



Water Supply Expenditure Analysis for Oromia Regional State

2012/13 - 2020/21

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KEY MESSAGES

1

Although nominal spending on water supply is increasing, the gap between nominal and real expenditure is widening due to high inflation. In 2020/21, nominal and real expenditure on water supply were ETB 4.3 billion and ETB 1.4 billion, respectively. The share of spending on water supply has also declined, from 5.1 per cent in 2012/13 to 4.4 per cent in 2020/21.

Recommendation: The regional government should prioritise increased spending on water to ensure increased access to clean water supplies in the region.

2

Water supply spending is predominantly capital, with most of the construction spending carried out at the regional bureau level. Woredas (districts) manage a smaller share of the expenditure, which is mainly spent on recurrent costs dominated by salaries.

Recommendation: The Water Policy states that woredas should be responsible for water supply construction, hence the regional government should decentralise this task by capacitating woredas so that they are able to build and maintain water supply infrastructure and take on their full mandate of water sector development.

3

On average, the capital budget credibility is lower than recurrent budget credibility. Delays in procurement processes, a shortage of foreign currency to get required inputs for projects, and instability and conflict in project implementation areas, are some of the reasons for the under-utilisation of capital budgets.

Recommendation: The regional water and energy bureau should pay due attention to improving capital budget utilisation.

4

Programme-based budgeting is not yet rolled out in Oromia region, making it difficult to do disaggregated budget and expenditure analysis for water, sanitation and hygiene (WASH), thereby limiting this analysis to water supply only. With the delivery of WASH managed by multiple regional bureaus that use line-item budgeting, it is very difficult to identify the total WASH expenditure in the region.

Recommendation: Programme-based budgeting should be in place to identify and track budget and expenditure for WASH spending in Oromia region.

5

A high proportion of donor funds directed to water supply through various programmes are off-budget and therefore not easy to accurately quantify.

Recommendation: There is a need to shift off-budget financing of the water supply to on-budget records to better plan, execute and monitor how much is being spent on water supply services. There is also a need for the government to put in place a system for systematically documenting off-budget contributions from development partners.

1. INTRODUCTION

Water sector overview

As water, sanitation, and hygiene (WASH) is a cross-cutting sector, the delivery of WASH services is not managed by a single bureau in Oromia region. While the Oromia Water and Energy Bureau is mainly responsible for water supply,¹ the bureaus responsible for health and education, as well as the municipalities of cities in the region, are also assigned with mandates regarding hygiene and sanitation.² Since programme-based budgeting has not yet been rolled out in Oromia region, and instead line-item budgeting is being practiced, identifying sanitation and hygiene-related expenditure in the respective bureaus' budget lines is very challenging. Accordingly, the expenditure analysis section of this expenditure analysis focuses exclusively on water supply-related expenditure from the Oromia Water and Energy Bureau.

In Oromia regional state, the supply of drinking water is the mandate of the regional Water and Energy Bureau. The energy section within the bureau deals with mainly renewable energy (solar energy, biogas, cook stoves) and manages the off-grid component of electricity supply (access management and facilitation for universal access to electricity), while the water supply component mainly works on source identification, drilling, design, construction, post-construction administration and water scheme management. The bureau also coordinates and manages WASH programmes, including the sanitation component, which mainly involves the construction of sanitation facilities and services in towns.

Although the proportion of the population with access to drinking water in the region has improved in the past decade, 37 per

cent of the region's population still has no access to clean drinking water. Around 63 per cent of households in Oromia region have access to clean drinking water, while only 17 per cent of households are connected to piped water.³ Access to drinking water in the region is slightly lower than the national average of 65 per cent (Table 1). There is a significant difference in access to improved drinking water between rural and urban households. According to the 2016 EDHS data, about 57 per cent of the country's rural households had access to clean drinking water, while the level of access was 97 per cent for urban households. Even if the regional government and development partners have made efforts to implement projects to ensure the sustainability of water supply, access to clean water is still a critical concern in the region.

Only 5.6 per cent of households in Oromia regional state have access to improved sanitation facilities, slightly less than the national average of 6.3 per cent (Table 1). Between 2005 and 2016, the proportion of households in the region with access to improved sanitation facilities saw no marked improvement. The divide between rural and urban households in terms of access to improved sanitation facilities is very wide: 16 per cent of households in urban areas and a mere 4 per cent of households in rural areas. According to the EDHS data, 51.1 per cent of households in the region have handwashing facilities, which is lower than the national average of 60 per cent. The low level of access to drinking water and handwashing facilities in households, as well as the even lower level of households with improved sanitation, are serious challenges in the region.

¹ Water supply is defined as the provision of water by public utilities, commercial organizations, communities, or individuals. Public supply is usually via a system of pipes and pumps. In order to sustain human life satisfactorily, a water supply should be safe, adequate and accessible to all (Ethiopian One WASH National Programme, 2016).

² Sanitation refers to the prevention of human contact with wastes but is also used to mean the provision of facilities and services for the safe disposal of human urine and faeces. Sanitation can be further classified as basic or improved sanitation (Ethiopian One Wash National Programme, 2016).

³ Ethiopia DHS 2016. Central Statistical Agency/CSA/Ethiopia and ICF. 2016. Ethiopia Demographic and Health Survey 2016. Addis Ababa, Ethiopia, and Rockville, Maryland, USA: CSA and ICF.

Table 1. Trends in improved drinking water sources, sanitation facilities and handwashing places

		EDHS 2005	EDHS 2016
Households using improved drinking water source	Oromia	60.6	62.8
	National	61.4	64.8
Households with improved sanitation	Oromia	5.0	5.6
	National	6.8	6.3
Households with handwashing facilities	Oromia	-	51.1
	National	-	59.9

Sources: EDHS 2005 and EDHS 2016

Most schools and health facilities in the region do not have adequate WASH facilities, such as drinking water, handwashing facilities, and improved toilets. For instance, in 2020/21, 62 per cent of primary schools and 32 per cent of secondary schools did not have adequate drinking water services in Oromia region, while 38 per cent and 90 per cent of health centres and health posts, respectively, did not have drinking water services. Lack of access to adequate and reliable water and sanitation facilities limits the functionality of schools and health facilities. The provision of WASH in schools and health facilities is not the mandate of the regional water and energy bureau; rather, the mandates belong to the regional bureau of education and regional bureau of health, respectively. Institutional WASH in education and health are discussed in further detail in the respective Education and Health sector expenditure analyses, respectively.

The regional water and energy bureau also supports other sector bureaus, such as the health bureau, in providing sanitation facilities and water supply to health institutions, as well as hygiene services for the poor within the region. According to key informant interviews with personnel from the regional water and energy bureau, the bureau has designed and implemented different strategies to enhance WASH services in the region. This includes working with development partners to secure

additional funds; regular supervision and follow-up of projects to ensure proper implementation; and providing capacity-building training for regional- and woreda-level experts to improve efficiency and timely delivery of projects. Despite these continuous efforts by the government and development partners, WASH service coverage in schools and health facilities is very low and much remains to be done.

Increased investment in WASH is critical to improving health and nutrition outcomes for children in the region. Deprivations in housing and sanitation are the largest contributors to multi-dimensional child deprivation in Oromia. The rates of deprivation of water and sanitation are 59.1 per cent and 94 per cent, respectively⁴. Oromia has one of the highest regional deprivation rates for sanitation. Poor hygiene and lack of access to a clean water supply and sanitation services cause an estimated 50 per cent of the undernutrition burden.⁵ Moreover, open defecation often leads to faecal-oral diseases, such as diarrhoea, which is one of the leading causes of child mortality in Ethiopia. The World Health Organization (WHO) estimates that for every US\$1 invested in sanitation there is a nearly six-fold return, as measured by lower health costs, increased productivity, and fewer premature deaths.⁶ Hence, investing in WASH services is imperative to ensure that the health outcomes of women and children are improved in the region.

⁴ UNICEF Ethiopia (2019). Situation Analysis of Children and Women: Oromia Region

⁵ <https://www.unicef.org/ethiopia/water-sanitation-and-hygiene-wash>

⁶ <https://www.who.int/mediacentre/news/releases/2004/pr28/en/>

Key takeaways

- The proportion of the population in the region with access to drinking water is 63 per cent, slightly less than the national average of 65 per cent. Access to improved sanitation facilities is also very low, at 5.6 per cent. As lack of access to drinking water and improved sanitation are critical problems for households, the regional government should give adequate attention to these issues.
- Most schools and health facilities in the region do not have adequate WASH facilities, which limits the functionality of schools and health facilities. Availability of WASH in service delivery facilities should be given due attention not only by the bureau of water but also health and education bureaus.
- As increased investment in WASH is critical to improving education, health and nutritional outcomes, the regional government should continue to work with development partners and strengthen the coordination between the different bureaus engaged in the provision of WASH services to improve service delivery in the region.

2. PUBLIC EXPENDITURE FOR WATER SUPPLY IN OROMIA REGION

In addition to spending from the state budget, water supply has a large donor financing through various channels. “One WASH” is the one and only sector programme (equivalent, for example, to the Education Sector Development Programme (ESDP) in the education sector). One WASH is financed via the state budget allocation, through a donor-pooled fund called the Consolidated WASH Account (CWA), other bilateral and multilateral sources, NGOs and private citizen funding, all of which contribute to fulfilling the One WASH sector plan. Apart from the state budget and CWA, the funds that flow from these financial sources are mostly off-budget and not directly reflected in the government’s state budget accounting system, the Integrated Budget and Expenditure System (IBEX). The overall water supply coordination and management,

as well as the administration of funds coming from donors and development partners, is the responsibility of the water and energy bureau.

WASH funding from development partners through the programmes is allocated to the various sectors by the regional finance bureau: currently, 67 per cent for water supply (regional water and energy bureau), 17 per cent for health (regional health bureau), 10 per cent for education (regional education bureau), and 1 per cent for facilitation by the regional bureau of finance.⁷ NGOs’ WASH contribution to the region is estimated to be around 5 per cent, which is also off-budget.

As regions do not have programme-based budgeting, it is difficult to identify government-financed water supply expenditure from the expenditure lines of the regional water and energy bureau.

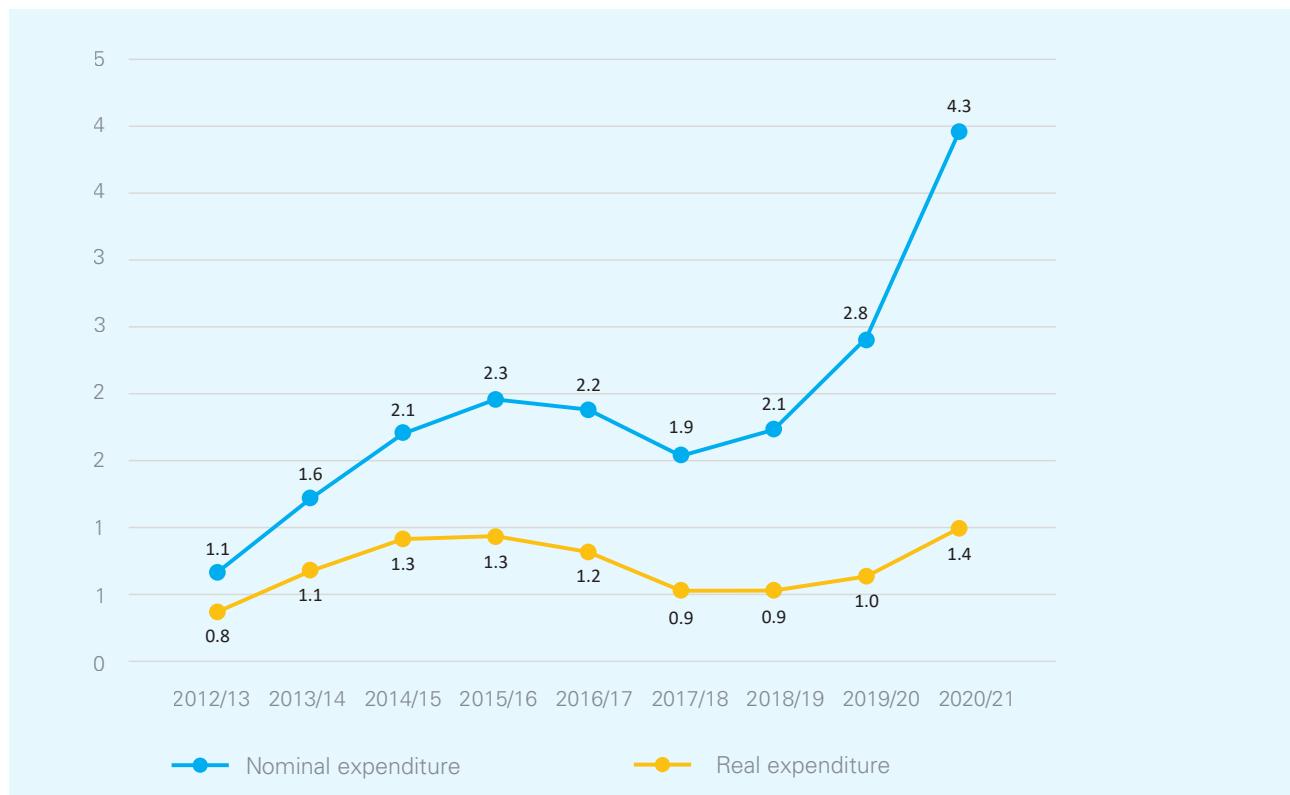
⁷ Information gathered during an interview held by the Ethiopian Economics Association with the planning director of Oromia’s bureau of water and energy.

To estimate the share of water supply expenditure from the total water and energy expenditure, we followed an apportioning method. According to the estimation provided by the Planning Director of the Oromia Water and Energy Bureau, of the total budget allocated to the bureau, about 85 per cent at the time of data collection goes to the water supply component, with only about 15 per cent allocated to the energy component.⁸ Hence, the discussion in this section is informed by the assumption that water supply takes 85 per cent of the region's water supply and energy expenditure. It should be noted that the water supply component that is financed by the government is only a portion of funding for the sector. Accordingly, the analysis here does not consider off-budget expenditure that is financed by donors and development partners, NGOs and private citizens through various WASH programmes.

Trends in water supply spending

Nominal expenditure for water supply increased from ETB 1.1 billion in 2012/13 to ETB 4.3 billion in 2020/21 (Figure 1). This is a four-fold increment in nominal terms. However, the increment in real terms is much lower, at 75 per cent. The gap between the nominal and real values has continued to widen due to inflationary pressure in recent years, which has been exacerbated by the significant depreciation of the Birr, continually reducing the region's capacity to undertake imported capital-intensive investments in the water sector. A similar trend is observed in per capita spending: nominal per capita spending was ETB 112 (US\$2.9)⁹ in 2020/21 (Figure 2), rising more than three-fold since 2012/13; real per capita spending rose by less than 45 per cent over the same period. As the region is faced with serious water supply issues, spending on water supply needs to increase to meet the growing demand of the population in the region.

Figure 1. Nominal and real spending on water supply (ETB billion)

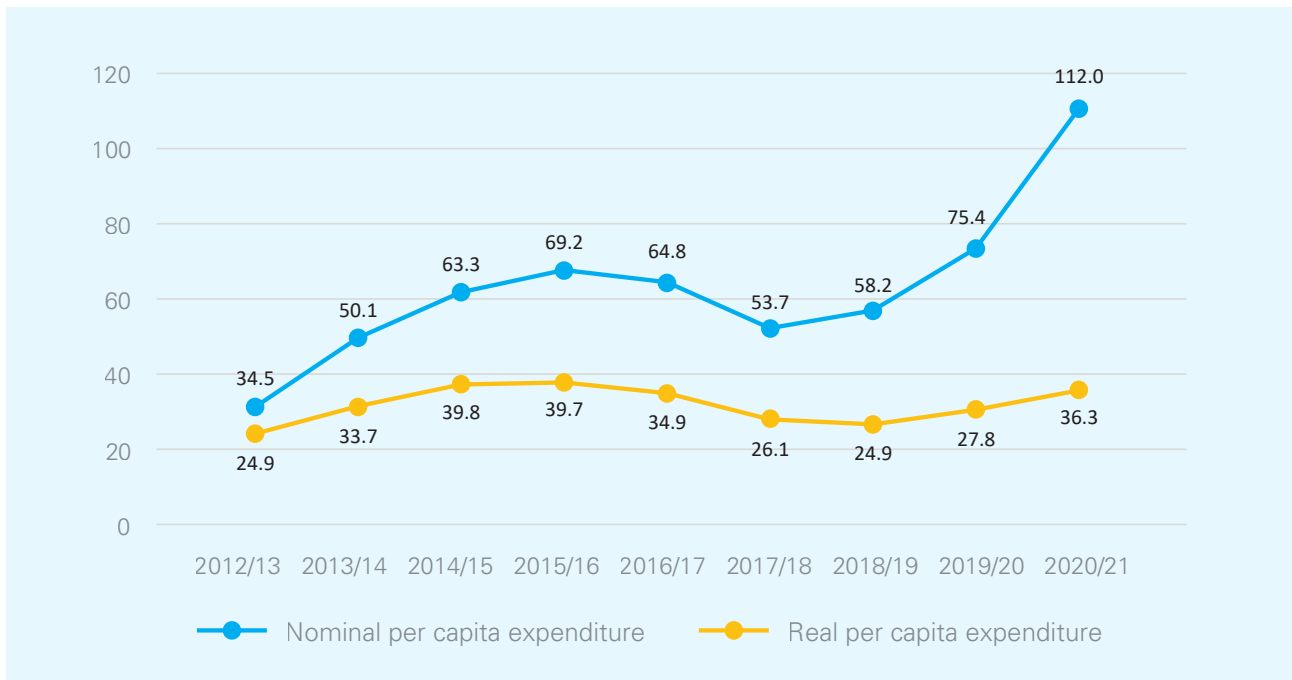


Source: Oromia Regional Plan and Development Commission (2012/13–2020/21)

⁸ Due to lack of disaggregated data, this is a subjective estimation that cannot be backed by official data.

⁹ Average exchange rate for 2020/21: US\$1= ETB 39.

Figure 2. Nominal and real per capita spending on water supply (ETB)

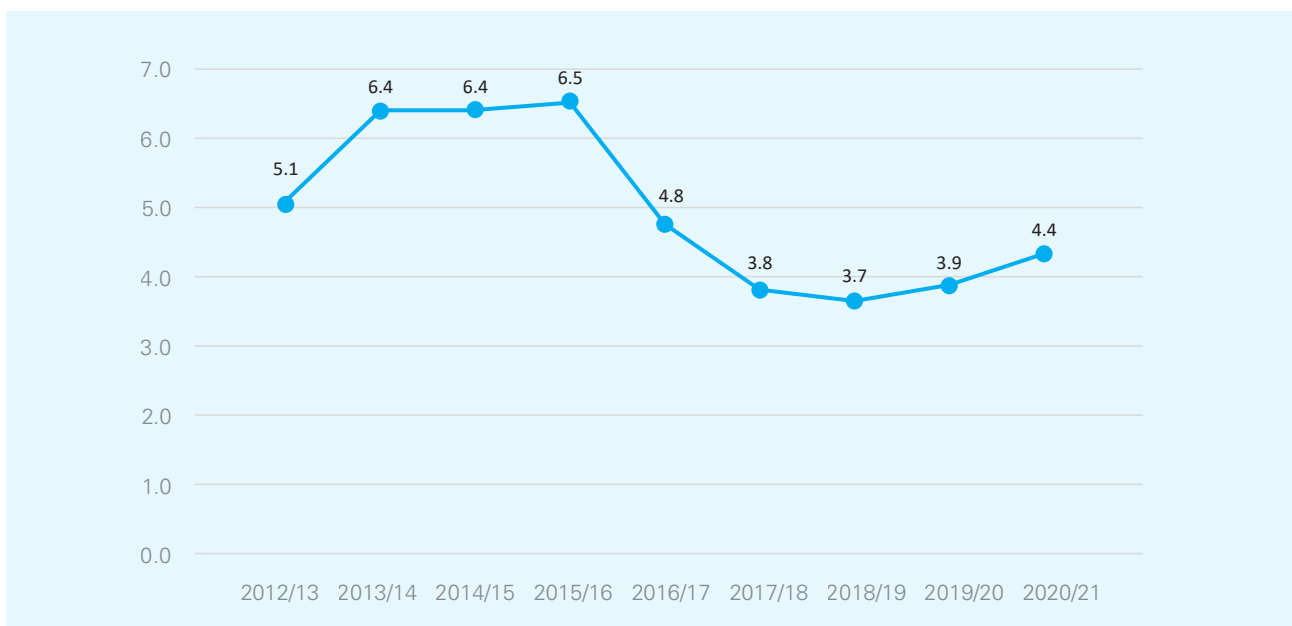


Source: Oromia Regional Plan and Development Commission (2012/13–2020/21)

The share of spending on water supply from the total regional expenditure was 4.4 per cent in 2020/21. The share had a declining trend between 2015/16 and 2018/19 and slightly recovered after 2019/20. Since Oromia is one of the regions with low access to drinking

water, the share of spending on water should increase to make the required investment for increased access. The regional government should prioritise water supply as one of its major investments for improved coverage and quality of water supply services in the region.

Figure 3. Share of spending on water supply



Source: Oromia Regional Plan and Development Commission (2012/13–2020/21)

Key takeaways

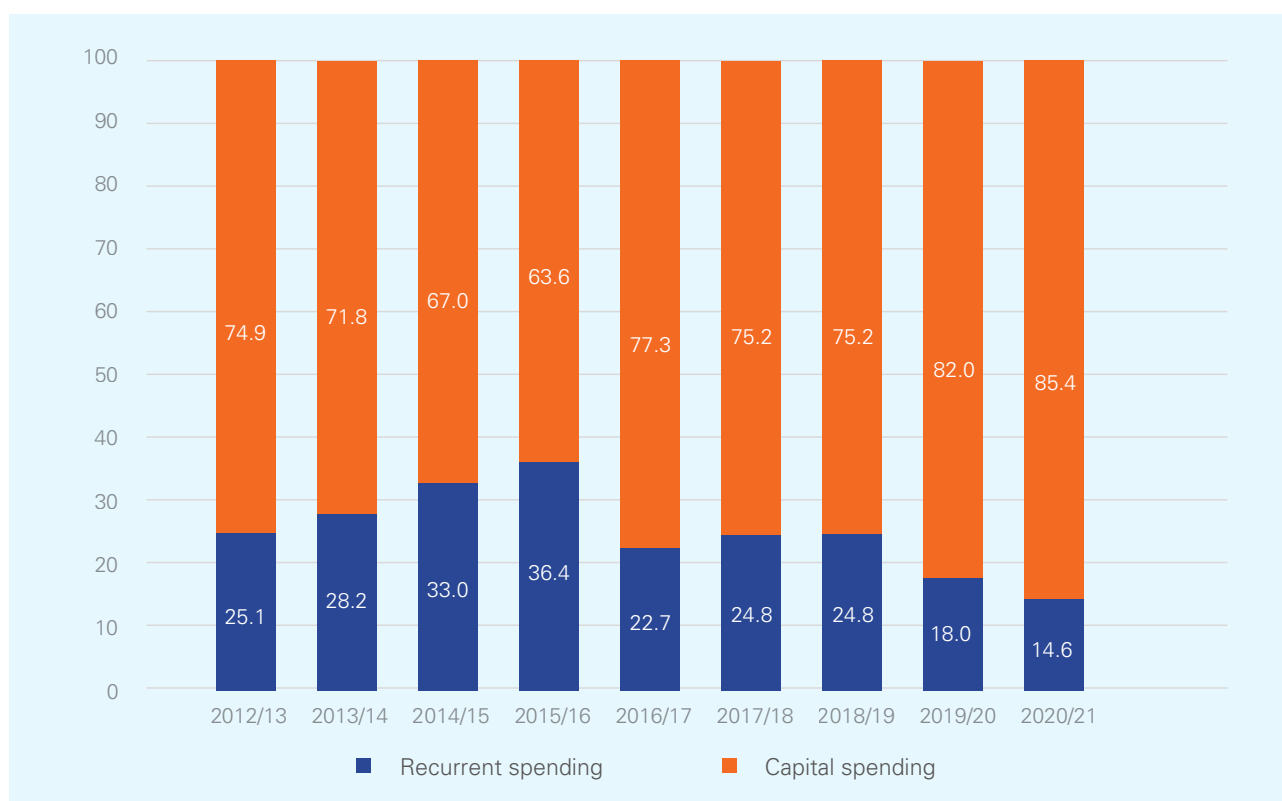
- Although spending on the water supply is increasing, the gap between the nominal and real expenditure is widening due to high inflation. Ethiopia's currency depreciation is also adversely affecting the value of capital investments in the water sector.
- The share of spending on water supply has also declined. The regional government should prioritise increased spending on water supply to ensure improved access to water supply in the region.

Composition of water supply spending

Capital spending dominates the region's water supply spending. On average, around 74 per cent of the region's water supply spending was allocated for capital spending. The higher share of capital spending is mainly because water supply expenses are directed towards water source identification, drilling, design, and construction of water schemes, which are capital expenditure by their very nature. Once water schemes are constructed, the day-to-day management, which includes

post-construction administration and water scheme management, are the responsibilities of the community. The recurrent costs are mainly taken up by salary costs for bureau and woreda-level staff. The share of capital spending has been increasing consistently over recent years. The construction of water schemes has become a priority for the region, requiring increased investment. The share of capital spending was the highest in 2020/21, at 85 per cent.

Figure 4. Share of capital and recurrent water supply spending



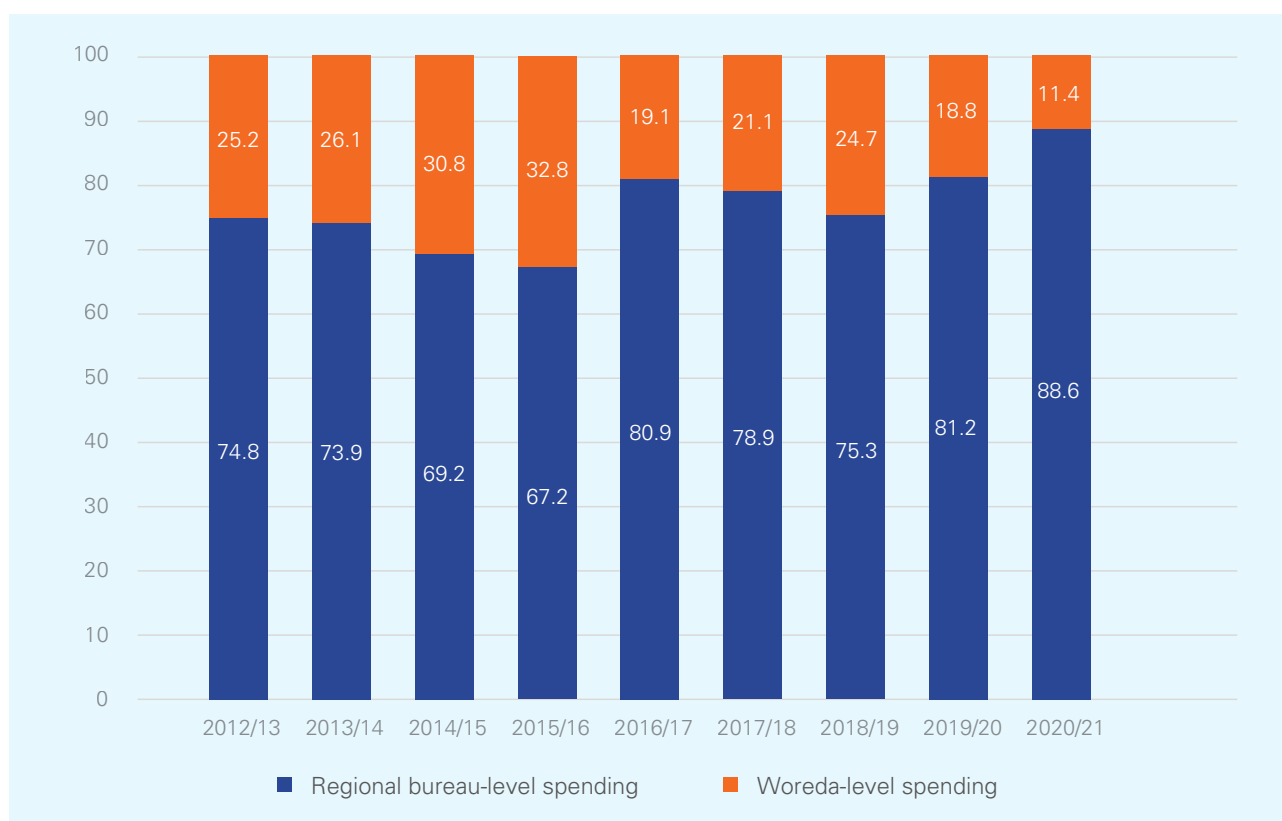
Source: Oromia Regional Plan and Development Commission (2012/13–2020/21)

Water supply expenditure and fiscal decentralisation

Regional bureau-level spending on water supply attracts a higher share of total spending. The share of expenditure spent by the regional bureau was 77 per cent on average between 2012/13 and 2020/21 and has increased in recent years, reaching 89 per cent in 2020/21. This is a reflection of increased investment in large-scale projects to improve access to water. The regional bureau is usually delegated with the construction of large-scale water projects that require higher investment, while woredas invest in and manage small-scale water supply projects due to low capacity at the woreda level. This has resulted

in a higher share of spending at the regional bureau. However, the Water Policy states that woredas should be responsible for water supply construction, hence the regional government should decentralise this task by capacitating woredas to manage and administer larger-scale contracts so that woredas are able to build and maintain water supply infrastructure and take on their full mandate of water sector development. Hence, in the future, it will be important to see increased proportions of water supply expenditure being administered by zonal and woreda offices.

Figure 5. Proportion of regional bureau-level and woreda-level spending for the water sector



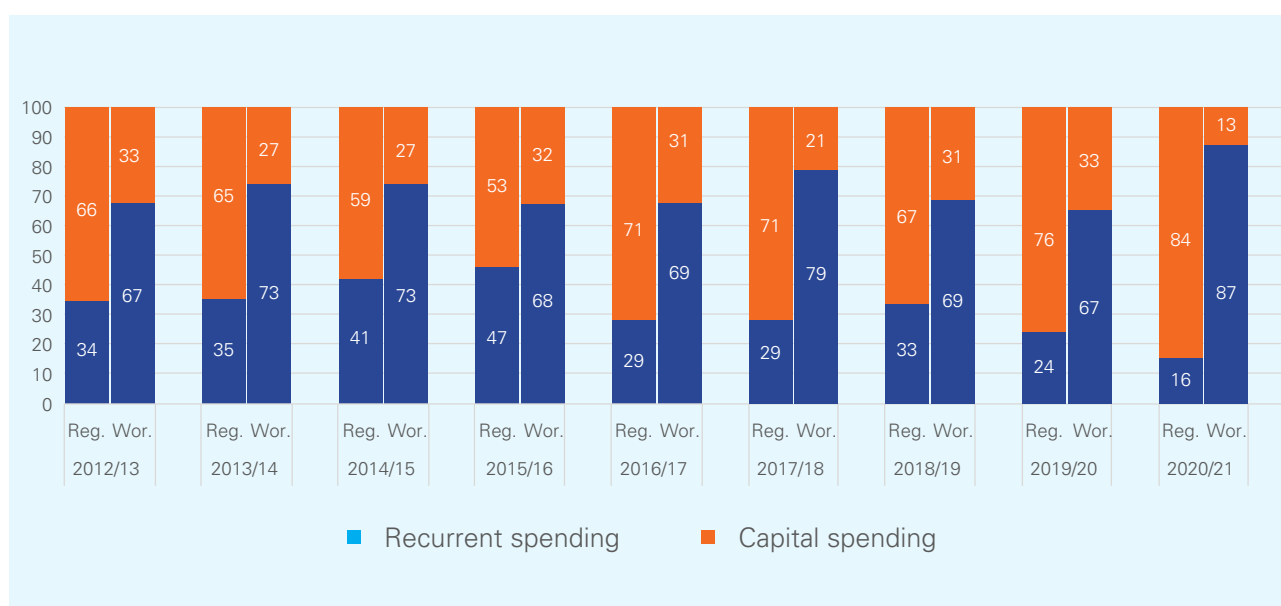
Source: Oromia Regional Plan and Development Commission (2012/13–2020/21)

The share of spending at the regional bureau level is predominantly capital, while woreda-level spending is mainly recurrent.

This is mainly because water spending managed at the bureau level is mostly on large-scale projects requiring high capital expenditure. Of the relatively lower share of spending that goes to the woreda administrations, on average, 71 per cent is spent on recurrent costs. The main component of this recurrent expenditure is on staff salaries and operational costs. Maintenance costs relating to drinking

water schemes are managed by community water committees. Although the involvement of communities in managing water schemes is essential, the lack of resources to keep the water schemes functional is a serious challenge. The resource allocation at the woreda level should be increased so that there is sufficient allocation for operational costs to maintain the water facilities, and to ensure that water schemes are functional and serving the community as intended.

Figure 6. Regional bureau-level and woreda-level capital versus recurrent spending



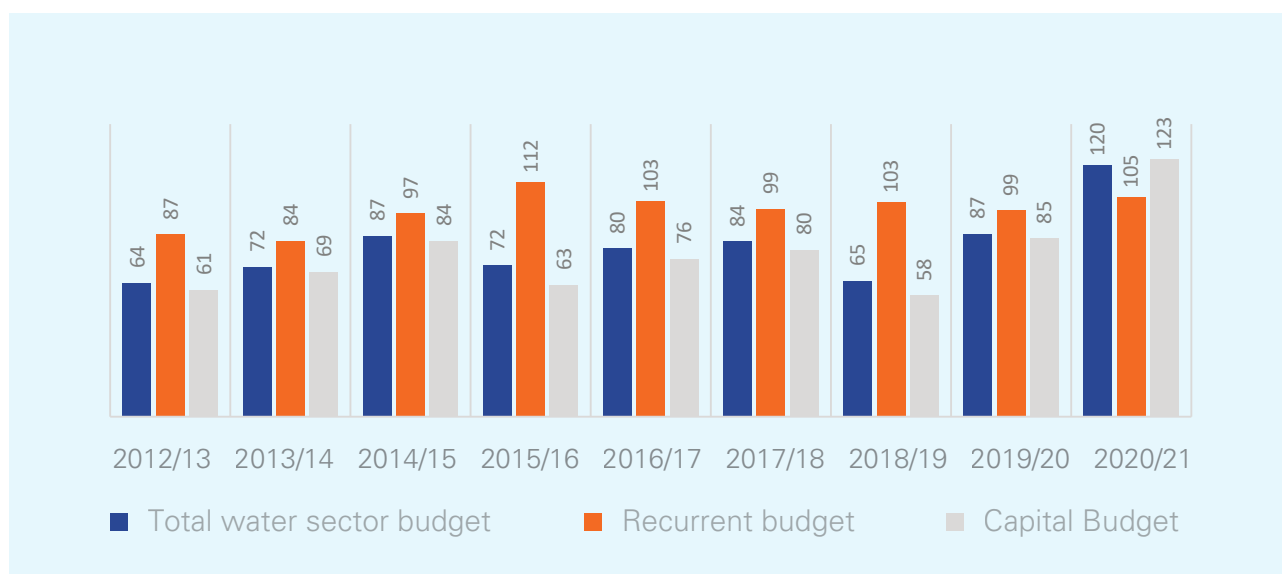
Source: Oromia Regional Plan and Development Commission (2012/13–2020/21)

Water supply budget credibility

The average water supply budget credibility rate for the period between 2012/13 and 2020/21 is 81 per cent (Figure 7). Budget credibility is measured as the proportion of actual expenditure to budget approved at the beginning of the fiscal year. The trend for the total water budget credibility rate indicates there was underspend of the budget for all the years except 2020/21. In 2020/21, there was an overspend in the water sector budget, since the water and energy bureau utilised budget that was underspent by other sectors to finalise some water projects. The average

budget credibility was 99 per cent for recurrent budget, and 78 per cent for capital budget. The recurrent budget is credible, as most recurrent expenditure relates to salary expenses, which are predictable. On the other hand, the capital budget credibility is low, pulling down the overall credibility, since water supply expenditure is predominantly capital. Some of the reasons for the under-utilisation of capital budgets are delays in procurement processes, the shortage of foreign currency to get required inputs for projects, and instability and conflict in project implementation areas.

Figure 7. Regional Water budget credibility rate (per cent)



Source: Oromia Bureau of Finance (2012/13–2020/21)

Challenges

Although the provision of water supply services has improved in the region in the past decade, the regional water and energy bureau faces various challenges in extending coverage and providing services to the required standard. Shortage of finance is one of the reasons that the bureau faces in increasing access to water supply in rural and hard-to-reach areas in the region. This is compounded by the inflationary pressure and the steady depreciation of the Birr experienced over the last few years. The regional water and energy bureau has also mentioned the challenge related to delays in budget release,

which adversely impact budget execution. Security and instability issues in some parts of the region and the outbreak of the recent COVID-19 pandemic were also critical challenges that the bureau has faced in delivering water supply services. Improving hygiene awareness, mainly in rural areas, demands that the regional bureau should double its efforts. Finally, there needs to be better coordination and collaboration between regional sector bureaus working in areas of WASH to ensure that water supply access will translate into improved and efficient WASH service delivery.

Key takeaways

- Water supply spending is predominantly capital. Unlike the education and health sectors, most of the spending is done at the regional bureau level, with woredas managing a smaller share of the expenditure, mainly spent on recurrent costs.
- On average, the capital budget credibility is lower than recurrent budget credibility. Delays in procurement processes, the shortage of foreign currency to get required inputs for projects, and instability and conflict in project implementation areas are some of the reasons for the under-utilisation of capital budgets.

Key policy issues

- **Within the regional bureau of water and energy, the expenditure classification system lacks disaggregation.** There is no disaggregated data to track expenditure for water supply only. This is specifically the case for recurrent expenditure. The management information system should be strengthened to increase access to and the availability of such information with ease.
- **There is no systematic mechanism to measure off-budget water sector expenditure.** There is a need to shift off-budget financing of the water sector to on-budget records to better plan, execute and monitor how much is being spent on water supply services.
- **While the water sector policy mandates woredas to build water supply infrastructure, this is mainly being undertaken by the regional bureau of water and energy, partly due to the lack of capacity at the woreda level.** As water supply access would be more effective through a decentralised mode of service delivery, the regional water and energy bureau should play a more active role in capacitating woredas to take on their full mandate of water sector development and manage larger contracts to enhance access to water supply.

Annex 1: Oromia Regional State Expenditure on Water Supply 2012/13–2020/21

Gregorian calendar	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Ethiopian fiscal year	2005	2006	2007	2008	2009	2010	2011	2012	2013
Regional expenditure (in million Birr)									
Total regional expenditure	21,043	25,180	32,637	36,058	47,039	49,543	57,355	71,797	98,243
Total regional recurrent expenditure	12,083	15,108	21,547	24,084	34,664	40,352	45,588	51,812	69,041
Total regional capital expenditure	8,960	10,071	11,089	11,974	12,374	9,190	11,767	19,985	29,202
Total bureau-level expenditure	11,333	13,252	14,960	15,802	18,476	19,579	23,267	31,200	44,463
Bureau-level recurrent expenditure	3,195	4,262	5,488	6,517	8,615	11,956	14,090	14,090	17,550
Bureau-level capital expenditure	8,139	8,990	9,472	9,285	9,861	7,622	9,176	17,110	26,912
Total woreda-level expenditure	9,709	11,928	17,677	20,256	28,562	31,265	34,089	40,597	53,780
Woreda-level recurrent expenditure	8,888	10,846	16,059	17,567	26,049	29,697	31,498	37,722	51,490
Woreda-level capital expenditure	821	1,081	1,618	2,689	2,513	1,568	2,591	2,875	2,290
Regional water and energy expenditure (in million Birr)									
Total regional water and energy expenditure	1,260	1,885	2,445	2,745	2,637	2,243	2,489	3,306	5,030
Regional recurrent water and energy expenditure	316	531	807	998	598	556	618	595	733
Regional capital water and energy expenditure	944	1,354	1,638	1,747	2,039	1,687	1,871	2,711	4,297
Total bureau-level water and energy expenditure	942	1,394	1,692	1,846	2,133	1,769	1,874	2,683	4,457
Bureau-level recurrent water and energy expenditure	105	172	259	391	251	184	196	176	237
Bureau-level capital water and energy expenditure	838	1,221	1,433	1,455	1,882	1,585	1,678	2,508	4,221
Total woreda-level water and energy expenditure	318	491	753	899	505	473	615	623	573
Woreda-level recurrent water and energy expenditure	212	359	548	607	347	372	423	420	496
Woreda-level capital water and energy expenditure	106	133	205	292	157	101	192	203	76

Source: Oromia Regional Plan and Development Commission (2012/13–2020/21)

This budget brief analysing water supply public budget and expenditure of the Oromia Regional State for the period 2012/13 to 2020/21 was produced through a partnership between the Ethiopian Economics Association (EEA) and UNICEF Ethiopia. Technical support and coordination from UNICEF Ethiopia was provided by Fanaye Tadesse Techane ftechane@unicef.org and Zeleka Paulos zpaulos@unicef.org. EEA is responsible for the data collection and accuracy of the information presented. The main objective of this budget brief is to synthesize complex budget and expenditure information so that it is easily understood by stakeholders, to foster discourse, and to inform policy and financial decision-making processes of the regional government. The analysis presents budget and expenditure that are recorded on-budget by the Oromia Regional State.

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