsibilities?
- What is the role of civil society, professional bodies, and NGOs in creating accountability?

Roles and responsibilities:

- What functions are needed to deliver the national RWSSH program?
- Who will be responsible and who leads in each case?
- How are roles and responsibilities dispersed between departments and ministries?
- How are roles and responsibilities distributed between different levels of government?
- What is the role of the private sector and communities?
- What is the role of NGOs?
- What is the specific mandate of each organization?

Overall financing:

- How much money does the sector need overall, and where will it come from?
- How will shortfalls be filled?
- What is the annual investment and operational envelope?
- What is the role of private, NGO, community, and household funding?

Finance and cost recovery policies:

- Who is to pay for what?
- How will capital investments and operational costs be financed?
- How will funds flow to local government and communities?

Technology options and approaches:

- How is water supply and sanitation access defined?
- What technological approaches are allowed and what will be done to promote choice and progressive development and appropriate use of technology?
- Who will supervise/regulate technologies?
- What regulations will be applied to sludge management and disposal and who will manage this?

Tool T5. Cont.

General structure of sector monitoring and evaluation (M&E):

- What is to be monitored?
- Who is responsible for M&E and how will it be financed?
- What are the structures for financial management information, budget, and audit at local government level and above?
- What is the role of civil society in promoting accountability?
- What is the process of review and course adjustment in case targets are not met?

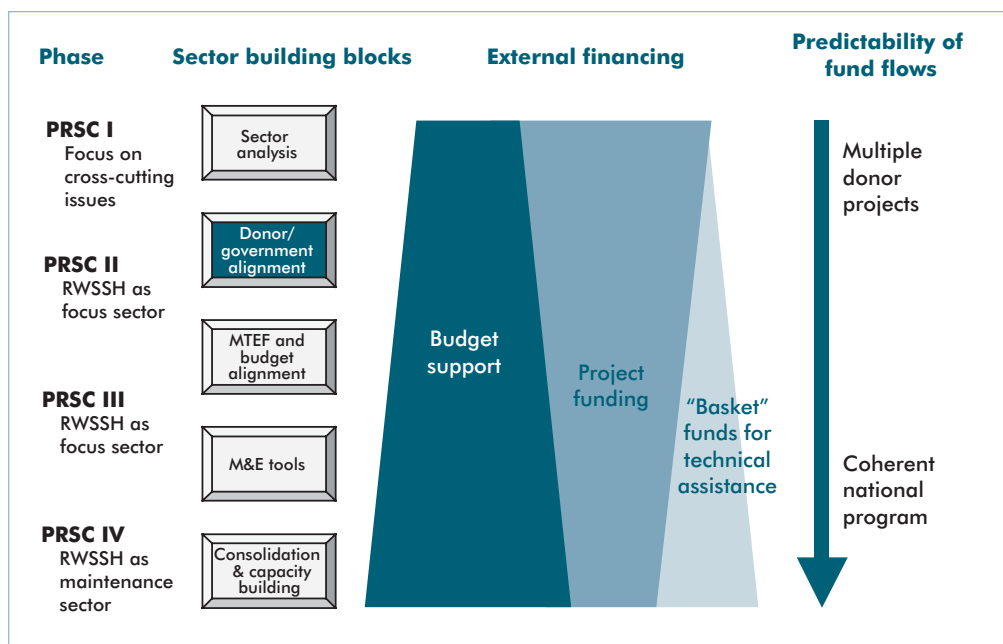
Timeframe for reform:

- When must fundamental reform actions be taken, who will take them, and how will it be known that they have been put into effect?

Time-bound high-level indicators:

- What outcomes and impacts are critical and what indicators will be used to monitor them?
- What key policy actions/triggers are needed by what time, and who is responsible for making them happen?

3. Donor/government alignment



Sector coordination between government and its development partners is very important for the delivery of a coherent national program, particularly if external support is to be delivered directly to the budget. However, establishing effective coordination mechanisms can be challenging in the absence of a national program or framework. Some options include:

- Formation of a national coordination committee or working group to jointly develop national policy and the sector plan. Such a group should be convened and led by government.
- Development partners working together to develop proposals for consideration by government for inclusion in a national plan.
- Working through a third party facilitator such as the Water and Sanitation Program (WSP), who can bring together government and development partners in an impartial environment, outside the imperatives of ongoing projects or investment operations.

Key considerations in bringing development partners and government together include:

- Identifying appropriate levels of interagency and interministerial engagement and leadership (particularly for sanitation and hygiene, where the relationship between the ministries of health and water are critical).
- Identifying the best way to link sector coordination to ongoing processes of decentralization and local government reform.
- Matching the pace of coordination to government commitments—development partners need to be both patient and rapidly responsive to these. It is important to attend to the political processes that surround difficult reforms.

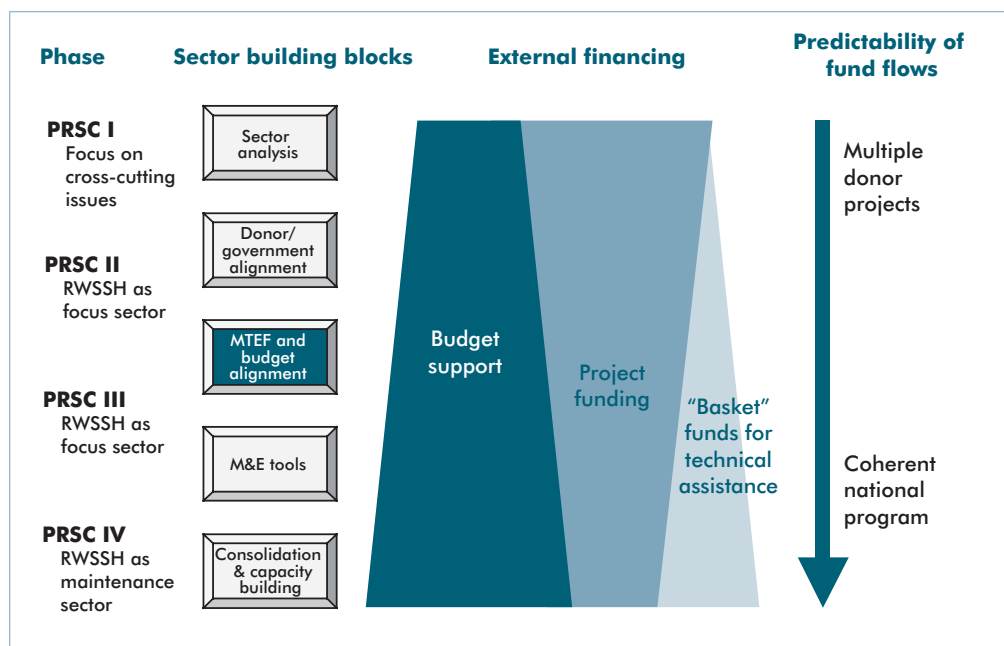
See case study T2 for two examples of sector coordination.

Case study T2. Sector coordination and alignment: Tanzania and Uganda

In Tanzania there is a Technical Assistance Committee (TAC) chaired by the Rural Water Division of the Ministry of Water and Livestock Development. The TAC should theoretically bring together all the major stakeholders in the rural water sector, but in reality it does not yet adequately engage all the key players. There is also a general donor forum for overall coordination purposes. In the past year, the donors have commenced a regular process of informal meetings, chaired by the German Development Bank (KfW), and driven by donors' increasing interest in harmonizing their approaches. Clearly coordination will improve once the government provides stronger leadership and encourages all development partners to create a functional forum to engage in the implementation of the national policy and strategy.

In Uganda, by contrast, the existence of a clear and coherent national policy and the commitment from the Government of Uganda to budget support for the water sector provides the organizing principle around which all stakeholders can cooperate and harmonize their actions. The government, through the Directorate of Water Development, convenes a Water Group, which provides a platform for information exchange and dialogue. The Water Group includes four thematic groups: sector funding, coordination, and management; sanitation and hygiene; performance measurement; and sustainability, operation, and maintenance. It brings together all the key actors from a range of ministries and all the external support agencies active in the sector. The chair of the Water Group revolves between the key development partners on an annual basis.

4. MTEF and budget alignment



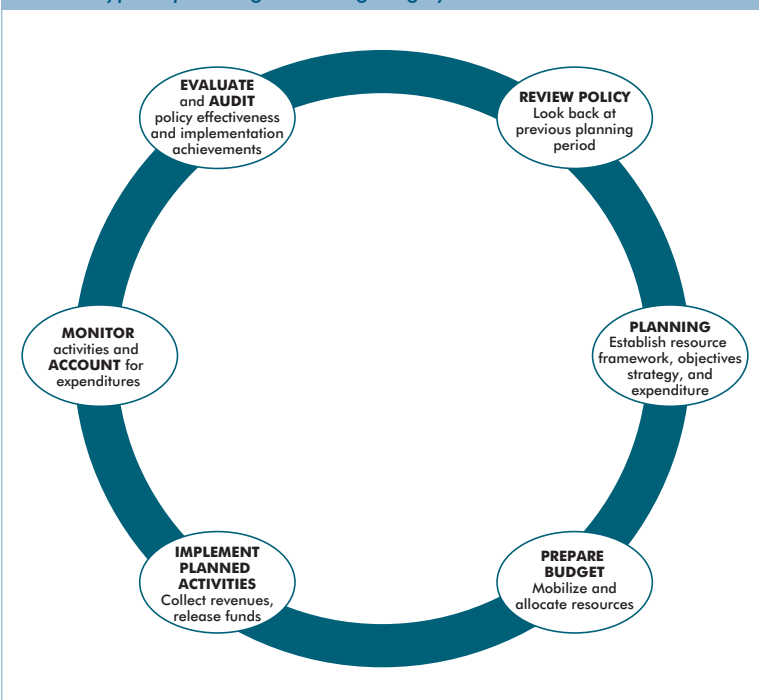
4.1 Budget process alignment

According to recent guidelines on public expenditure management at the World Bank, "Failure to link policy, planning, and budgeting may be the single most important factor contributing to poor budgeting outcomes at the macro, strategic, and operational levels in developing countries." Consolidation of the policy, planning, and budgeting processes

enables governments to rein in unpredictable funding flows and to create a single unified medium-term framework that results in "better control of expenditure and greater efficiency and effectiveness in implementing policies, programs, and projects." Linkages must be made throughout the full cycle of policy, planning, and budgeting. Tool T6 shows a generalized planning and budgeting cycle.

The process of aligning sectoral planning with national budgeting processes is challenging. Key steps in the budget support process for a given sector need to be specifically linked to the national budget cycle. If the alignment does not occur, the sector risks being excluded from the planning framework. Many countries find it useful to develop a

Tool T6. Typical planning and budgeting cycle



standard calendar that shows the timing for each key step in the annual process. Rwanda provides an example of a consolidated annual and medium-term planning and budgeting calendar (see case study T3).

Case study T3. Rwanda budget timetable

The preparation of the Rwandan medium-term budget framework starts a year ahead of the budget year in question. The process builds upon established routines for the preparation of the annual budget and follows a similar annual preparation calendar. Starting in January each year, the annual budget calendar lays out the timing of key events in the budget preparation process. The table below provides the basic framework within which the Annual Finance Law is prepared. Bold indicates stages at which donors will be involved. More information is available at www.minecofin.gov.rw/depts/budget/calendar.htm.

Month(s)	Activities
January & February	<p>Start of the fiscal year</p> <p>Annual review of actual revenue and expenditure out-turns against previous year's budget, including both domestic and external finances. Start of the resource-forecasting process for the following three years. Consultations with donors on resource availability for the following three years</p> <p>Flash report on fiscal performance of previous fiscal year</p> <p>Annual ministerial review workshops</p>
March	<p>Presentation of the three-year forecast of domestic and external resources to the Economic Committee of the Enhanced Structural Adjustment Facility (ESAF) Program</p> <p>Annual ministerial review workshops</p>
April	<p>Presentation of three-year ceilings to the Economic Committee of the ESAF Program</p> <p>Flash report on fiscal performance of current fiscal year (quarterly report). Annual ministerial review workshops</p>
May & June	<p>Ministry of Finance and Economic Planning consultative meetings with each ministry to announce the cabinet-approved ceilings and to explain the instructions for the preparation of the budget</p> <p>Preparation of draft three-year budgets by ministries</p>
July	<p>Budget hearing sessions</p> <p>Donor meeting to present and discuss government policies and strategies</p> <p>Flash report on fiscal performance on current fiscal year (quarterly report)</p>

Case study T3. Cont.

August	Preparation of draft finance law and budget documents Consultations with private sector on the orientation of the fiscal year
September	Printing of budget documents
October	Presentation of Finance Law to the National Assembly Flash report on fiscal performance of current fiscal year (quarterly report)
November	Presentation of Finance Law to both donor community and private sector Sector expenditure reviews within selected ministries supported by donors
December	Approval of Finance Law by National Assembly Sector expenditure reviews within selected ministries supported by donors

4.2 Challenges in budget alignment for RWSSH

Incorporating infrastructure sectors in general into annual budget processes is often challenging because:

- Infrastructure is capital intensive and investments are often “lumpy.”
- Project selection is technically challenging and at risk of political capture.
- Financial planning is required over a multiyear timeframe.
- Procurement may be complex and time consuming.
- Implementation is often subject to unforeseen delay.

Rural water supply, sanitation, and hygiene, however, are not subject to many of these constraints—investments tend to be smoother and take place in a shorter timeframe compared to other infrastructure sectors. Nonetheless staff in sector ministries still need to participate actively in national processes of medium-term planning, specifically the preparation of the MTEF, to ensure predictable fund flows over time. Staff should also take care to ensure that the characteristics of RWSSH investments are well understood by the ministry of finance or planning.

A further challenge to budget alignment arises in the context of decentralization, where the implementation of the program may depend on the existence of reliable processes of fiscal transfers to local level, and reliable audit and monitoring reaggregated up to national level. Aligning the move to budget support in RWSSH with local government reforms is essential. If effective systems for local delivery of the water program through local government are not in place, the water sector is unlikely to receive the resources required to deliver an agreed program.

For decentralized RWSSH service delivery to work, the following need to be in place or under development:

- Planning and budgeting at the appropriate level of government (and for PRSCs, budgeting that translates PRSP priorities into budget allocations)
- A mechanism for rapid, reliable, and timely fiscal transfers to the appropriate level of government
- Decisionmaking control at the appropriate level of government
- Financial management and information at the appropriate level of government
- Robust and regular independent audit (financial and technical) at all levels of government
- Responsive support from technical staff and line ministries for assistance in budget, management information systems, and audit at the appropriate level of government

4.3 Medium-term expenditure framework

The objectives of the medium-term expenditure framework (MTEF) are to:

- Improve macroeconomic balance by developing a consistent and realistic resource framework
- Improve the allocation of resources to strategic priorities between and within sectors
- Increase commitment to predictability of both policy and funding so that ministries can plan ahead and programs can be sustained
- Provide line agencies with a hard budget constraint and increased autonomy, thereby increasing incentives for efficient and effective use of funds.

The MTEF is a governmentwide instrument that consists of a top-down resource envelope and a bottom-up estimate of the current and medium-term costs of existing policies. Fundamentally the MTEF is a tool to:

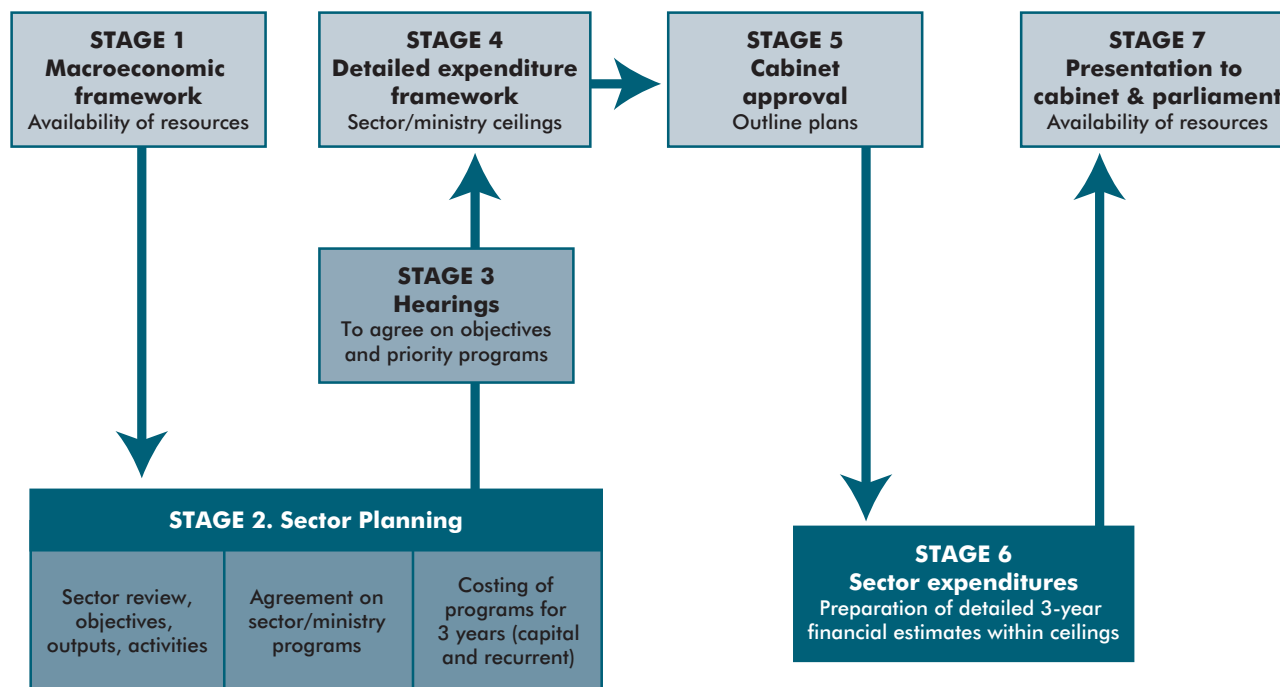
- Match fiscal resources with government objectives, as outlined in the PRSP or national development plan
- Maintain fiscal stability
- Provide discipline in planning and budgeting
- Provide ministries with greater certainty over what can be expected in the annual budget allocations.

The MTEF provides for greater transparency and certainty in budgetary processes by providing a longer-term perspective than the annual budget cycle. The MTEF is usually updated annually as a rolling three-year exercise.

The MTEF may include:

- A general fiscal framework, the medium-term fiscal framework, which provides overall estimates of revenues and expenditures
- A medium-term budgetary framework, which shows basic sectoral allocations
- Detailed expenditure estimates within sectors, by programs, which is geared toward an allocation that reflects a cost-effective use of funds in line with overall sectoral priorities and objectives.

Tool T7. Generalized stages of the MTEF



The MTEF is a government exercise. Findings from PERs and other economic and sector work (ESW) may be extremely important in the process of MTEF development, while the existence of a sector plan enables long- and medium-term planning to take place in the context of an agreed strategy and approach. Bank staff input can play a key role in helping sector ministry staff translate sector plans into costed activities, and may also be called upon to assist in making the case for allocations to their sector over other possible expenditures during MTEF planning.

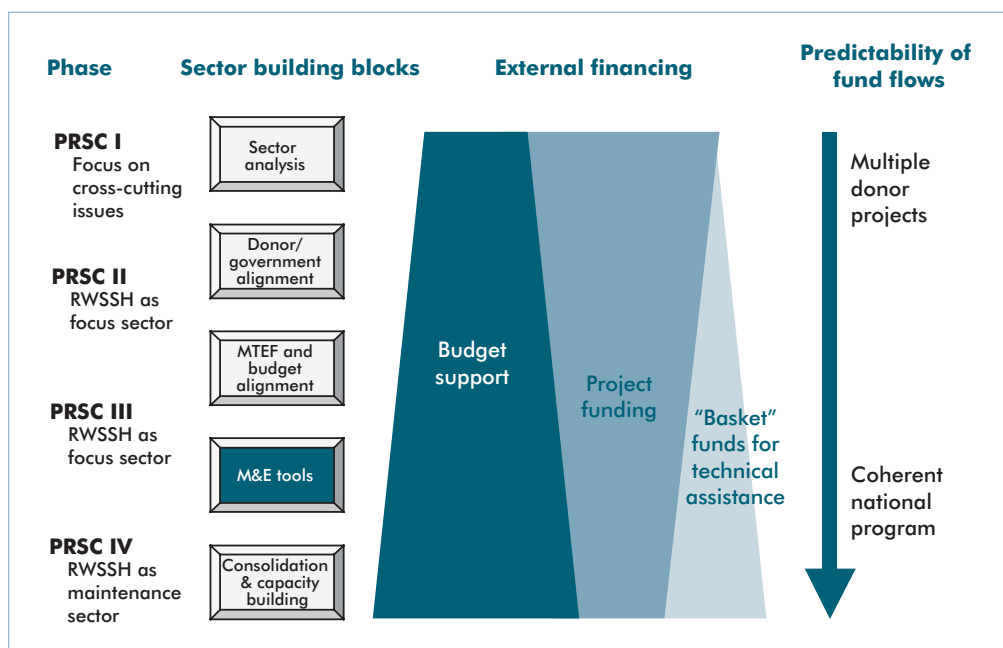
The process as a whole is usually iterative, with overall financial envelopes being progressively matched against detailed sector programs. Tool T7 illustrates the process schematically. Further reference material is listed in reference box T2.

Reference box T2. MTEF and public expenditure

A discussion on the MTEF is available at intranet.worldbank.org/WBSITE/INTRANET/SECTORS/PUBLICSECTORANDGOVERNANCE/INTPEAM/0,,contentMDK:20235448~pagePK:210082~piPK:210098~theSitePK:383804,00.html

Further information is available in the *Public Expenditure Management Handbook*, by Malcolm Holmes (World Bank 1998): siteresources.worldbank.org/INTPEAM/Resources/pem98.pdf

5. Monitoring and evaluation²



5.1 Concepts

A move from project to budget support (particularly PRSCs) represents a shift in focus from actions (inputs and outputs) towards results (outcomes and impacts) (tool T8).

PRSCs are results-based lending. Hence, the PRSC documentation presents a policy matrix that includes final indicators as overall objectives; intermediate indicators as measures of progress; and policy actions to be taken to reach the objectives. For final and

Tool T8. Monitoring and evaluation: definitions

- **Goals** are the objectives a country or a society wants to achieve; they are often expressed in nontechnical, qualitative terms, such as "increase access to safe water," "reduce poverty," and "reduce preventable water-related disease."
- **Indicators** are the variables used to measure progress toward the goals. For example, progress towards reducing preventable water-related disease can be measured by looking at the number of cases of diarrhea among children under the age of five; progress towards halving the percentage of people without access to safe water supply can be tracked using the percentage of people who live farther than the agreed "reasonable" distance from a "safe" water source.
- **Targets** are the quantified levels of the indicators that a country or society wants to achieve at a given point in time—for example, a country could set a target of less than 10% incidence of diarrhea in the under-fives or a target of 80% access to safe water supply by 2015.

² Contributions to this section made by Aline Coudouel.

Tool T8. Cont.

Indicators themselves can be classified into four categories (see below for examples):

- **Inputs** are financial and physical resources (that are committed to the development program), for example spending on water supply or hygiene promotion.
- **Outputs** are financial resources and goods and services generated, for example numbers of water points, latrines, or health clubs established.

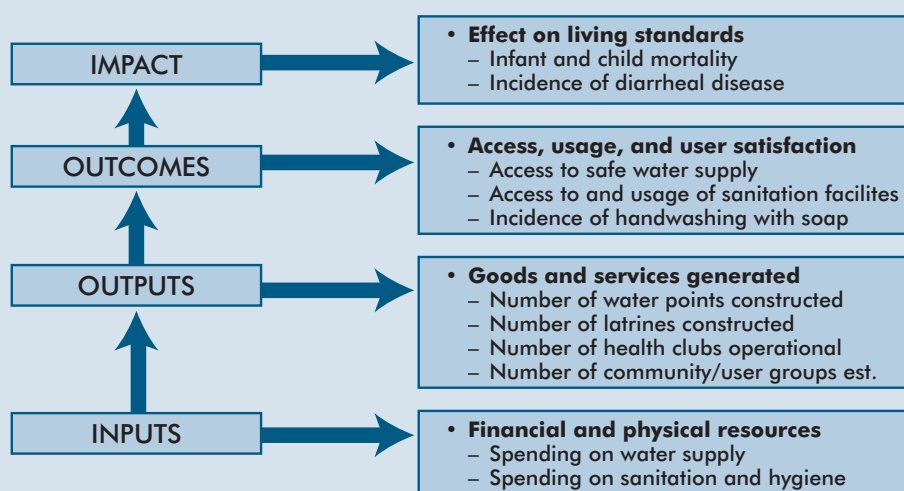
Inputs and outputs are sometimes referred to as “intermediate indicators.” They typically change in the short term and are relatively straightforward to measure.

- **Outcomes** include access to, usage of, and satisfaction with the outputs (for example, numbers of people using adequate quantities of safe water, or practicing hygienic behaviors in the home).
- **Impacts** are the effects on people’s living standards (for example infant and child mortality, prevalence of preventable water-related disease, or time spent collecting water).

Outcomes and impacts are sometimes referred to as “**final indicators.**” They tend to change more slowly over time, and are harder to quantify.

- **Monitoring** consists in the systematic tracking of indicators at all levels, although the focus has traditionally been on intermediate indicators (inputs and outputs). Monitoring is carried out as part of the intervention implementation process.
- **Impact evaluation** consists of the analysis of the relationship between an intervention and final indicators (outcomes and impacts). The purpose of impact evaluations is to establish the change in outcomes and impacts that can be directly **attributed** to the intervention (rather than to other factors in the sector or in the country more broadly). It is typically carried out periodically, but requires information on the situation throughout the implementation period.

Types of Indicators



intermediate indicators, a baseline should be provided, as well as a target and a date by which the target is expected to be met. Results-based thinking also requires multiple sectors to work together to develop an M&E framework that creates incentives to achieve results rather than to deliver inputs.

Some of the actions described in the matrix are used as “triggers” that decide on the effectiveness of the PRSC. Actions in the matrix typically cover multiple periods, and are used to decide on the subsequent PRSCs, which are linked to the progress realized towards the stated overall objectives in terms of the effective implementation of the selected policy actions.

5.2 Selecting good indicators

Good indicators should be:

- **Direct and unambiguous, and should measure progress.** For example, number of working household or community water points is less ambiguous than “access” to safe water.
- **Variable across group and areas over time.** For example, incidence of diarrheal disease in the under-fives is more likely to vary quickly over time than life expectancy.
- **Directly linked with interventions.** For example, incidence of diarrheal disease is impacted directly by improved water, sanitation, and hygiene practices, whereas deaths from diarrhea are also impacted by the use of oral rehydrating solutions and other palliative treatments.
- **Relevant for policymaking.** For example, data on average access to improved sanitation across districts does not provide adequate data about pockets of coverage and exclusion, and does not give an adequate picture of the degree to which sanitation coverage is wide enough within each community to provide protection from diarrheal disease.
- **Consistent with the decisionmaking cycle.** So that data are available to provide input to the budget cycle (thus, for example, intermediate indicators may be important on an annual basis, while final indicators provide periodic input to the process).
- **Not easily manipulated or blown off course by unrelated developments.** For example, some indicators are sensitive to exogenous factors or are easily manipulated when staff or communities are self-reporting.
- **Easy to measure and not too costly to measure.** For example, incidence of disease is difficult to measure, so it should be limited to the smallest number of key diseases and disease groups possible.
- **Easy to understand.** For example, quantitative indicators (number of working toilets) are easier to understand and interpret (and harder to manipulate) than qualitative indicators (user satisfaction with toilets).

To ensure relevance, it is essential to ensure that indicators are selected **at the right level** geographically, and for the appropriate groups of individuals, households, and communities.

Fundamentally, indicators need to be **consistent with the available data and the capacity to collect data**, so that indicators will be measured at critical times in the

policy and budget cycle. A small number of well-chosen indicators are more robust than an elaborate and extensive system. Tool T9 shows an illustrative framework for monitoring inputs, outputs, and outcomes of sanitation and hygiene programs.

5.3 The budgetary support experience

In practice the use of final or results-based indicators to trigger PRSC tranches has proved extremely challenging. A review of the PRSC policy and M&E matrices to date shows:

- That all PRSCs with water include a discussion or acknowledgement of workable impact indicators and targets, usually drawn from the PRSP.
- There is, however, a bias towards input and output monitoring (usually because the focus has been on preparing the policy matrix), and inadequate attention to the links between these and the identified outcomes and impacts.
- There is a tendency for input and output indicators and targets to be vague and ambiguous (“elaboration of a plan,” “development of a strategy”).
- Coherence with other sectors is lacking—in other words, it is evident that RWSSH professionals are not working with colleagues in health, education, and other sectors to develop joined-up approaches to M&E.

A review of targets and monitoring across all sectors in the PRSCs found that there were five main reasons why initial M&E, both through the policy matrix and outcome and impact monitoring, had been weak. These were:

- **Unrealistic targets**, resulting in missed targets and the need for subsequent adjustments, which compromises the credibility of the PRSC.
- **Distortions in government action** caused by indicators that focus government intentions on meeting the targets rather than on making steady general progress across all sectors.
- **Unreliable data**: Random changes in data collection methods or lack of reliable regular systems of monitoring discredits what data are available.
- **Data lags**: The final indicators change much more slowly than the one-year PRSC timescale can accommodate.
- **Disjoint between actions and results**: External factors may affect outcomes even if governments are performing (for example extreme weather conditions, international market fluctuations, and impact lags all make it difficult to hold governments responsible).

Despite these limitations the focus on results is critical to the success of budget support. The temptation to resort to measuring inputs and outputs alone should be avoided if at all possible, as this runs the risk of pushing the sector back to its supply-driven tap-counting days. The other significant risk arises from the development of indicators that are unreliable or unmeasurable. The challenge is to combine a few realistic and measurable outcome and impact indicators with a manageable number of significant input and output indicators, and to structure them over time so that outcomes and impacts measured in PRSC 3 and 4 can be explicitly linked back to actions in PRSC 1 and 2, for example.

Tool T9. Indicative program performance monitoring plan for sanitation and hygiene promotion

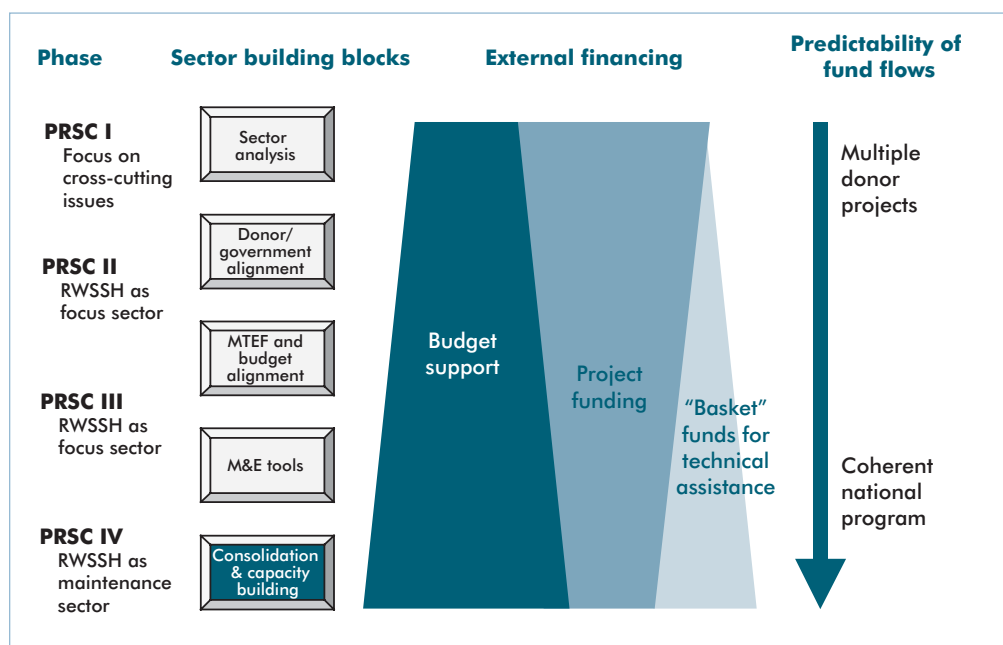
	Objective	Indicative potential indicators
IMPACT: Improved health	Reduced incidence or prevalence of diarrheal disease and other key disease groups	<ul style="list-style-type: none"> i) % of children under 36 months with diarrhea in the last 2 weeks ii) % of children under 36 months with diarrhea in the last year iii) Incidence (number of new cases) of trachoma, Guinea worm, etc.
OUTCOME: Essential hygiene practices	Substantial improvement in essential household practices	<ul style="list-style-type: none"> i) % of householders washing hands at appropriate times ii) % of adults in households who know critical times for handwashing iii) % of adults whose feces are disposed of safely iv) % of children under 36 months whose feces are disposed of safely v) % of households who use improved sanitation facilities vi) % of schools with separate sanitation facilities for boys and girls; handwashing facilities; and sanitation and hygiene teaching in school
OUTCOME: Access to sanitation	Access to improved sanitation facilities meets MDG target	<ul style="list-style-type: none"> i) % of households with access to an appropriate sanitation facility ii) % of households making proper use of a sanitary latrine iii) % of primary schools with adequate working latrines for girls and boys
OUTCOME: Access to water supply	Access to adequate safe water supply meets MDG target	<ul style="list-style-type: none"> i) % of households with access to adequate safe water ii) % of water points functioning iii) % of households spending less than 30 minutes per day collecting water
OUTPUT: Water points, toilets, and hygiene promotion	Increased availability of water supply and sanitation and execution of hygiene promotion	<ul style="list-style-type: none"> i) Number of new latrines constructed ii) Number of new water points constructed iii) Total number of working water points and latrines iv) % of communities exposed to regular active hygiene promotion through community-based promoters v) % of communities with at least monthly contact with sanitation marketing team vi) % of household heads knowing who to contact to access sanitation goods and services; and who to contact if sanitation facility breaks down

3 Modified from Water Supply and Sanitation Collaborative Council (WSSCC), United Nations Children's Fund (UNICEF), et al. *Sanitation and Hygiene Programming Guidance* (2005).

Tool T9. Cont.

	Objective	Indicative potential indicators
INPUT: Development and execution of a national program	Sustainable equitable national RWSSH program rolled out at scale	<ul style="list-style-type: none"> i) Total investment in strengthening regulatory and oversight role ii) Number of positive changes made in policy, legal, and regulatory instruments iii) Enactment into law of new policies dealing explicitly with securing access for poor and vulnerable households
INPUT: Well-structured cost-effective financial investments	Improved financial efficiency, financial sustainability, and adequate funds to meet targets	<ul style="list-style-type: none"> i) Total public expenditure on water supply, sanitation, hygiene promotion ii) Total cost of program (all sources) iii) % of funds transferred to local government within agreed timeframe iv) Cost per capita of incremental increase in access (water, sanitation, hygiene) v) % of operating costs recovered from users/households vi) Total household and public expenditure on sanitation facilities
INPUT: Effective organizational arrangements	Organizations who can deliver the national program	<ul style="list-style-type: none"> i) Total number of front-line staff with skills to work effectively with households and communities placed and salaried in all necessary organizations or outsourced ii) % of local governments staffed, preparing budgets, meeting budget targets, returning clean audits (dependent on program)

6. Consolidation, capacity building



The introduction of budget support in a decentralizing environment implies the need to build capacity at the local level. In most situations, the sector plan will have been tested and demonstrated through stand-alone investment projects and prior PRSC operations, so a cadre of local staff will exist in districts that have participated in such projects. The challenge is to rapidly disseminate that experience to other districts that will be expected to implement a new approach to RWSSH under a national plan. Capacity-building needs include:

- Making staff in new districts aware of the contents of the national sector plan
- Building confidence and ability amongst sector staff to work in a new way
- Promoting interdepartmental cooperation at local level (particularly between water, health, and education staff)
- Supporting the local administration (district executive officer, local council, or other as appropriate) to oversee the delivery of effective RWSSH operations
- Ensuring adequate management and financial oversight
- Developing and implementing effective monitoring and evaluation at the local level.

The challenge is to support capacity at this level without setting up another unsustainable parallel structure. A key element in the capacity-building process in some countries has been the development of operational manuals (Benin provides a good example of this).

Other additional options for building capacity are shown in tool T10.

Tool T10. Capacity-building options

- Relying on the at-scale disbursement of funds to the district level in tandem with an operational manual to result in progressive building of capacity
- Linking to nonwater elements of the budget support/PRSC (e.g. through local government reform programs)
- Linking to ongoing projects that can become time-bound capacity-building vehicles
- Requiring line ministries or local government to commit a fixed percentage of expenditure to capacity building at local level
- Partnering in a time-bound partnership with a TA agency such as the WSP or international, national, or local NGOs
- Forming a grant facility with development partners to support capacity building in the short term (as in Uganda for example).

7. Participation: poverty, social analysis, environmental, and natural resource aspects

7.1 Introduction

DPL represents a major shift in the type of support being delivered by donors to governments. Control over decisionmaking resides much more strongly internally with governments (see figure T2) as opposed to the external control exercised by donors functioning in project mode.

While donors retain a requirement of due diligence to ensure that to the extent possible funds are used effectively, this is achieved much more through upfront planning and the development of robust outcome and impact indicators. The nature of preparation and supervision for Bank DPL operations is thus quite different from that for investment lending. This section gives a brief introduction to the provisions for preparation and supervision in DPL operations.

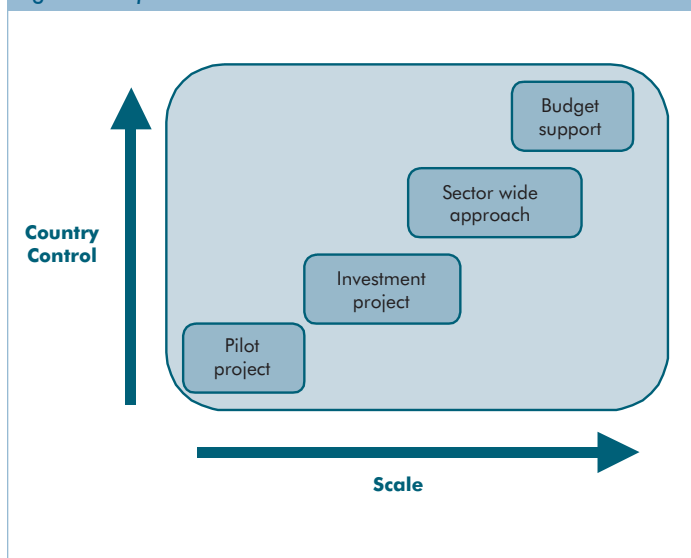
7.2 Poverty, social, environmental, and natural resource aspects

OP 8.60 lays out due diligence requirements for task teams in preparing development policy operations as regards poverty and social impact analysis as well as environmental and natural resource aspects (tool T11).⁴

7.3 Supervision

The shift to DPL passes control for investment decisions to national and local governments. Alignment of Bank funds with national

Figure T2. Spectrum of instruments



⁴ More detailed guidance on these aspects can be found in good practice notes on DPL on Operations Policy and Country Services (OPCS) website.

Tool T11. Checklist of impacts**Participation by stakeholders**

- Borrowers are explicitly encouraged to engage with civil society in the formulation of the development strategy and to consult regarding specific operations.
- There is no prescribed format for such consultations.
- The DPL program document should describe the arrangements that have been made for consultation.

Poverty and social impacts

- During the corporate review process a decision is made on whether the policies supported by the operation are likely to have significant poverty and social consequences.
- In such cases the program document summarizes analytical knowledge about those impacts and the borrower's systems for mitigating negative impacts and enhancing positive impacts.
- If there are significant gaps in the borrower's systems the program document describes how such gaps are to be filled before or during the program implementation.

Environment and natural resources aspects

- During the corporate review process a decision is made on whether the policies supported by the operation are likely to have significant effects on the environment, forests, and other natural resources.
- In such cases the program document assesses the country systems for reducing adverse effects and enhancing positive effects, drawing on relevant country or sectoral environmental analysis.
- If there are significant gaps in the borrower's systems, the program document describes how such gaps are to be addressed before or during the program implementation.
- Safeguard policies (such as OP 4.01 Environmental Impact Assessment) do not apply to development policy lending and an integrated safeguard data sheet (ISDS) is not needed.

budgets and with the contributions of other development partners changes the approach to supervision fundamentally. Supervision becomes, more than ever:

- A joint process with government and development partners
- Focused on outcomes and impact with limited attention to a small number of "golden indicators" of policy change and implementation.

In each case, the appropriate approach to supervision needs to be worked out jointly with government and the development partners but is likely to involve multiple funding partners, working with other stakeholders, to review progress across a number of sectors. Annual monitoring against agreed outputs and outcomes will be supplemented by periodic evaluations of impact. These should be linked back to the original PRSP framework and result in shifts in implementation focus or, more fundamentally, shifts of emphasis in the overall program, as governments attempt to maximize impacts on the reduction of poverty. Case study T4 indicates how multiple stakeholders engage in a joint review process in Uganda.

Case study T4. Supervision or joint review: The case of Uganda

In Uganda, the commitment of the Bank task manager to facilitating a joint program of action, thereby allowing the progress of the PRSC and the national program to be jointly reviewed, enabled the Government of Uganda and development partners to establish a permanent process for ongoing joint reviews. Supervision of the PRSC occurs by virtue of the participation of the World Bank in the joint sector review (JSR).

The joint review process has an annual cycle aligned with national planning and budgeting processes. It includes:

- Joint WSS sector review
- Technical review

Joint WSS sector review

The fourth JSR (September 2004) involved over 100 participants from all subsectors and included NGOs, district officials, and development partners. The JSR now includes a field trip to enable participants to assess implementation on the ground and meet with district officials. The purpose of the JSR is to assess progress against MDG and Poverty Eradication Action Plan (PEAP) targets. Each year the JSR also selects a focus area (subsector) for a more in-depth analysis. In 2004, for example, the JSR focused on National Water and Sewerage Corporation operations. At the close of the review the participants agree on a set of key undertakings.

Technical review

In addition, specific evaluation studies are funded out of the Partnership Fund and provide input to the review process. These include value-for-money surveys and tracking studies.

II. AAA tools

This section gives some information about key AAA activities and tools. Links to resources for each activity and tool can be found at intranet.worldbank.org/: see Topics – Water Supply and Sanitation – Rural Water Supply and Sanitation Thematic Group.

8. The poverty assessment

A poverty assessment (PA) aims to provide a picture of how and why poverty is experienced in a country, and what interventions are most effective in reducing it.

PAs are not generally designed to address a specific sector, but rather aim to explore the issues around poverty—its incidence, causes, and effects. For the RWSSH sector the emphasis of engagement with a PA should be to show how, and by how much, water interventions reduce poverty; and how interventions can be linked between human development sectors such as health and education. The lines of analysis need to show how improving access to water and sanitation and improving hygiene can contribute to poverty impact results (see tool T12).

Tool T12. Impacts of RWSSH on poverty**RWSSH can impact poverty:**

- By improving quality of life and through an increased sense of self-worth and dignity
- By improving health status (particularly for mothers and children)—diarrheal disease, respiratory tract infections, trachoma, schistosomiasis, neonatal risks, etc.
- By improving educational participation and attainment (particularly for girls)
- By reducing time spent (mostly by women and girls) on collecting water and seeking safe places for defecation
- By increasing economic participation
- By any other route which improves productivity and raises welfare.

In the water and sanitation arena, particular attention must be paid to gendered aspects of access (not only drudgery for women and girls but also the time lost in caring for sick family members, the disproportionate health burdens borne by women because of constraints to safe and frequent defecation, school exclusion, and the emotional and social stress of inadequate sanitation).

It is highly likely that much of the data needed to link investments in water, sanitation, and hygiene to poverty gains will be missing. Project evaluations are usually rather weak in this area, and national statistics and general surveys simply too general. If at all possible, sector staff should try to establish some empirical data-gathering processes—even if these cannot yield results immediately—so that the database can be improved over time.

Tool T13 gives an outline checklist for RWSSH in PAs.

9. Public expenditure review: financial assessments

Understanding the financial framework within which investments in RWSSH will be made is essential. This requires an evaluation of:

- What money is needed
- What money is available
- What the goals really mean (i.e. a balance of increased access, improved services, and long-term sustainability)
- How the available funds can be spent in the most cost-effective way
- How additional funds will be mobilized if needed.

The public expenditure review (PER) is a familiar instrument that can provide information on public expenditure and requirements, and its formulation can play an essential role in improving the reform program in any country (see, for example, case study T5 on Mozambique and tool T14). A good PER, with its discussion with government authorities, forms a solid basis for subsequent AAA and lending decisions. The PER is a particularly good vehicle to review the relative weight of RWSSH with respect to other sectors. It is also key in assessing how effectively money is spent in the sector and how it could be

Tool T13. Checklist for water, sanitation, and hygiene poverty assessment

- Access to water and sanitation
- In urban and rural areas, disaggregated by relevant regions/provinces
- Assessment of particular access issues for the poor
- Discussion of levels of service, quantity and quality of water supplies
- Long-term risks (e.g. bulk water supplies)
- Critical evaluation of self-provision, private provision, and off-network provision (for this it is important to move well beyond official sources—may need fieldwork)
- Sanitation arrangements for poor and nonpoor neighborhoods
- In urban and rural areas, disaggregated by relevant regions/provinces
- Assessment of particular access issues for the poor
- Assessment of self-provision and private provision
- Critical assessment of social and cultural challenges with respect to sanitation
- Role of hygiene promotion
- Assessment of particular access issues for the poor
- Who (if anyone) does hygiene promotion
- Is there a coordination problem—are water, sanitation, and hygiene promotion linked?
- What is the role of the ministry of health? What priority does it place on hygiene promotion?
- What about the role of schools—level of interest and budget in ministry of education
- Trends in social (especially health and education) indicators—infant mortality, water-related diseases, participation of girls in education, educational attainment
- What are the relevant indicators in this country, and is their collection/dissemination adequate?
- What are the linkages/discontinuities between access and social indicators—why might these be there?
- What is the potential of investments in water, sanitation, and hygiene to impact positively on social indicators and poverty?
- Evaluations of past interventions
- Effect on improved health, education, etc. of interventions—results from project evaluations
- Cost-effective approaches to clean water—what level of service is most appropriate, given this country's income level and the effectiveness of interventions?
- Are interventions as cost effective as possible in terms of increasing access to basic services?
- Long-term plans
- What are the national goals for water/sanitation—are they realistic and have they been costed?
- Are national goals linked to outcomes that will reduce poverty?
- Are the goals linked with goals in other sectors? What are the goals for health indicators—are they related to the water delivery targets?
- Considering its potential impact, is RWSSH adequately represented in the national framework for poverty reduction?

Case study T5. Mozambique: Implications of public expenditure review for RWSS PRSC policy triggers

In Mozambique, water was included as a chapter in a multisector PER. The objectives of the water chapter were to identify key sector policy issues, trends in public expenditures in WSS, and sector priorities.

A government and World Bank task team developed a background paper, which was incorporated into the water chapter. The paper examined three issues in the sector. First, key priorities and goals were identified, along with outputs and outcome indicator targets and time paths to their achievement. Second, the paper examined the efficiency of service delivery, including the overall cost of programs and the details of inputs and activities, based on unit cost analysis and other methods. Finally, the paper looked at how capital budgets and projects are being made consistent with sector priorities, what their recurrent budget implications are, and whether these are sustainable.

The PER revealed a number of issues related to RWSS:

- Rural water points have poor physical sustainability
- Rural water point installation is expensive
- Small piped systems are a major development challenge
- Goals of Action Plan for the Reduction of Absolute Poverty (PARPA, Mozambique's PRSP) and MDGs in rural water are achievable, provided spending levels can be maintained
- Other factors affect water supply—limited public sector capacity, weak M&E
- Sanitation has received less attention than water supply
- In rural communities the focus should be on hygiene education, sanitation promotion, and the facilitation of entry of small-scale contractors.

In parallel to the PER, the government identified increased access to open wells and latrines as possible PRSC targets. While these objectives are necessary to meeting sector goals, they did not fully address the issues raised in the PER, mainly sustainability, low capacity, weak M&E frameworks, and lack of effective competition and private sector participation to improve sustainability and bring down operation and maintenance costs.

As a result of the PER and other analytical work, stakeholders in Mozambique are now engaged in a dialogue to consider policy indicators that better address sector issues. Indicators now under consideration include:

- Improvement of M&E at the national level and in a given number of provinces per year
- Capacity building to implement RWSS following the demand-responsive approach in a given number of provinces and districts per year
- Adoption of a strategy to increase the involvement of the private sector in RWSS, followed by implementation in a given number of provinces per year.

spent *more effectively*. The Uganda PER (2003) is a good example and includes an efficiency chapter, which discusses water sector issues.

However, in most countries, it may be equally important to assess expenditures outside the public sector, including household, community, and NGO investments (particularly for sanitation and also household water supply), the role of NGOs and religious groups, and the participation of the small-scale private sector. Other information that will be useful can be generated through value-for-money surveys, benefit incidence analysis, and technical assessments of appropriate levels of service, technologies, unit costs, and institutional approaches. An understanding of the potential of the domestic finance market is also essential.

Tool T14. Checklist for RWSSH in public expenditure reviews

Finance and expenditure issues

- Structure of the sector: Who is responsible for providing services? How adequate are the services provided? What is the mix between private and public provision?
- Finance: How is the sector financed? Directly from the central government budget, local government budgets, national utility self-financing with cross-subsidies, local utility self-financing, or household self-provisioning?
- What is the scale of public subsidy? Where is it targeted (rural, small town, urban; water supply, sanitation, hygiene)? How effective is it?
- What is the structure of water charges, and who pays? Are there implicit or explicit subsidies to the poor? Do the poor or nonpoor benefit most from subsidies? (Disaggregate for different types of systems and geographical areas. Good to supplement official data with information from social organizations, NGOs, etc.)
- Although not the direct role of the PER, a recognition of the scale of off-budget, nonpublic investments in the sector, including NGO, community, and household financing, can help frame a realistic analysis of sector financing.

Cost-effectiveness

- What is the extent of coverage? What levels of service are offered?
- What level of functionality is there amongst rural systems—what percentage of rural systems is out of operation at any one time? What impact does this have on the rate of increase of access?
- What proportion of the population is impacted by hygiene promotion activities?
- What is the overall/unit cost of investments, software, operation and maintenance (piped or networked water supply, small towns; networked rural systems, point source rural systems, networked sanitation, on-site sanitation, hygiene promotion)?
- What is the impact of RWSSH on reducing morbidity, poverty? (This will be difficult given the crude level of most monitoring systems, but careful analysis of proxy data may help. Flag where the living standards measurement study (LSMS) and other surveys could be improved to provide better data in the future).
- How does performance in terms of cost-effectiveness compare with other countries in the region?

Continued on p. 50

Tool T14. Cont.**Management issues**

- Are rural communities and/or local government involved in management of water facilities? What arrangements are made to get them involved and keep them involved? How is this structured financially?
- How are public funds audited?
- What are the arrangements for coordination of programs in water and sanitation with other ministries, especially health and education?
- How adequate is the financial and physical management of the water authority and utilities (disaggregate to meaningful levels—is it a national utility or small local ones? if the latter, can indicative data be provided by looking at performance of a few? Also check whether there is a national benchmarking process of any kind).
- Financial management, operation and maintenance—for rural systems, are sufficient funds collected to finance ongoing operations and maintenance? How are these funds managed? Are services available to support communities who are willing to pay for them?

Long-term goals and plans

- What are the goals for water and sanitation in the PRSP or MTEF in terms of service coverage and expenditure levels (disaggregate for rural, small towns, and geographical regions)—are they realistic?
- What is the potential to finance future expansions? Domestic/foreign? Cost recovery/debt?
- Are existing institutions capable of meeting the targets proposed? Are they in line with the MDGs?

Priorities for future public spending

- What are the critical spending priorities for the future that can increase water and sanitation services by the most cost-effective means, while reaching the poor and underserved?
- How can these plans be improved by greater cost recovery, and by more efficient use of existing resources?
- What strategies can be used to improve efficiency and effectiveness of spending?

10. Impact evaluations

Impact evaluations take place both ex post (through project evaluations) and ex ante (through the poverty and social impact analysis [PSIA]). General AAA work often provides valuable insights into the potential impacts of proposed reforms (for example the Uganda small town privatization studies). Well-structured impact evaluations of completed investments also provide invaluable data for future planning, but unfortunately these are rarely carried out, and even where they are, there is often insufficient baseline data to draw detailed empirical conclusions. Tool T15 provides a checklist of issues to be included in any impact evaluation.

Tool T15. Considerations for RWSSH impact evaluations

What to evaluate? Evaluations may examine the impact of:

- RWSSH investments
- RWSSH sector reforms
- Cross-cutting reforms

Potential direct outcomes for consideration

- Has access and proper use of safe water and sanitation increased?
- Has the incidence of handwashing with soap at critical times increased?
- Are consumers paying more or less for water now?
- Are poor and marginal groups more or less likely to have access now?

Potential indirect outcomes for consideration

- Has reform pushed effective providers out of the market (e.g. vendors become illegal but no alternative services provided)?
- Has the reform changed the relationship between household, community, and local government? Are households more or less empowered?

Potential impacts for consideration

- Has health status risen (especially for women and children)—incidence of diarrheal disease, respiratory tract infections, trachoma, schistosomiasis, etc. (long-term trends)?
- Has educational participation risen (particularly for girls)?
- Has time spent collecting water fallen?
- Has economic participation (particularly for women) risen?
- Have individuals experienced an improvement in quality of life?

Considerations when evaluating future reforms

An analysis of a future reform should be undertaken like an environmental assessment, where damages are assessed and a possible mitigation plan is created. The questions are similar in coverage, but more forward looking:

- By whom and how will water tariffs or charges be determined?
- How will expansion be handled in rural areas where cost recovery is difficult? Will private operators be responsible for these areas from their own revenues, or from government allocations? If communities are going to be responsible, how will they manage the systems? What is the role of local government and how will long-term operation and maintenance be funded and managed?
- What kind of institutional arrangements, especially in rural areas, will be put in place to ensure successful operations and maintenance of rural water systems?
- What kinds of service standards and goals for coverage will be set for the national public water board, private operator, or for local service providers or communities? What is the likely impact on poor families?
- What kinds of public participation mechanisms will be put in place to discuss reforms before they take place, and modify them based on public consultations?

III. Advocacy tools

This section gives some information about key advocacy materials and sources that can be useful when making the case for inclusion of water and sanitation in national programs, including budget support. In most cases specific national or local empirical work will be needed to supplement global findings on benefits and costs, but key information included here may form a useful basis for the design of AAA work.

11. Benefits of water and sanitation

The benefits of water supply and sanitation include:

- **Improved health**, particularly in reduced incidence of diarrheal disease, trachoma, schistosomiasis, and respiratory tract infections
- **Improved outcomes for those suffering chronic conditions** such as HIV/AIDS and tuberculosis, and are cared for in the home
- **Improved attendance rates at school**, particularly for girls
- **Improved educational attainment for those in school** due to a reduction in helminth infections
- **Knock-on improvements in health and education outlook** for second generation born to more educated mothers
- **Improved opportunities for economic activity** in rural areas.

The benefits are startling. For example, globally diarrhea alone kills more people than tuberculosis or malaria, and four times as many children die from diarrhea as from HIV/AIDS. The incidence rates of diarrheal disease could be reduced by up to 45% if access to water, sanitation, and the means of hygienic behaviors can all be delivered.

12. Cost-benefit analyses

While the costs of water supply and sanitation interventions are often regarded as high, this is sometimes because investments in costly interventions are bundled together with simpler rural solutions. Nonetheless, even when all costs are considered, the benefit-cost ratio appears to be very high. The World Health Organization (WHO) estimates that investments in water supply and sanitation are extremely cost effective, rendering benefits in the order of 10 dollars for every dollar invested in most regions.

The most recent estimates suggest that 2.16 billion people stand to benefit if the water and sanitation MDG targets are met. 391 million cases of diarrhea would be averted annually if the sanitation target alone is met. Better still, these benefits accrue largely in the poorest regions of the world, particularly in Africa.

For more information and detailed discussions on the economics of water supply and sanitation see reference box T3.

Reference box T3. Economics of water supply and sanitation

The following three key reference documents provide a good starting point and include extensive notes and bibliographies providing links to further sources if required.

Two reports commissioned by the Governments of Norway and Sweden and prepared by the Stockholm International Water Institute in collaboration with the World Health Organization and the Norwegian Agency for Development Cooperation for CSD-13 (2005):

Securing Sanitation: The Compelling Case to Address the Crisis. On the Web at www.siwi.org/downloads/Reports/CSD_Sanitation.pdf

Making Water a Part of Economic Development: The Economic Benefits of Improved Water Management and Services. On the Web at www.siwi.org/downloads/Reports/CSD_Economics.pdf

Guy Hutton and Laurence Haller, WHO (2004). *Evaluating the Costs and Benefits of Water and Sanitation at the Global Level.* On the Web at www.who.int.

PRSC SNAPSHOTS FROM MADAGASCAR AND UGANDA

As outlined in the primer and toolbox, RWSS task teams working on PRSCs are responsible for supporting government counterparts in developing the RWSS (a) chapter or section; and (b) policy triggers to address identified issues and sector goals.

This section displays snapshots of the chapters and policy matrices from two programs: the second PRSC in Madagascar and the “maintenance mode” fourth PRSC in Uganda.

Madagascar — PRSC1

The Bank and government water and sanitation task teams in Madagascar developed the RWSS chapter. The issues are addressed in (a) the broadly outlined sector reforms and expected outcomes and section of the chapter; and (b) the policy matrix as triggers (see below)

D. RURAL WATER SUPPLY

142. **The provision of drinking water services figures prominently in the PRSP as part of the objective to promote Human Development in particular for the poor and is among the top five priorities of the President agenda in “Madagascar Naturellement”.** Water and sanitation are of prime importance for the development of Madagascar because of their complementary role in preventing disease and reaching the Millennium Development Goals. Access to improved water supply and sanitation, accompanied by effective hygiene education, can be effective in improving both health and productivity, improving the quality of life and providing increased opportunities for education and employment, especially for women and girls.

143. **In 2004, the access to safe drinking water was only 14 percent in rural areas and 66 percent in urban areas.** Diarrhea is the third cause of morbidity and mortality in Madagascar. The active population lost 6 million work days per year, estimated at 50 billion Ariary and primary students lost 3.5 million days of school per year due to water borne diseases and an environment of inadequate hygiene.

144. **The likelihood of attaining the MDG, i.e., providing 52 percent of the rural population and 77 percent of the urban population with access to potable water and sanitation by 2015, remains constrained by a couple of issues.** First, sector investments are insufficient to overcome demographic growth. In 2003, for example, sector investments, which accounted for USD 12 million, provided 150,000 additional people with safe water, whereas the population has increased by more than 400,000 over the same period. Supply side interventions to meet the MDGs by 2015 would require an total amount of USD 60 million a year. Second, the sustainability of the service remains an area of concern, in particular for water systems installed in small towns, where the service deteriorates after some years, due to inadequate management and no efficient cost recovery system. Third, sector execution capacity, including technical and operational capacity in the Ministry at central and provincial levels, as well as in NGO's and the private sector, is still limited.

145. **However, since 2002, a series of actions were undertaken to improve the legal and institutional framework in the water and sanitation sector.** Thirteen enforcement decrees of the water law were adopted in 2003 as part of the sector reform. The roles and responsibilities of sector stakeholders are clear and well defined. Government, through the Ministry in charge of water and sanitation plans and monitors all sector activities; ensure donors' coordination and leads regular and broad stakeholders consultation processes, through the WASH (Water Sanitation and Hygiene) committee. A rural water supply and sanitation strategy was validated in 2003. The strategy is based on the Demand Responsive Approach (DRA) concept, where communities make informed choices on the technology option, contribute to the capital cost with cash or in kind contributions and take responsibility for the operation and maintenance costs and receive adequate training to manage the water facilities. In addition to the water supply program, education hygiene and sanitation promotion are included as a package to achieve effective and sustained used of improved water and sanitation services and hygiene practices. Finally, NGOs and the private sector are in charge of the technical study, construction, community mobilization, maintenance and more recently in the management of larger piped water systems.

Reform Program

146. **First, the sector has developed a full set of tools necessary to move toward a programmatic approach and to scale up investments.** The MEM/DEA presented its “Water and Sanitation for All” program in February 2005 to the donor community. This strategy proposes a long term vision and clear objectives to reach the MDGs and solutions to increase sustainability of the services and sector delivery capacity. The Directorate of Water and Sanitation has elaborated its first program budget for the 2005-2007 period. In addition, the RWSS sector has prepared a manual of procedures, including technical norms and standards for water and sanitation sub-projects implementation and management, to be used by all stakeholders. Finally the sector undertook in 2004 an exhaustive field inventory of all water point facilities existing in the country, which will be used as the sector baseline for measuring sector progress and has set up a water points computerized database. The results of the field inventory were validated in April 2005.

147. **Second, the sector has implemented a new policy framework for ensuring more efficient management of water services,** in particular in localities with a population above 1,000 inhabitants. Villages authorities or communes can contract, under a lease or management contract, the operations of the water systems to private operators, promoting efficient pricing, and technical and commercial operations through transparent and competitive contracting processes. That new approach has been tested in 2005 in about 25 localities and will contribute to provide about 100,000 people with improved potable water services.

148. **Third, in response to high priority for potable water supply in the PRSP, the Government has substantially increased domestic funding to the sector.** The allocation for water supply tripled, from USD 1.5 million in 2004 to USD 4.5 million in 2005, representing 38 percent of the total allocations of the Directorate of Water and Sanitation Program budget. The allocation to the Directorate of Water and Sanitation increased by 40 percent between 2004 and 2005 that is from USD 10.6 million in 2004 to USD 14.6 million in 2005. Expenditures towards rural areas account for 82 percent of the 2005 Directorate of Water and Sanitation Program budget. The 2005 program will provide 250,000 additional people with safe water.

149. **PRSC2 will be instrumental in increasing sector delivery capacity and scaling up rural water supply infrastructure to increase access, affordability and sustainability of water supply and** monitoring activities, through the Directorate of Water and Sanitation Program budget and, annual government/WASH members sector reviews and coordinated donors support in order to increase sector accountability, measuring progress in program implementation and getting information about value for money and (ii) by strengthening the operational and technical capacity of the ministry in charge of water and sanitation at the central and provincial levels to better plan, manage and monitor the implementation of the “Water and Sanitation for All Program”.

PRSC 2 Trigger

150. **The indicative trigger was that the Directorate of Water and Sanitation in Antananarivo and its decentralized departments in the six provinces are adequately staffed and equipped to implement successfully the proposed RWSS program “Water and Sanitation for All”. The trigger has been mostly implemented.** The Water and Sanitation for All strategy was produced in February 2005, and based on the results of a study to reinforce capacity in the provincial offices, the equipment is largely in place, and the recruitment is ongoing for the personnel. Hence for the prior action for PRSC 2, the trigger has been slightly modified to reflect the current status.

Expected Results

151. The main results expected by 2007 in the rural water and sanitation sector with the support of the PRSC are the following:

- The sector wide approach is in place. The program budget of the Directorate of Water and Sanitation is the reference framework for strategic and operational programming and the monitoring and evaluation of all sector activities. Investments to the sector have increased significantly.
- The ministry in charge of Water and Sanitation at the central and provincial levels has the capacity to plan, manage and monitor the implementation of the “Water and Sanitation for All Program”.

- Access to safe water will increase from 14 percent in 2004 to 20 percent in 2007 in rural and semi-urban area and about 1,000,000 additional people will be served over the three years program.

Policy matrix

The policy triggers for each PRSC are designed to encourage the allocation of more resources to the WSS sector. Triggers specify actions that will allow reform issues (as identified in the RWSS chapter) to be addressed while enabling the scaling up of service.

IV. WATER SUPPLY				
Access to drinking water supply and sanitation in rural areas.	MEM/DEA has adopted a national policy and strategy document for "Water and Sanitation for All" in rural area"			MEM/DEA has a well defined policy and strategy, supported by all donors and the Ministry of Finance
	The Directorate of Water and Sanitation in Antananarivo and its decentralized departments in the six provinces have started to adequately staff and equip themselves to implement		MEM/DEA assesses the public expenditure for the period 2000-2005	MEM/DEA has the necessary implementation capacity at central and decentralized
	PRSC-2	PRSC-3	PRSC-4	EXPECTED RESULTS
	July 2004-June 2005			
	successfully the "Water and Sanitation for All" program.			
	MEM/DEA and Donors have completed the first joint Rural Water and Sanitation Sector review and agreed on coordinated support in the framework of the 2006-2008 MTEF	MEM and its main partners implement the recommendations of sector review in the program budget 2007-2009	MEM and its main partners implement the recommendations of sector review in the program budget 2008-2010	Full cost recovery policy in the RWSS systems. Access to safe water increases from 13.8% in 2003 to 24% in 2007 in rural areas
	MEM/DEA and key stakeholders (including Ministry of Health, Education and FID) have adopted a detailed manual of procedures for sustainable RWS investment and management		MEM/DEA and its partners assess and update the Manual of procedures	All stakeholders in the sector respect and apply the implementation and subprojects management procedures, as defined by the DEA and provide the DEA with annual reports on their achievements
			The Private-Public Partnership Initiative to promote hand washing with a soap is jointly supported by soap providers and DEA program budget	3,000 hygienic latrines are built. The percentage of household washing hands with a soap increases from 34.5% in 2003 to 50% in 2007, based on a survey with 300 rural households.
Access to WSS in centers of more than 1,000 inhabitants	MEM/DEA has adopted an action plan to improve management framework for towns (> 1000 inhabitants) WS.	MEM/DEA has organized a review of the implementation of the first management contracts and an exchange of best practices in the management of small systems AEPG or AEPP	MEM/DEA assesses the implementation of private sector participation strategy in the sector	90% of RWS systems in rural area, including the new ones and the rehabilitated ones, are operational. The management of 12% of the 850 RWS systems from centers with more than 1,000 inhabitants is given to the private sector.
	PRSC-2	PRSC-3	PRSC-4	EXPECTED RESULTS
	July 2004-June 2005			
		MEM/DEA/AES (Alimentation en Eau dans le Sud) has prepared an action plan to hand over the distribution of water produced by AES to small-scale private providers		
Monitoring access to WSS in rural areas	MEM/DEA has implemented a computerized database for monitoring and evaluation system, programming and planning of actions.	MEM/DEA publishes RWSS statistics on drinking water and sanitation in rural area.	MEM/DEA publishes RWSS statistics on drinking water and sanitation in rural area.	M&E system is operational and permits to measure the progress made in RWS national program implementation.

Uganda — PRSC4

The RWSS Bank and government teams update progress on sector issues such as sanitation, operation and maintenance, and short-term plans.

Water and Sanitation

116. The Uganda Participatory Poverty Assessment Programme (UPPAP) indicated water and sanitation services to be a high priority for the poor. In response to this, Government has doubled the proportion of the discretionary budget allocated to water supply and sanitation (WSS) from 1.7 percent in 1998/99 to 3.3 percent in 2001/02 and has formulated sector strategies and drawn up investment programs for rural water and sanitation and urban water supplied sanitation.
117. In partnership with donors and other key stakeholders, Government has adopted a sector-wide approach (SWAP) to the WSS sector based on community demand-orientation, decentralised management through local governments, combined with central government facilitation and delivery of services by the private sector. The SWAP will be broadened to incorporate water for production and water resources management components as soon as the sub-sector strategies are completed. To strengthen collaboration and the SWAP for the Water and Sanitation Sector, three joint Government-Donor Water Sector reviews were held in September 2001, 2002 and 2003, and a Technical Review in March 2004. MWLE carried out a technical audit (value for money) and a tracking study in November 2002 and March 2003, respectively, to monitor the programs. MWLE is planning to establish a monitoring protocol that draws on the routine returns from districts, annual household and service delivery surveys, other surveys, and annual reports entitled "State of the WSS Sector."

Rural Water and Sanitation

118. In rural WSS, Government intends to increase access to safe water and sanitation from the present 54 percent to at least 58 percent by June 2006 within the indicative MTEF ceilings. In pursuance of this objective, Government has strengthened the capacity of districts by setting up District Water Offices and recruiting suitable staff to man them. The full compliment of District Water Sector staffing is being reviewed under the ongoing Local Government restructuring exercise, which will lead to full integration of the District Water Office staff in the district structures and payroll management. All districts are expected to achieve full staffing and training of District Water Officers by June 2006. DWD has been reorganized to support district capacity building and delivery of technical assistance to District Water Offices through the establishment of Technical Support Units (TSUs), which are fully operational.
119. To enhance sustainability of rural WSS systems, Government has reviewed existing operation and maintenance arrangements and finalised the district WSS operational manual and implementation guidelines. Special attention is being paid to the establishment and maintenance of the spares supply chain to support community maintenance efforts. This strategy is based on the utilisation of the private sector and full community cost recovery for operation and maintenance. Through this strategy, the percentage of systems that are functional at any time is expected to be at least 80 percent.

120. At the same time, Government, through the combined efforts of the Ministry of Water, Lands and Environment (MWLE), MOES and MOH has agreed on institutional responsibilities for sanitation and has prepared a National Hygiene Promotion, Sanitation and Communication Strategy. In addition, Government introduced and pre-tested templates for environmental screening of sub projects in districts. Government has also taken steps to ensure efficient use of resources and has undertaken Value for Money technical audits and is addressing the findings of the study with progress reported to the Joint Government-Donor sector reviews.
121. A survey on the Private Sector (including NGOs) capability to support district planning and implementation of water sector programmes has been undertaken and the results were disseminated in March 2004 review. The findings and recommendations of these studies will be used in the formulation of sector capacity building strategies, revision of the Conditional Grant Implementation Guidelines and Sector Monitoring and Evaluation procedures.

Policy triggers

In PRSC4 policy triggers continue to address sector issues and reflect the "maintenance mode" by linking to systematic sector reviews.

PROGRESS IN IMPLEMENTING POLICY ACTION BENCHMARKS (Note: Based upon "old" PRSC1-3 format in order to ensure correspondence to PRSC3. Next operation will utilize enhanced results reporting framework)				
Issue	PRSC3 Action (May 2003)	Indicated PRSC4 action in PRSC Board documentation (July 2003)	Actual PRSC4 action implemented (May 2004)	COMMENTS
environmental sustainability concerns in government programs.	and MAAIF have reviewed current arrangements and prepared options for strengthening integration of environmental concerns in all government programs.		and vision of the ENR sector.	no PRSC4 benchmark identified on this issue during PRSC3.
Financing for NEMA is not within MTEF.	MoFPED has begun gradually increasing funding for NEMA within MTEF.	At least 25% of NEMA's operating costs covered by MTEF.	At least 25% of NEMA's operating costs covered by MTEF.	Unchanged
Forest degradation leading to higher fuel wood collection times and lower incomes.	MoWLE, MoEM, MAAIF, MoTTI, and MoES have launched the National Forestry Plan.		MWLE ensures NFP implementation through effective launch and monitoring of NFA and adequate capacity building in FID.	A new benchmark as there was no PRSC4 benchmark identified on this issue during PRSC3.
District Roads:				
Inadequate network of district roads.	MoWHC and district governments have started developing a ten-year District Road Investment Program.	MoWHC completes and MoFPED and MoLG endorse the ten-year District Road Investment Program.	MoWHC has drafted ten-year District Road Investment Program for submission to Cabinet.	Benchmark revised. Delays due to need for more consultation.
PEAP/PRSP PILLAR IV: DIRECTLY INCREASING THE QUALITY OF LIFE				
Improve Quality Of Education	Satisfactory implementation of undertakings agreed in the education sector review in April 2002 and confirmed in the October 2002 review.	Satisfactory implementation of undertakings agreed in the education sector review in May 2003 and confirmed in the October 2003 review.	Satisfactory implementation of undertakings agreed in the education sector review in May 2003 and confirmed in the November 2003 review.	Continuation of Sector Review.
Improve Quality Of Health Care	Satisfactory implementation of undertakings agreed in the health sector review in April 2002 and confirmed by the October 2002 review.	Satisfactory implementation of the undertakings agreed in the health sector review in April 2003 and confirmed by the October 2003 review.	Satisfactory implementation of the undertakings agreed in the health sector review in April 2003 and confirmed by the November 2003 review.	Continuation of Sector Review.
Improve Access And Equity In Water And Sanitation	Key stakeholders have endorsed WSS sectorwide approach at the second joint WSS sector review.	MoWLE updates operational plans for rural and urban WSS.	Satisfactory implementation of undertakings agreed in water and sanitation sector review in September 2003 and confirmed by March 2004 review.	Continuation of Sector Review.
	MoLG and MoWLE have agreed on structure and staffing needs of District Water Offices (DWOs).	All districts have set up fully staffed district water offices (DWO) with support from DWD and MoLG.		All now in Sector Review
	MoPS has approved reorganization of DWD and initiated its implementation.	All districts develop WSS plans with assistance of TSUs.		All now in Sector Review

PROGRESS IN IMPLEMENTING POLICY ACTION BENCHMARKS (Note: Based upon "old" PRSC1-3 format in order to ensure correspondence to PRSC3. Next operation will utilize enhanced results reporting framework)				
Issue	PRSC3 Action (May 2003)	Indicated PRSC4 action in PRSC Board documentation (July 2003)	Actual PRSC4 action implemented (May 2004)	COMMENTS
	TSLUs have assisted districts introduce new environmental and gender screening of sub-projects.	TSLUs, in collaboration with NEMA and MoLGCD, conduct annual environmental and gender audits in select districts.		All now in Sector Review
	MoWLE/DWD has prepared a framework paper for private sector based maintenance services.	MoWLE/DWD finalizes a support program for private sector and NGO service providers.		All now in Sector Review
	MoWLE/DWD and MoH/EHD have implemented a training program for community extension workers in districts and sub-counties.	MoWLE/DWD introduces a Community Resource Book for strengthening community management and utilization of WSS.		All now in Sector Review
	Access to WSS in Small Towns:			
	MoWLE/DWD has started preparation of the long-term management strategy.	MoWLE/DWD completes the long-term strategy and investment plan.		All now in Sector Review
	Access to WSS in Urban Areas:			
	MoFPED has commenced mobilizing a transaction advisor for privatization of NWSC operations.	The transaction advisor for privatization of NWSC operations mobilized.		All now in Sector Review
	MoWLE has started preparation of detailed designs of urban WSS master plan for Kampala and other large towns.	MoWLE completes detailed designs for the lease group and other urban WSS systems.		All now in Sector Review
	MoFPED and NWSC have agreed on a time-bound action plan to settle the existing arrears owed to NWSC and taken measures to prevent new ones.	NWSC prepares a strategy to address its long-term debt.		All now in Sector Review
	NWSC has started developing a simplified water tariff structure, including a pro-poor connection policy and safe water tariff for the poor.	NWSC has completed a simplified water tariff structure.		All now in Sector Review

BUDGET SUPPORT JARGON BUSTER

AAA	analytical and advisory services
APR	annual progress report APRs are used to monitor implementation of the PRSP and are submitted by borrowers to the Board of the IMF and the World Bank. The APR is also used to describe the annual performance review process in some DPL operations.
CAS	country assistance strategy The World Bank prepares a CAS for all active borrowers. The CAS takes as its starting point the country's own vision for its development, as defined in a poverty reduction strategy paper (for IDA countries) or other country-owned process. Oriented toward results, the CAS is developed in consultation with country authorities, civil society organizations, development partners, and other stakeholders, and lays out a selective program of Bank Group support. Resources: Reprinted from www.worldbank.org : Projects – Strategies – Country Assistance Strategies BP 2.11 Country Assistance Strategies
CDD	community-driven development CDD is a term used to describe a process of development whereby communities take control of significant planning and investment decisions.
CDF	comprehensive development framework The CDF is the foundation of the new partnership between developed and developing countries. Operationalized through the PRSP, the CDF lays out the foundations of national approaches to improvements in sustainable growth and poverty reduction that will help countries achieve the MDGs. Resources: Adapted from www.worldbank.org : Projects – Strategies – CDF
CEM	country economic memorandum The CEM is a comprehensive report on country economic developments, prospects, and the policy agenda. Its principal objectives are to (a) inform the Bank's Board and management of economic prospects, issues, and policies in the borrowing countries; (b) provide inputs for Bank advice on CASs, PRSPs, adjustment loans, and evaluations of creditworthiness; (c) serve as a basis for dialogue with government on key policy issues; and (d) provide background information and analysis to members of aid groups and other donors. Resources: Reprinted from WB Intranet: Core Diagnostic Reports

DPL	<p>development policy lending</p> <p>Development policy lending is rapidly disbursing policy-based financing, which the Bank provides in the form of loans or grants to help a borrower address actual or anticipated development financing requirements that have domestic or external origins. The Bank may provide development policy lending to a member country or to a subnational division of a member country. DPL supports the policy and institutional changes needed to create an environment conducive to sustained and equitable growth, and to provide an environment for successful investment lending. Over the past two decades, development policy lending has accounted, on average, for 20 to 25 percent of total Bank lending.</p> <p>Resources: Reprinted from WB Intranet: OPCS – Development Policy Lending OP/BP 8.60 Development Policy Lending</p>
DPR	<p>development policy review</p> <p>The DPR is a strategic policy document prepared at regular intervals that provides an integrated view of the main elements of a country's policy agenda to achieve sustainable growth and poverty reduction. It synthesizes the findings of the Bank's diagnostic and customized ESW, and other available analysis. In contrast to the CEM, the DPR is more policy oriented and less descriptive.</p> <p>Resources: Reprinted from WB Intranet: Core Diagnostic Reports</p>
ESW	economic and sector work
HIPC	highly indebted poor countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IL	<p>investment lending</p> <p>Apart from its traditional application to capital investment projects, investment lending (IL) is an effective tool for institutional and skills development. Because IL involves a link between funding and specific expenditures, it is well suited to country and sector situations where a sustained, concerted effort is needed to achieve development objectives through direct contact with middle management, technical, and field levels. IL is the source of much of the Bank's in-house technical expertise and its cross-national and cross-sectoral knowledge bases. IL by its nature takes a medium- to long-term perspective on specific development objectives and embodies a commitment to work with front-line institutions over a period of years.</p> <p>Resources: Reprinted from WB Intranet: OPCS – Investment Lending OP 10.00 Investment Lending</p>

IMF	International Monetary Fund
JSR	joint sector review
M&E	monitoring and evaluation
MTEF	<p>medium-term expenditure framework</p> <p>The MTEF links policy, planning, and budgeting over the medium term (i.e. three to five years). It includes a framework for estimating future expenditures based on the current and medium-term costs of existing policies, and it involves rolling over this exercise each year to reflect shifts in policy. The MTEF is usually prepared by the government, and may be included as part of a Bank PER, but is rarely issued as a stand-alone document.</p> <p>Resources: Reprinted from WB Intranet: Public Expenditure – Medium-Term Expenditure Framework Debate</p>
OPCS	Operations Policy and Country Services
PA	<p>poverty assessment</p> <p>PAs are prepared regularly by the Bank. The PA assesses the extent and causes of poverty in a given country and proposes strategies to ameliorate its effects. PAs generally feed into country-owned processes to develop strategies to reduce poverty, help build in-country capacity, and support joint work and partnerships. PAs are also important background documents for the development of the CAS.</p> <p>Resources: Reprinted from WB Intranet: Poverty Analysis</p>
PER	<p>public expenditure review</p> <p>The PER is a macro-level analysis of public sector expenditure that focuses on the efficiency and efficacy of resource allocation. Some PERs are sector specific; these are called sectoral PERs. PERs provide a framework for project (and increasingly nonproject) lending so that the latter is consistent with sectoral priorities as well as with overall macroeconomic policies.</p> <p>Resources: Extracted from www.worldbank.org: Public Expenditure</p>
PREM	poverty reduction and economic management
PRGF	poverty reduction and growth facility
PRS	poverty reduction strategy

PRSC **poverty reduction support credit**

PRSC is World Bank development policy lending designed to support government implementation of the PRSP in IDA countries.

Resources:

Extracted from WB Intranet: 1. Africa Region Operational Guidelines and 2. OPCS – PRSC

PRSP **poverty reduction strategy paper**

The PRSP describes a country's macroeconomic, structural, and social policies and programs to promote growth and reduce poverty and identifies associated external financing needs. PRSPs are prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the IMF.

Resources:

Reprinted from WB Intranet: Poverty Reduction Strategies – Poverty Reduction Sourcebook

PSIA **poverty and social impact analysis**

PSIA includes analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable. PSIA has an important role in the elaboration and implementation of poverty reduction strategies in developing countries. It promotes evidence-based policy choices and fosters debate on policy reform options.

Resources:

Reprinted from www.worldbank.org: Poverty and Social Impact Analysis
www.worldbank.org: Tools and Methods for PSIA

RWSS(H) **rural water supply, sanitation, and hygiene****SWAp** **sectorwide approach**

A SWAp enables government and development partners to support a coherent national program in any given sector. SWAps are characterized by (a) country-owned sector policies and strategies; (b) a sustained, country-led partnership among development partners and key stakeholders; (c) a common program and an expenditure framework (usually a medium-term framework and an annual budget) based on agreed priorities and strategies; (d) a financing plan that aligns government's and external resources under the common program; and (e) significant movement toward common approaches in planning, implementation, and monitoring and evaluation with increasing reliance on a country's systems and procedures.

Resources:

Reprinted from WB Intranet: OPCS – Sector Wide Approaches

TA	technical assistance
TTL	task team leader
WB	World Bank
WSP	Water and Sanitation Program

OPERATIONAL GUIDANCE FOR WORLD BANK STAFF SERIES

1. Public and Private Sector Roles in Water Supply and Sanitation Services. April, 2004
2. Rural Water Supply, Sanitation and Budget Support — Guidelines for Task Teams.
Param Iyer, Barbara Evans, Jason Cardosi, and Norman Hicks. September, 2005





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