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# Professionalizing Water Supply Management in the Remote Ethiopian Lowlands: Improved management expands market opportunities for private sector actors in remote, challenging rural settings

Briefing Note, January 2021

**The USAID Lowland WASH Activity is professionalizing community-based water supply management generates cash reserves, supports scheme functionality, and encourages development of a market for needed goods and services from local private suppliers.**

## **KEY INSIGHTS**

- The Government of the Federal Democratic Republic of Ethiopia's policy and guidance encourage the private sector to support sustainably managed rural water supply services
- Private sector opportunities in rural water supply service provision are enhanced by professionalized water scheme management
- In Ethiopia's Lowland Regions, market-based economies are weak due to the small size and remoteness of communities
- The USAID Lowland WASH Activity has created demand for private sector support by professionalizing community-based management of local WASHCOs
- Tariffs, financial management, and transparency are key outcomes indicating a WASHCO's viability and its ability to contract goods or services from companies or private individuals



A female WASHCO member (Halima Mohammed) holding a savings bank book at Gabatoli community solar water system in Erebti Woreda, Afar region. Photo Credit: Michael Tewolde.

## Professionalizing Community-based Water Supply Management is a Necessary Evolution to Allow Private Sector Support to Flourish

Community-based management is at the center of the Government of the Federal Democratic Republic of Ethiopia's (GoE's) framework for rural water supply<sup>1</sup> which views partnerships between local water, sanitation, and hygiene committees (WASHCOs) and the private sector as essential to attaining national targets. Global and Ethiopian experience clearly shows the benefits of professionalized management by WASHCOs over more conventional community management schemes (see Box 1). The USAID Lowland Water, Sanitation, and Hygiene (WASH) Activity works in some of the most challenging regions of Ethiopia to professionalize WASHCOs and entice mobilization of the private sector consistent with the aspirations of the GoE.

In Ethiopia, WASHCOs are tasked with managing operation and maintenance (O&M) of water schemes, but they have serious limitations. Though their mandates are established (see Box 2), few have the legal recognition, financial management skills, accountability to customers, or procurement capacity to professionally perform their responsibilities. Without high performing WASHCOs, there is little reason for private sector actors to enter into partnerships and support reliable, affordable, and safe rural water supplies.

The USAID Lowland WASH Activity has worked to professionalize WASHCOs and thereby establish a foundation for privatized service delivery in community after community. The Activity has supported 130 WASHCOs in the highly challenging Lowland Regions of the country. According to a randomly sampled internal assessment, Activity support has established a foundation for the private sector in 11 of 19 water schemes<sup>2</sup> across three states, as indicated by effective financial management<sup>3</sup>. After Activity support, 18 had a core tariff in place for domestic water collection; functioning, transparent mechanisms to tailor the tariff to needs of marginalized populations; and transparent communication of financial matters to consumers. Eleven WASHCOs had established bank accounts and had cash available; twelve had received more in monthly revenue than was needed for operating expenses. These examples of improved management, increased cash reserves, and better service delivery serve to increase demand while opening up opportunities for expanded private sector engagement.

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### Box 1. Professionalized Community-based Water Supply Management Must

- Be organized consistent with local government by-laws and national legislation, policy, and guidelines
- Adopt clear contracting arrangements
- Operate as legal entities to access financing and contract support services
- Ensure continuity of performance

*Lockwood and Le Gouais (2015)*

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### Box 2. WASHCO's Core Water Supply Responsibilities of Community Management:

- Ensure water points serve the community with safe and adequate water
  - Collect the water tariff
  - Deposit income at a government-endorsed financial institution
  - Employ personnel, and set salaries acceptable to users
  - Collaborate with Woreda (District) Water Offices on management, operations, and maintenance issues
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<sup>1</sup> The Federal Democratic Republic of Ethiopia (2014)

<sup>2</sup> Lowland WASH Activity, WASHCo Performance Assessment (in preparation)

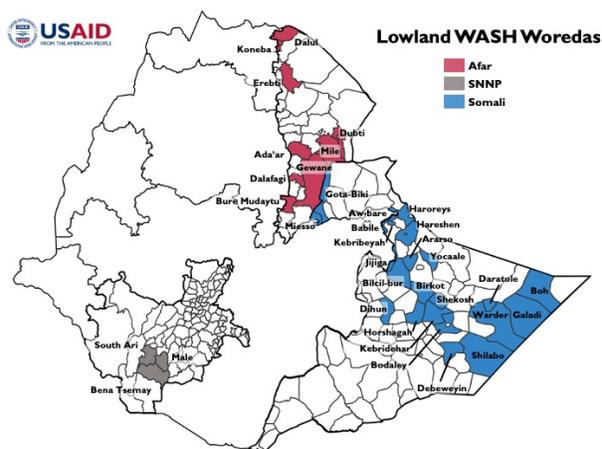
<sup>3</sup> Evaluated based on active tariff and fee collection schedules and a positive savings balance at the bank to support water service maintenance needs.

## Service Delivery Challenges in Ethiopia’s Lowlands Regions Require Context-specific Adaption of National Guidelines

Ethiopia met the Millennium Development Goal (MDG) for drinking water<sup>4</sup>, and it has shown persistent sector leadership nationally through its One WASH National Program (OWNP). The OWP provides a well-structured institutional setup for rural water spanning federal, regional, and Woreda/district levels; and a strategic framework for O&M delegation to local private sector actors<sup>5</sup>.

The Lowland Regions of Ethiopia where the USAID Lowland WASH Activity operates (See Figure 1) are complex environmentally, socially, and operationally. They are typically extremely dry but alternate risk of flooding during rainy seasons and risk of drought throughout the rest of the year. With 60 percent of the land area and 12-14 percent of the national population – mostly in pastoral communities – the Lowland Regions lag behind the rest of Ethiopia in terms of most social and economic indicators<sup>6</sup>. Access to water and sanitation is well below national averages. The severe and frequent droughts render communities increasingly fragile. A cash-based market economy is still highly nascent. To grow private sector markets for rural water supply O&M, the OWP relies on good governance and a water supply management model based on high-performing WASHCOs. Forming them in the Lowland Regions must account for these unique contextual challenges.

**Figure 1. Areas of Implementation by the USAID Lowland WASH Activity**



## Realistic Strengths and Opportunities to Build Sustainable WASHCO/Private Sector Collaboration in Lowland Regions

To successfully expand private sector opportunities in the rural water supply sub-sector in the current era of increased focus on sustainable service delivery, a WASHCO must be solidly positioned to operate in local markets, either by themselves or in coordination with other WASHCOs. Prerequisites to market engagement by WASHCOs include<sup>7</sup>:

1. Operation as a recognized management entity;
2. Day-to-day control and oversight of the scheme;
3. Having tariff revenue cover recurrent costs;
4. Clearly defined asset ownership; and
5. Capacity and ability to enter into contracts with private operators and suppliers.

Human resource capacity is a critical constraint to achieving these needs. As the USAID Lowland WASH Activity began its efforts to build a foundation of WASHCOs that could create demand for private sector goods and services, it identified several weaknesses. These included:

1. Ineffective operationalization of institutional roles and mandates;

<sup>4</sup> USAID (2017)

<sup>5</sup> The Federal Democratic Republic of Ethiopia (2016)

<sup>6</sup> World Bank (2019)

<sup>7</sup> WaterAid (2011)

2. Inefficient financial management;
3. Incomplete cost recovery;
4. Inadequate local private sector actors; and
5. Inability to generate and award contracts.

Simultaneously, Activity-led analyses noted consistent strengths that serve as the core elements of professionalized service delivery. WASHCOs across the Lowland Regions were regularly found to have:

1. Clearly defined and respected tariff regimes including mechanisms for resetting tariffs based on cost recovery principles; and
2. Clarity around asset ownership and related responsibilities to the government.



*FGD discussion about water service provision with community members in Afar region. Photo Credit: Lowland WASH Team.*

WASHCOs can be expected to effectively manage the day-to-day operations of their water schemes. But, when parts give out, soil conditions change, climate impacts are revealed, or unanticipated challenges occur, the efficiencies and skills of a vibrant private sector are needed.

### **Stimulating Private Sector Opportunities by Establishing and Quantifying Professionalization Among WASHCOs**

Given a low-functioning private sector, the USAID Lowland WASH Activity worked to establish capable and legal WASHCOs, infusing the conventional management model with better skills and transparency. This was done to achieve three objectives: (1) operationalizing government’s national policy on WASHCOs, (2) professionalizing their management, and (3) creating new market opportunities for companies and individuals to provide maintenance support beyond the ability of a professionalized WASHCO.

The Activity supported over 130 WASHCOs in Lowland pastoral areas<sup>8</sup>. It began professionalization efforts in each community by conducting a rapid, qualitative assessment of the strengths and weaknesses of each WASHCO regarding membership, the roles and influence of women, and the status of their finances and savings. Finances and savings were then used as proxy indicators of management performance, comparing this output indicator for each WASHCO with national averages available through the OWNPN.

To build the managerial foundation and create a demand for private sector growth, the Activity worked with WASHCOs to: (1) separate service functions from operational functions, and prepare to delegate service functions to entrepreneurs or local companies; (2) establish the skills needed to move from volunteerism towards professionalized service delivery, (3) strengthen their ability to implement performance-based management and adopt good business practices, including improving tariff collection and reserve accounts, and (4) promote accountability through direct relations between consumers and WASHCOs. In these ways, Activity support reduced the risk of WASHCOs falling into a vicious cycle of poor service delivery, non-payment of tariffs by unhappy customers, and further deterioration of services. Through these efforts, the Activity transformed each WASHCO from a classical, flawed

<sup>8</sup> Lowland WASH Activity, WASHCO Performance Assessment (in preparation)

management structure into a professional service provider consistent with national frameworks and supportive of establishing and growing a market for private sector skills across multiple water schemes.

To measure the success of newly professionalized WASHCOs and the growth of private sector market opportunities for companies and private individuals, the Lowland WASH Activity focused on WASHCO financial management and savings. Cash on-hand was used as an indicator that a WASHCO had balanced expenses with tariff revenue and was prepared to pay for services that it could not provide internally. Similarly, cash on-hand would serve as a concrete enticement to private sector actors that reliable income was possible through servicing the unmet needs of WASHCOs at a profit-making scale of opportunity.

### Newly Financially Viable WASHCOs Can Enter Markets for Rural Water Supply Goods and Services

In November 2019, Lowland WASH completed a rapid assessment of WASHCOs established/revitalized and trained to manage water schemes newly constructed or rehabilitated by the Activity in Afar, SNNP, and Somali regions. For the assessment, five to seven WASHCOs were selected from each state that had been managing the O&M of their community water schemes for at least six months.

Nineteen WASHCOs were assessed, each providing, on average, water supply for 2,200 people (range 390 to 5,446, mean 1,800). Each maintained between 20 and 50m<sup>3</sup> storage serving multiple taps; half included cattle troughs. Two also served schools, and three also served health care facilities. Seventeen of the schemes had been handed over to government ownership. The majority of the schemes were boreholes fitted with a submersible pump and public tap stands, while five were shallow boreholes fitted with a handpump. Seven were powered by a solar system, five used a diesel generator, and one was powered from the electric grid.

**The results:** 18 of the 19 sampled water schemes had a core tariff in place for domestic water collection. Most included a variation of rates based on season, gender of household head, number of wives in the household, livestock type, or livestock number. WASHCOs had adjusted tariffs based on revenue/expenditure balance, and all tariffs were intended to cover anticipated O&M costs. Several WASHCOs had made external investments in O&M support as a small footprint in nascent markets for goods and services.

The basic professionalization tenets of inclusive tariff setting, tariff setting to cover expected costs, and presence of bank accounts with values that exceed anticipated maintenance costs have begun to take hold. These are reflected in scheme functionality as illustrated by three examples taken from the recent performance assessment.

Name of water schemes	Functional	Tariff (per household per month)	Typical monthly income/expenses	Positive bank account
Gebatoli	yes	50birr (US\$1.31)	1,000-4,000/500	4,900birr (US\$130)
Be'eda	yes	40birr (US\$1.05)	500-1,000/500	27,180birr (US\$722)
Kako Kayisa	yes	5-10birr (US\$0.13-0.26)	1,600/200	4,700birr (US\$125)

Activity support had successfully resulted in building a foundation for private sector engagement in 11 of the 19 sampled schemes, as indicated by a positive bank account. In so doing, the WASHCOs had completed a needed step toward the goals of the OWNPN O&M Framework. This foundation consisted

of a measurable, equitable, community-based management structure as a precursor for entry of the private sector.

### **Further Professionalization Will Continue to Expand Private Sector Opportunities**

Current OWNPN policy directs that tariffs be based on full cost recovery – including operations, maintenance, small repairs, and major capital replacement; however, WASHCOs have not yet fully operationalized this policy. Significant local creativity is emerging, but as yet, tariffs do not yet address all elements of full cost recovery. More advanced steps at professionalization and the complete privatization of water schemes will require tariffs that account for all four elements. Establishing this coverage is a next challenge toward aligning water supply service professionalization more fully with the principles of government-structured frameworks. This is an important lesson to carry forward for those continuing to establish and solidify rural water supply markets that entice private companies and individuals to play larger roles in the sustainable delivery of reliable, affordable, and safe rural water supplies.

### **Resources**

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## **ABOUT**

**The USAID Lowland Water, Sanitation and Hygiene (Lowland WASH) Activity:** USAID/Ethiopia's flagship WASH activity delivers technical assistance, develops small-scale infrastructure, and builds the capacity of national and regional governments and stakeholders in the lowland Somali, Afar and Southern Nations, Nationalities and Peoples (SNNP) regions. In support of the Government of Ethiopia's Growth and Transformation Plan and One WASH National Program, it aims at (1) increasing access to improved drinking water supply sources on a sustainable basis; (2) increasing adoption of key hygiene behaviors and increased access to improved, sustainable sanitation; (3) improving efficiency and sustainability of food production from irrigated and rain-fed agricultural systems; and (4) improving water governance and data management. For more information, contact Petros Birhane, Chief of Party, at [pbirhane@lowash.com](mailto:pbirhane@lowash.com).

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