

ISN-33793

PA.A.A. 007/18

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**USAID/Lesotho's Rural Water
and Sanitation Project**

**Memorandum Audit Report No. 3-632-84-7
February 14, 1984**

MEMORANDUM

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TO : Ms. Edna A. Boorady, Director, USAID/Lesotho

FROM : Mervin F. Boyer, Jr., RIG/A/Nairobi

SUBJECT: Memorandum Audit Report: USAID/Lesotho's Rural Water and Sanitation Project. Audit Report No. 3-632-84-7

INTRODUCTION

The Rural Water and Sanitation Project was approved on August 23, 1979 for a period of nine years with a total life-of-project funding of \$12,142,000. On August 30, 1979, a Grant Agreement was signed between the Government of Lesotho (GOL) and AID. Subsequently, USAID/Lesotho issued a PIO/T on December 27, 1979 for the technical assistance contract. A contract was signed with Morrison-Maierle, Incorporated, a United States based firm, on March 6, 1981. As of September 30, 1983, obligations and disbursements totalled \$9.4 million and \$4.8 million respectively.

The goal of the project is to provide rural water supply systems which will ultimately improve the health and basic living standards of Lesotho's rural poor. This group comprises approximately 94 percent of the population. The project will assist the Government to develop an institutional capacity, through the Village Water Supply Section (VWSS) of the Ministry of Rural Development, to design, construct, and maintain new and existing rural water supply systems in Lesotho. At the same time, 210 rural village water supply systems will be rehabilitated or constructed, and procedures for installation and maintenance of rural water systems developed. The VWSS will also have the capability to design and construct approximately 20-25 new systems a year after the project is completed.

To achieve these purposes the project will, among other things, (a) provide training for Basotho personnel in the VWSS who will be responsible for minor maintenance of village water supply systems; (b) establish regional and district maintenance centers responsible for major repair work of rural water supply systems in their respective service areas; and (c) foster coordination between the Ministries of Health and Rural Development in recognition of the interdependence of health and water supply activities in the successful implementation of this project.

PURPOSE AND SCOPE

The main purpose of the audit was to determine how well the project was progressing toward meeting goals and objectives. Other purposes were whether (a) AID-provided equipment was being effectively utilized and properly maintained, (b) the construction program was proceeding as planned, (c) USAID/Lesotho was adequately managing and monitoring the project, and (d) the contractor's performance was in compliance with the terms of the contract.

Field work was done in October, 1983 at USAID/Lesotho, VWSS, and the technical assistance contractor's office in Maseru. Our audit covered the period August 30, 1979 thru September 30, 1983. Site visits were made to the regional maintenance center at Mphahle's Hoek and the district maintenance center in Mafeteng. We reviewed USAID/Lesotho project files and financial records, and discussed project progress, accomplishments and problems with cognizant officials of USAID/Lesotho, Morrison-Maierle, Inc. (technical assistance contractor) and the VWSS.

Our review was made in accordance with the Controller General Standards for Audit of Governmental Programs and accordingly included such tests of the program activities, records and internal control procedures as we considered necessary in the circumstances.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Overall, the project had been successful to date. It was progressing towards attaining the major goals and objectives set forth in the project paper. It was well on its way to building a strong institutional base from which an array of development activities may be generated. In our opinion, this was attributable to the performance and hard work of all the parties involved in the implementation of the project.

The cooperative efforts achieved in this project resulted in the development of a unified country-wide project which provided efficient and well constructed rural water supply systems to those with the utmost need. As of September 30, 1983, the project was slightly ahead of schedule. A total of 46 water supply systems were completed. An additional 39 were under construction. Other accomplishments included the implementation of a procurement plan; purchasing of project vehicles and commodities; development of a two-year work plan which was updated in January, 1983 and scheduled for another update in January 1984; completed construction of one regional and three district maintenance centers as well as one junior and six senior staff houses. The training program was well ahead of schedule. A total of 54 masons, 20 foremen, 12 supervisors and 348 waterminders had been trained with AID funds. The health

education component had made considerable progress in coordinating activities in water and sanitation at the village level and planning for village health worker training. The maintenance support program had been developed and integrated with regional and district maintenance centers constructed under the project.

While overall project performance by all parties was impressive, we noted two problem areas centering on institutionalization of project activities. If not corrected, the GOL's ability to continue rural water activities at the end of the project period could be severely limited.

Ability of the GOL to Meet Recurrent Costs Was Questionable

The government's current austerity program and fiscal crisis made the ability of the GOL to meet recurrent costs^{1/} questionable. This problem was recognized when the project was designed. According to the project paper, meeting recurrent costs is a problem throughout the GOL. Recognizing that Lesotho is one of the least developed countries and has recurrent budget difficulties, AID/W granted a waiver of the 25 percent minimum host government contribution to the project. Also, AID/W approval was obtained to deviate from the policy expressed in AID Handbook 3, Appendix 3C, which limits the life-of-project to five years, to allow a 9-year life-of-project. The problem of meeting recurrent costs was further addressed in two project evaluations.

The most recent, a June 1983 external evaluation report, stated:

"The GOL budgetary deficit which first emerged two years ago was estimated to be (Rand^{2/}) 59.8 million (16% of Gross Domestic Product) in 1981/82. Most of the deficit is financed by borrowing in South Africa and locally at commercial rates. From 1979/80 to 1981/82 revenues increased 21% while expenditures increased 102%. In large part, the deficit can be attributed to the GOL's inability to control growth of expenditures in face of declining growth rates in revenues. Because of the high level of debt, it is expected that the recurrent budget problems will grow more severe in the next few years.

1/Recurrent costs as discussed in this report include the cost of constructing new water systems once the project has terminated in addition to maintenance and organizational costs.

2/ One dollar = approximately 1.17 Rand.

"Thus, while the GOL views the provision of water to the villages as vitally necessary, and one of its highest priorities, its ability to provide financial support for certain line items is likely to be less than anticipated in the project paper. This includes not only the ability to take over the operation of the project in 1988, but also the ability to make anticipated GOL project contributions. The GOL may be unable to purchase vehicles for the project when the USAID-purchased ones need replacement. It probably will not be able to provide the level of support necessary to purchase spare parts, perform regular vehicle and water system maintenance and possibly fund all the local staff promised in the project paper and the Two-Year Work Plan."

Accordingly, USAID/Lesotho was aware of the situation and was closely monitoring it. Numerous high level meetings were held with GOL officials to discuss the problem. The most recent meeting, under the chairmanship of the Senior Permanent Secretary, was held between representatives of the GOL and USAID as well as other local donor countries and organizations. The GOL reiterated its intentions to meet its obligations in connection with existing projects but was, on occasion, prevented by budgetary difficulties. It was agreed that before new projects were adopted it should be established that the GOL could meet not only its commitments during the life of the project, but also, upon its completion, the continuing recurrent costs and needs for skilled manpower.

While the recurrent cost problem had been established, we noted little evidence of actions being taken to identify a solution to this project's recurrent cost problem. In our opinion, one possibility might be that of charging the users.

Our position is supported by AID's policy paper on "Recurrent Costs" dated May, 1982. In part, it states:

"Sometimes, an LDC (Less Developed Country) government's inability to finance recurrent expenditures is a result of its inability to raise sufficient resources, because of, for example, an institutional weakness in its tax system. More often, however, the problem arises from a failure to charge users for government services such as health, education, veterinary services, agricultural extension, transport, and water and sanitation. The failure to charge users for services (and thus the subsidization of those services) is frequently justified on equity grounds. In fact, subsidies, in practice, often tend to be inequitably distributed. For most

poor countries, resources are inadequate to provide, for example, free universal extension services, while also pursuing other development objectives. Consequently, these services are provided to a chosen few. If however, charges were imposed for the use of the services, the increase in financial resources would enable the government to distribute these and other services more broadly. Subsidies as a 'safety net' may be justifiable if they are carefully targetted at the poor. However, the majority of subsidies are imprudent and ineffective."

Our position is further supported by a recent GAO draft report titled "Meeting a Basic Human Need: AID's Rural Potable Water and Sanitation Program" dated November 4, 1983. In this report, which looked at the program in five countries, GAO concluded that the collection of user fees has met with limited success whereas, in general, host government support has not been adequate. They noted that financial support was a problem in four of the five countries reviewed. The country where it was not a problem was charging a user fee. The collection of user fees was deemed a limited success because in two of the countries they were incurring problems in collecting all fees because of broken water meters, inaccurate meter readings, or unauthorized connections. In our opinion, these types of drawbacks or implementation problems do not adversely affect the merits of charging user fees and can be corrected.

Conclusion, USAID Response, RIG/A/N Comments, and Recommendation

In our opinion, the project design does not adequately address recurrent costs nor has adequate attention been given to the problem. Although USAID/Lesotho is well aware of the problem and is closely monitoring it, we believe that greater attention needs to be given to possible solutions to the problem.

Our draft report contained a recommendation that USAID/Lesotho undertake a study of the feasibility of charging users for water as a method of financing recurrent costs.

USAID Response

In response to our draft report, USAID/Lesotho concluded that charging user fees is not feasible or appropriate and would not likely be viable in rural Lesotho. They contended that an enforced collection of user fees could limit the very poorest from benefitting and could run counter to the health improvement objectives of the project. Also, it would likely result in many villages returning to their traditional sources of supply, at least part of the time, when they are unable to pay. These sources are almost always contaminated and would

negate the health benefits of the new, clean water supply. Also, the nature of the water systems being installed do not lend themselves to water metering. They are not large, piped water systems, with household connections, but are of the standpipe type with approximately 100 people being served per handpump.

Furthermore, USAID/Lesotho stated that:

"Charging users for a service on an as-used basis is only one of several ways to minimize government recurrent costs. Our review of evaluations of AID-funded water projects suggests that, in the case of simple, small village systems, a guiding principle should be that of maximizing local responsibility for system operations and maintenance. Villagers must, of course, agree to carry out their new responsibilities, otherwise systems may lie unused, simple repairs not made, and users will return to traditional sources. The likelihood of community support for operations and maintenance depends on sustained local interest and commitment to keep the system functioning. Feasible options for user responsibility must be assessed on a case-by-case basis."

Accordingly, USAID/Lesotho plans to undertake a study of the community aspects of the project. Their study will include a review of (a) current procedures for community participation in water system management, and (b) options, if any, to increase user contributions for system construction, operations, and maintenance.

RIG/A/N Comments

We believe that charging users for water as a method of financing recurrent costs is feasible under this project. There are other methods of assessing the user other than by metering household connections. For example, one possibility might be a periodic assessment or water tax against the villagers. The method or system for collecting from individual villagers or families could be left up to the village leaders. We agree with the action being taken by USAID/Lesotho to study options to increase user contributions for system construction, operations and maintenance, therefore, we have deleted the recommendation contained in our draft report.

Village Contributions Were Not Being Effectively Utilized To Offset Rural Water Systems Maintenance Costs

Under the project, it was envisioned that village contributions were to be collected to offset rural water systems maintenance. However, procedures had not been developed whereby the

WSS could draw down on these funds in order to utilize them for maintenance purposes. As a result, the funds have remained unused except in a few instances when the village voluntarily agreed to purchase needed spare parts.

Under the approved selection criteria, 60 to 90 percent of the households in a village selected for a water supply system must be willing to contribute a nominal fee to defray the cost of maintaining the system. This was interpreted to be about Rand 5 per household although the criteria is silent on the exact amount. Before the project begins construction, each village must collect these fees. We were unable to determine how much was in the individual village accounts because this information is only available at the district level. Neither USAID nor the contractor were able to tell us how much was in the accounts.

The funds collected were maintained in an account controlled by the local village water committee. Expenditures are made only after the village voluntarily agrees to purchase needed spare parts. There was no way that the WSS maintenance people, who are responsible for maintaining the system, could make repairs, bill the villagers and have the funds deposited into a WSS controlled maintenance fund. As a result, WSS was assuming, with minor exceptions, the total cost of maintaining the village water supply systems. The reason was that the WSS had no way of drawing down on the village maintenance fund. Under the current GOL financial system, if WSS were to bill the villagers, all receipts would be transferred to the general GOL budget. Accordingly, the funds could be used at the government's discretion and the project would not necessarily benefit.

Conclusion, USAID Response, RIG/A/N Comments, and Recommendation

In our opinion, a system should be established whereby funds received for maintenance costs could be channeled directly to the WSS earmarked for maintenance only. This would not only encourage the local villagers to exercise proper care and take preventive measurements because it would be their money, but it would also assist in defraying future maintenance costs. Further, these steps could significantly contribute to the overall recurrent costs problem presently confronting the GOL.

USAID Response

In response to our draft report, USAID/Lenotho felt that the intent of the recommendation is valid if village contributions can be paid into the WSS based on billing for work actually performed. Accordingly, they plan to review the matter with GOL officials.

RIG/A/N Comments

We are retaining our original recommendation until USAID/Lesotho has further investigated the matter with GOL officials.

Recommendation No. 1

USAID/Lesotho take action to have the GOL establish a system whereby village contributions could be channeled directly to the VWSS to be used only for rural water supply maintenance costs.

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