



The Republic of Uganda

Ministry of Water, Lands and Environment

Issue Paper 1

Overview of the Water Sector, Reform, SWAP and Financial Issues

**Paper for the
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OVERVIEW OF THE WATER SECTOR, REFORM AND SWAP ISSUES

1 GENERAL OVERVIEW

1.1 Background

The Water Sector is undergoing reform with the objective to ensure that services are provided and managed with increased performance and cost effectiveness, to decrease the government burden while maintaining the government's commitment to equitable and sustainable provision of services in Uganda. The water sector reform undertaken by four (4) component studies; Rural Water and Sanitation Development, Urban Water and Sanitation Services, Water for Production and Water Resources Management.

The Water Reform studies and their documentation were/are being done in a highly consultative process where consensus in general has been reached on a Sector Wide approach for the sector. The main challenge in developing the sector is to establish strong mechanisms for the effective, efficient and sustainable delivery of Water & Sanitation services to the end user, on the basis of the strategies and funding mechanisms in the sector wide approach (SWAP).

A SWAP framework for the WSS sector (Annex I) was prepared and generally supported at the first GOU/Donor review for the Water Sector in September 2001. GOU decision to move towards a SWAP and with the increased GOU financing through PAF, radical changes in implementation approaches are required and implementation calls for common strategies and concerted efforts involving all the sector stakeholders. Government is to ensure that donors are fully involved in this process and that they have confidence in funding the sector through the government budget.

1.2 Institutional Arrangements

The current sector institutional frameworks includes:

1.2.1 Central Government

The Central Government is responsible for strategic planning, coordination, quality assurance, technical assistance and support to Local governments and other service providers including collaboration efforts with donors/ NGOs and the private sector.

The key line ministries include:

(i) Ministry of Water, Lands and Environment

Ministry of Water, Lands, and Environment (MWLE) has overall responsibility for initiating the national policies and for setting national standards and priorities for water management. **A Water Policy Committee (WPC)**, with a secretariat at DWD, as provided for in the water statute, was established in May 1999, to guide

the Minister responsible water and to set national policies, standards and priorities.

Under the MWLE there are two water sector institutions:

- ◆ **Directorate of Water Development (DWD)**, with 2 Departments (Water Supply and Water Resources Management) is the Government sector lead agency responsible for managing water resources, policy guidance, co-ordinating and regulating all water sector activities and provides support services to the local governments and other service providers.
- ◆ **National Water and Sewerage Corporation (NWSC)**, an autonomous parastatal entity established in 1972¹ which is responsible for the delivery of water supply and sewerage services in 12 large urban centres. 4 additional towns (Arua, Bushenyi, Kitgum and Soroti) were transferred to NWSC in 2002.

(ii) The Ministry of Finance, Planning and Economic Development

The ministry has the role of planning, resources mobilisation and allocation of funding, including the co-ordination of donor inputs and privatisation.

(iii) Ministry of Local Government

Ministry of Local Government has the mandate to establish, develop and facilitate the management of efficient and effective decentralised government systems capable of delivering the required services to the people, in order to foster good governance social and economic development.

(iv) Ministry of Health

Ministry of Health has the responsibility for hygiene promotion and household sanitation.

(v) Ministry of Education and Sports

Ministry of Education and Sports Health has the responsibility for hygiene promotion and sanitation in schools.

(vi) Ministry of Gender, Labour and Social Development

The ministry is responsible for spear heading and co-ordinating gender responsive development and community mobilisation.

(vii) Ministry of Agriculture, Animal Industries and Fisheries

The ministry is responsible for spear heading Agriculture Development, including some aspects of Water for Production.

¹ NWSC was established by Decree No.34 of 1972. This decree was repealed by Statute No.8 of 1995, referred to as the “NWSC Statute”, which now governs all operations of NWSC

1.2.2 Local Government

Government has taken steps in the Decentralization process where the governance and the service delivery functions have been decentralized to the Local Governments in line with the constitution (1995) and the Local Government Act.

The Local Governments (districts, sub counties and urban authorities) are now responsible for the provision and management of rural water and sanitation services, in liaison with the ministry responsible for water and urban water and sewerage systems outside the jurisdiction of NWSC.

1.2.3 User Communities

The user communities are responsible for planning, implementation and operation and maintenance of the rural WSS facilities and pay for urban WSS services. The Water Statute provides for the formation of Water and Sanitation Committees, Water User Groups, Water User Association as community level organizations/institutions that ensures proper management, Operation and Maintenance (O&M) of the facilities and sustainability by the User Communities.

1.2.4 Private Sector

Government of Uganda is firmly committed to the privatisation process. The private sector is expected to provide a viable resource for design, construction, operation, maintenance, training, capacity- building, and commercial services and mobilizing resources and financing for sector development.

1.2.5 Donors & NGOs

The country has received considerable donor support for the water and sanitation development, these include: AFD/France, AUSTRIA, DANIDA, DFID, EU, GTZ/KFW, JICA, NETHERLANDS, SIDA and UNICEF.

The Water sector NGOs have formed a Uganda Water and NGOs Network (UWASNET) as an association for improved coordination, sharing of experiences and liaison with Government and Donors. There are over 180 NGOs and CBOs currently undertaking water and sanitation activities in Uganda.

1.3 Policies and Legal Framework

Policy and legal framework for managing the sector are now in place. The existing Policies and Laws represent a comprehensive regulatory framework for the management of the water sector. Most notably these include the Local Governments Act (1997), the Water Statute (1995) the NWSC Statute (1995) and the National Water Policy (1999).

Some Policy measures are not yet fully operational at the local government levels and the communities. Some policy and legal issues need to be reviewed to allow the water sector reform proposals, like the lease and other forms of Private Sector Participation.

1.4 Current Sector Services

1.4.1 Rural WSS

By June 2002, about 55% in rural areas have access to safe water and 50% to sanitation services and there are wide variations of coverage between districts, from as low as 25% to over 75% for some districts. Fig 1 shows the rural water coverage's across the country. This coverage statistics put Ugandans among the least served in the world.

Over 30% of rural systems are non-functional. The water handling and storage is often unhygienic, resulting in water from a safe source becoming contaminated by the time it is consumed.

1.4.2 Urban WSS

The urban areas, by the water sector perspective, is defined as gazetted towns and centres with a population of more than 5000. At the moment, in total there are about 78 urban centres in Uganda and is subdivided into 45 small towns (centres with population less than 15,000,) and 33 large towns (centres with population more than 15,000, including all the towns under NWSC). Only 62 out of 78 towns have piped water systems and by June 2002, the national average coverage for urban water stands at 57% and varies between towns. While for Urban Sanitation, only 12 towns have sewerage systems, with only 8% of the urban population connected and about 50% of population are serviced with on-site sanitation facilities, often in poor conditions.

The urban WSS services are characterized by high unaccounted for water (45%), high staff/1000 connection ratio (14) and high accounts receivable (8) months and are being addressed.

To address these, GOU is undertaking the reform of Water and sanitation services to bring in Private Sector Participation (PSP). So far 46 small towns have been gazetted as Water and Sewerage Authorities and 16 town WSS handed over to local private sector, on management contracts, to operate and maintain.

1.4.3 Water for Production

Water for production refers to water for agricultural development (Irrigation, water for livestock and fisheries), rural industries, and recreation etc.. Water for production is an area of increasing importance for Uganda's future development of the agricultural sector in line with the Plan for Modernization of Agriculture (PMA).

Since 1999/2000, surface reservoirs of total capacity 2.39 million cubic metres has been built in the districts of Moroto, Kotido, Nakapiripirit and Mbarara, to meet the dry season water requirements to 13% of the current national livestock population.

1.4.4 Water Resources Management

The whole of Uganda's water resources is part of the River Nile basin. It is a downstream riparian to Burundi, DRC, Kenya, Tanzania and Rwanda and an upstream riparian to Sudan and Egypt. Uganda is, therefore, totally dependent on the Nile and impacted by the use of water resources upstream. Consequently, Uganda's approach to water resources development and management is a critical element within the Nile Basin.

Since the 1990s, Uganda has registered increased interest in management and use of water as part of environmental conservation and protection and Uganda is at the forefront of implementation of international water conventions and declarations. In view of this, Uganda, assisted by DANIDA, prepared a Water Action Plan (WAP) between 1993-1994 for water resources development and management. Significant progress has been achieved during the last seven years regarding implementation of WAP. These include: Permit Systems, water resources monitoring, Water quality laboratory facilities and analysis, National information on water resources Lake Victoria Environmental Management Programme and other donors supported initiatives, which now offers a great opportunity for sustainable management of water resource.

A remarkable achievement in international and regional collaboration with riparian states is the Nile Basin Initiative, where US\$ 120m have been mobilized for projects that aim at the sustainable use of the Nile water resources.

1.5 Water Sector Issues

Key issues affecting the Water & Sanitation sector services include:

- (i) The current budgetary support is inadequate to enable Government achieve the set targets for coverage.
- (ii) Projectorised funding and implementation has caused inefficient use of resources and does not provide integrated and holistic support to the districts and communities. It is recommended to move to programmes instead of projects and increase support (financial and technical) to the districts and communities.
- (iii) Inadequate co-ordination among all actors in the sector, including NGOs, does not offer opportunity for efficient utilisation of viable resources, to adoption of consistent implementation approaches, and to the promotion of equitable support to all districts and communities to increase impact and benefits to poverty alleviation initiatives.
- (iv) Unclear institutional framework for sanitation still hampers service delivery. The MoH, MWLE and MoES have signed Memorandum of Understandings (MOU) specifying their roles on sanitation. Efforts should be made to by each ministry to implement those roles and mechanism for cooperation and integration among line ministries need strengthening and elaboration.
- (v) The capacity at districts and lower levels to plan and implement sector activities is low and additional central support is still needed.

- (vi) The capacity at the centre (in terms of skills, MIS, staffing, etc) is also limited to offer policy and technical guidance to the local governments and other service providers.
- (vii) Poor care and maintenance of WSS facilities have rendered many protected water sources, especially boreholes to be abandoned. It is estimated that about 30% of boreholes are non-functional. The arrangements for O&M of urban supplies outside NWSC towns is inadequate and will lead to quick deterioration of facilities and services, if not given special attention and financial support.

GOU, through the MWLE is undertaking a Water Sector Reform and other measures, like the move towards SWAP to address the problems.

2 STATUS OF UNDERTAKINGS FROM THE JOINT GOU/DONOR WATER SECTOR REVIEW –REFROM and SWAP COMPONENTS

Undertakings	Who	Actions taken 1 st September 02
1 REFORM		
1.1 - Accelerate the implementation of the public sector and pay reforms as outlined in the PEAP policy matrix (April 2001) under pillar 2.	GOU	Being handled by MPS and MOFPED .
1.2 - Accelerate the formal cabinet approval and implement the rural and urban reforms, including establish the respective implementation framework. - Commence reforms studies regarding water resources management and water for production. Cabinet papers approved	GOU GOU	Rural and Urban Sector Reform documents have been prepared and awaiting to be presented to the Cabinet. WFP study started May 2002 WRM study to start by Dec 2002
1.3 - Implement identified changes necessary to the MWLE/DWD structure so that it reflects the new mandate. Ensure that the mandate of the other stakeholders involved, i.e. MOLG, LG, MoH, MOES, MOGLSD and MOFPED etc., is properly defined and streamlined at all administrative levels.	GOU	The proposal for the re-Organisation of DWD was submitted to Min. of Public Service in January 2002. Follow up meeting has been arranged between the Ministers of Public Service and Water, Lands and Environment.
1.4 - Outsource those functions that are not part of the government core mandate in the sector. Regarding the rural water supply and sanitation the institutions at district and lower levels should be strengthened for sustainable service delivery.	GOU	The additional support to Districts through the TSUs has been tendered. Most submitted proposals were not of acceptable technical standard. It is expected that contracts are awarded to the two companies qualifying and remaining TSU units are re-tendered before end of October. The Consultants qualifying are expected to commence work latest by December 2002. 70% of the District and Sub-County Water Officers are now in place.
1.5 - Initiate steps to follow up and implement measures to build up the capacity in the private sector and create an enabling competitive environment.	GOU	Action awaits arrival of the Transaction Adviser. The employment of the adviser has been deferred until some tender issues have been solved or the job re-tendered.

		The German TA to assist in urban reform implementation arrived 1 st July 2002.
1.6 - A sector co-ordinating committee established to ensure that a realistic time-frame is in place for finalising a fully integrated sector plan including rural, urban, water for production, and water resources management. A comprehensive communication strategy to be developed to support the reform implementation at all levels.	GOU	The sector coordination committee has been established and first meeting was held on 21 st August 2002. DWD Communication Strategy has been developed and implementation of the envisaged activities started in June 2002
1.7 - Provide flexible assistance to the remaining work needed to implement the reforms and institutional changes	DP	Assistance from World Bank and GTZ is mainly targeting the Lease Towns.
1.8 - Cooperate with GOU in efforts to implement the internal restructuring by supporting activities within the appropriate government structures and by assisting in the outsourcing of functions that are best performed by the private sector.	DP	Ongoing.
1.9 - Provide support, from now on, that follows the principles of the sector reforms and is consistent with the appropriate investment plans that will emerge once the sector reforms are complete.	DP	Ongoing e.g. the proposed WSPS II by DANIDA and SIDA five -year programme
2 SWAP		
2.1 - Institutionalise the annual joint GOU/development partners review	GOU / DP	Has been done. The next Joint Review is being planned for 3 rd week of September 2002.
2.2 - Form relevant co-ordination committees and meet as proposed (WSWG – quarterly, WPC - ½ yearly, WSCC - ½ yearly, DWSC – quarterly, IDC – quarterly)	GOU	TOR and guidelines for the various committees were prepared. The first meeting for WPC was held in March 2002. First meeting for WSSC was held on 21 st August 2002. Some districts have initiated the DWSC meetings. IDC meetings have been held.
2.3 - Develop an action and investment plan to reach SWAP, including WRM/ WFP	GOU	5-year Operational Plan for the RWSS. Reform study for WFP is ongoing. WRMD study is expected to start by end of 2002
2.4 - Reassess the development targets for WSS and devise the most constructive form of assistance to the sector based on evidence of absorption capacity.	GOU /DP	Assessment of targets for the RWSS have been made based on different capacity scenarios.
2.5 - Develop funding modalities accommodating DP requirements during transition to SWAP (e.g. geographic and sub-sector earmarking, basket funding arrangements)	DP/ GOU	Some donors and GOU have reached preliminary agreement on modalities for basket funding and budget support.
2.6 - Harmonise rules, procedures, procurement and reporting between partners	DP/ GOU	As above.
2.7 - Finalise modalities for undertaking a unified annual tracking study to track the flow of resources from the centre to the community level. Specific audits can be included in the tracking study. The study will be based on an agreed TOR and assess progress of work executed during the first year of PAF transfers	DP/ GOU	First Tracking Study is being implemented with funding from SIDA and DFID, preliminary results expected by November 2002.

Last year's undertakings could have been more specific with regards to the time frame in which to implement them. For this year's Joint Sector Review it is therefore proposed to distinguish the undertakings in medium-term "key action areas" and a "plan of action" for the period September 2002 to August 2003.

3 WATER SECTOR REFORM

Government, decided in 1997 to reform the Water Sector to ensure that the water sector services are provided and managed with increased performance and cost effectiveness, and to decrease the governments burden while maintaining the government's commitment to sustainability and equitable development. The whole subject required in-depth study, a situation analysis, a study of African region experiences, identification of investment needs and the development of appropriate policies and strategies action plan to implement the measures.

The Ministry of Water, Lands & Environment, in Consultation and Collaboration with line ministries, Development Partners is undertaking four studies water sector reform studies comprising; (i) Rural Water Supply and Sanitation, (ii) Urban Water Supply and Sanitation, (iii) Water for Production, and (iv) Water Resources Management.

The status for each component is as follows:

3.1 The Rural Water and Sanitation Sub-Sector Reform Study

The rural sector Reform study was completed in 2000, the study identified district coverage, demand and set targets. The study has prepared a 15-year Strategic investment Plan (SIP) and also made recommendations on the policy and legal framework, implementation strategies including the channelling of funds, operation & maintenance aspects, cost recovery, financing arrangements, institutional and management issues.

A Five -year Operation Plan (OP) is being prepared by MWLE/DWD in consultations with line ministries, Local Governments and donors to operationalise the SIP. The OP will be a government document to guide the rural water sub-sector development in the next five years, starting January 2003 and donors are call upon to buy-in other than come with their own projects. The final draft was submitted on 2nd September 2002.

The RWSS strategy proposed that local government are responsible for implementation and funds be channelled as District water and Sanitation Development Grant, under the PAF, for the RWSS provision and services. All funds, both for Government and Development partners should now be routed through the PAF system, but earmarked for the RWSS. Planning and Operation guidelines for the grant shall apply and can be review as need arises.

3.2 The Urban Water and Sanitation Sub-Sector Reform Study

The Urban Water Sub-Sector Reform study, completed in January 2001, has proposed an institutional framework, strategy and investment needs of US\$ 500-600m for the next 10 years for the Sub-sector.

The urban water sector reform proposals include:

- For the group of up to 30 – 35 larger towns, all with a population of more than 15,000 (in 2000) should be managed by a private sector operator under a single Lease contract for a 10 year period. The lease is proposed reviewed after 5 years.
- Responsibility for service provision in the smaller towns will continue to be vested in Local Governments. Local governments will enter into performance contracts with the MWLE. The performance contract will specify standards to be met and conditions for accessing Government subsidy. Local Private operate to run the system
- All assets will remain in public ownership. A wholly government owned Asset Holding Authority (AHA) for large towns, and Local Government, on behalf of central government, will hold the assets in the smaller towns in Trust.
- An independent regulatory organization will be established to set tariffs, provide protection for the consumers and resolve any dispute between the private operators and the contracting party. Technical Regulation will be delegated to DWD, AHA and the WSDA/DUWS. Some regulation will be exercised through the contracts, which will incorporate the standards of the relevant agencies e.g. Water Quality, Environment, Public Health, etc.

MWLE, as the line Ministry responsible for the water sector, is spearheading the implementation of the Urban Water Reform. MFPED in its role vested in it through the Public Enterprise and Divestiture Statute will oversee the privatisation of the operation of National Water and Water Corporation. The Divestiture and Reform Implementation Committee (DRIC) will oversee the privatisation of the operation of the NWSC as laid out in the Public Enterprise and Divestiture Statute. Close co-ordination is necessary to integrate the transaction of NWSC operation with the overall sector reform in the water-sector, specifically the relationship between lease and non-lease towns and mechanisms for cross-subsidisation and graduation from the non-lease to the lease town grouping.

The reform process will be overseen by a Policy Co-ordinating Committee (PCC). The PCC will provide policy guidance for water sector planning, development and management during the process of over-all water sector reform. It will consult and reach concurrence on policy issues before they are introduced into Cabinet.

An Implementation Technical Committee (ITC) will review the proposed regulatory, institutional and legal changes and assist in the implementation of agreed reform proposals. The Implementation Technical Committee will oversee the work of two

task teams, one for the lease town grouping and one for the non-lease town grouping respectively. The Transaction Advisor for the proposed lease contract will report to the ITC.

3.3 The Water for Production Reform Study

The Water for Production reform study commenced in May 2002. The Consultants prepared and submitted an inception report to DWD in July 2002, an inception and 8 regional workshops were held in August/September 2002. The study is to be completed by Feb 2003.

3.4 The Water Resources Management Reform Study

The fourth and the last sector reform study will tackle the issues of Water Resources Management and is due to commence in December 2002.

4 SWAP FRAMEWORK

From FY2001/02, GOU and the World Bank together with a number of development partners started a new lending instrument, Poverty Reduction Support Credit (PRSC) derived from the MTBF and Sector Wide Approach to Planning (SWAP) approaches. Over the next three years, 2001/02 – 2003/04, Health, Education and Water and Sanitation sector together with a number of crosscutting issues (e.g. pay reform, accountability, procurement reform, etc.) will form the basis of the PRSC.

The Water Reform studies and their documentation are being done in a highly consultative process where consensus in general has been reached on a Sector Wide approach for the sector.

4.1 SWAP Objectives

Sector-Wide Approach to Planning (SWAP) is a mechanism where Government and development partners agree on strategy to achieve improvement in sector performance, increased resource flows, more effective use of resources through programmes other than projects. There is no fixed formula for developing SWAP, however it is always a highly consultative process to ensure that all stakeholders fully participate in the development of the approach. There are some generic features in the development of a SWAP and may include:

- **The development of a Sectoral investment plan:** Such plans are developed using consultative processes to set out the outcomes, and outputs desired in the sector, the investments required to achieve the outputs/outcomes and the roles and responsibilities of different actors in the process.
- **The development of modalities for funding -** a basic principle of SWAPs is that funding is provided through the government budget.

- **Periodic reviews** - stakeholders are brought together to review the progress of implementation and to correct / improve the implementation of the programmes if found necessary.

The SWAP features include:

- Framework for common approaches and harmonised strategy for the sector for the whole country;
- A defined institutional framework for all Stakeholders to work in;
- The use of government systems, thus increasing the capacity of government;
- Improving value for money of service being provided;
- Improved monitoring, transparency and reporting; and
- Improving sustainability of services.

The move towards sector wide approach calls for GoU/donors to promote: uniform disbursement rules; uniform and stronger accountability systems; common indicators, joint appraisals and reviews.

The main challenge in developing the sector is to establish strong mechanisms for the effective, efficient and sustainable delivery of Water & Sanitation services to the end user, on the basis of the strategies and funding mechanisms in the sector wide approach.

4.2 SWAP Process

Government, through MFPED has initiated a consultative and participatory approach in the management of public finance as mechanism to increase transparency and accountability in the planning and utilization of resources. The beginning of this process was marked by the budget for FY 1998/99, which involved both Public Expenditure Review and an open discussion on the Medium Term Budget Framework Paper involving the main stakeholders in government, private sector and the donor community. Sector working Groups were established to take on the annual planning process.

The Water Sector Working group (WSWG) comprises the Permanent Secretary, MWLE (Chairperson) and officials from DWD (Director, Commissioners and representatives of each division), NWSC, MFPED (Secretary), MOH (EHD), MOLG (Inspectorate), MoES, PMA, Donor representatives, NGO representatives (UWASNET). The WSWG undertakes the preparation of Medium Term Budget Framework Papers and Review quarterly progress reports and coordinate the reporting to Government and donors including coordination of PRSC process.

4.3 Financing Mechanism

General budget support is GOU preferred modality of donor funding as it provides government with the maximum flexibility in allocating resources according to GOU strategic objectives and priorities. GOU fully recognizes, however, that some donors do not want to make the transition from project support straight to general budget support without going through the intermediate stage of earmarked sector support. Where earmarked sector support is

proposed, it should be mutually agreed upon between Government and donors, taking into account aggregate expenditure ceilings, PEAP-based sector development plans for all sectors, absorptive capacity and Government's right to prioritise and donors. Whilst the development of a SWAP framework does not necessarily mean budget support, the trends are that the primary instrument for sector financing over the next 10 years will be budget support directly to the local authorities.

The following financing arrangements are or will be used in the water sector:

4.3.1 The Rural WSS

Provision of the RWSS is decentralised. The Constitution specifies that the transfer of funds from Central Government to Local Governments will be channelled as unconditional, conditional and equalization grants. The unconditional grants cater for the local governments staff salary and operational costs, the conditional grants is for delivery of services mutually agreed between the local government and the sector ministry, while equalization grant is for special provision for least developed districts. A Fiscal Decentralisation strategy is being prepared, which is to streamline the transfer funds to the Local Government using 2 systems: Recurrent Transfer System (RTS) and Development Transfer System (DTS) to Local Governments collection accounts. The Local Governments will open only 2 operational accounts for each directorate one for recurrent operations and the other for development activities other than the account for each grant as of now.

Rural WSS funds, from the PAF/HIPC, are channelled directly to districts as conditional grants (District Water & Sanitation Development Grant). The funds are targeted for water and sanitation provisions in the rural areas and rural growth centres with population less than 5000 people. Development partners should channel their support and funds as an integral part of GoU's budget and MTBF setting exercises. NGO funds are still disbursed directly as support to specific projects.

4.3.2 Urban WSS

For the Small towns WSS, at the moment, funds are project based. For O&M of small towns' water systems, Government introduced Conditional Grants for the Local Governments. In the short term, the present project approach is likely to be transformed into small towns development funding, where donors funds are pooled for the development of the small towns' WSS. In the medium term, the possibility could be explored for setting up a framework of conditional grants for the investment in the small towns similar to that for the rural sector. In the long run funds could be made available as budget support.

For the Large Towns/Urban WSS, at the moment, the development budget for NWSC towns are channelled as a GoU grant or loan to NWSC. In the short term the possibility should be explored for a conditional or equalisation grant

framework for NWSC to implement and deliver social mission services, e.g. connecting the urban poor. In the medium to long-term fund for investment planning and development would be channelled directly to the AHA.

Commercialisation and use of private sector in the operation of NWSC towns have been initiated and should generate its own operation funds from the tariff. As proposed in the Urban water reform, a “Water Fund “ should be created where portion of the funds generated from the water sales are banked and used for operation, expansion and construction of new WSS systems, even in the small towns as away of cross-subsidy.

4.3.3 Water for Production

Currently all funds for Water for production are from government resources, Ush 20.4bn (US\$11m) have been allocated for Water for Production over the current MTBP period (FY 2002/03 to 2204/05). The funding is mainly focussed on construction of Dams and Valley tanks in Karamoja and to meet the requirements for “Strategic Interventions to Promote Exports in the Agricultural Sector” under which about 1400 small valley tanks and about 34 strategic surface water reservoirs will be constructed over a period of five years for the poor farmers within the predominantly cattle keeping areas, in addition to providing water for irrigation of crops. The disarmament programme for Karamoja also require that some interventions are done for development of the area, like the construction of additional Dams/Valley tanks.

4.3.4 Water Resources Management

At the moment National Water resources management activities are implemented as a project with support from DANIDA (DKK36 million) and GOU. While the Lake Victoria Environment Management Programme is supported with assistance from the World Bank and other donors.

The Nile Basin Initiative where US\$ 120m has been mobilized for projects aims at the sustainable use of the Nile water resources Water Resources.

4.3.5 Sector Capacity Development:

Currently financing of the sector capacity development programmes (PMS, HRD, Water Reform) are through specific Donor support. Policy and Management Support (PMS) is a DANIDA supported programme aims at strengthening and building the capacity of the Directorate of Water Development (DWD) in undertaking her new functions which include the Policy development, monitoring and supervising water and sewerage provision and Water Resources Management. In short term, arrangement for a programme support is being proposed, where resources from donors are pooled together as a “Sector Capacity Development Fund” (see Annex 3) and managed as one programme.

4.4 Procurement and Financial Management

GOU has undertaken the reform of the procurement system. The procurement regulations (2000) have been enacted, where each procurement entity (ministries and local governments) has now set up Contract committees with secretariat to

manage all procurements. The reformed Central Tender Board (RCTB) is established to provide policy guidelines to all procurement entities. The involvements of line departments in the procurement process need more elaboration. The efficient operations of RCTB, Contracts Committees and District Tender Board will speed up the service delivery of the sector services.

The Districts are carrying out the procurement of contractors for minor and medium size activities like small gravity schemes, dug wells, spring protection, and school latrines. However, district level tendering, contract management, financial management and reporting, have some teething problems which have led to very substantial delays and under-utilisation of allocated funds. There is need to streamline the procurement process by the Local Governments. MWLE/DWD could give “no objection” to any procurement with glaring anomalies.

To take advantage of economies of scale and need for specialised contract management, MWLE/DWD could handle the procurement and management of large contracts, like drilling programs covering more than one District, consultancy firm (s) for sitting and supervision of borehole drilling, handle hand-pump supply and possibly the supervision of firms carrying out the implementation of Rural Growth Centre water supply systems. The District Councils would still plan and allocate resources from their budgets for these centrally administered activities.

Ministries (MFPED, MOLG and MWLE) and Districts should ensure proper financial management, guided by the Government Financial Regulations. These include financial accountability; timely completion of final accounts, monthly returns and annual audit reports

4.5 Performance Monitoring and Indicators

MWLE/DWD will establish a monitoring protocol that draws on the routine returns from the districts, the service delivery surveys, independent surveys and issue an indicators and policy benchmarks from districts and WSS authorities, and provide a feed back for districts and national planning. These include:

- Set outcomes, intermediate outcomes and outputs with measurable indicators for sub-sectors in the Water Sector MTBF paper
- District Water offices and Urban Water Supply Authorities quarterly and annual report to respective Local Governments and DWD.
- Quarterly Monitoring visits and reports from DWD to MWLE and then MFPED, OPM and other government agencies.
- Policy Statement and Consolidated annual report by DWD to MWLE and Parliament;
- Bi-annual reports by Sector regulator to DWD, MWLE and Parliament
- Annual service delivery surveys and periodic participatory poverty assessments and impacts.
- The Joint Donor/Government sector reviews every September

- Joint GOU*Donor Technical reviews and monitoring visits every February/march.
- Independent service audits reports, value for money and tracking studies.

4.6 Action Plan

These are still key issues that need to be addressed as the sector move to SWAP. Annex 1; present a matrix of sector issues and action areas to be implemented during the next one year (September 2002 to September 2003)

Annex 1: Matrix on Issues and Action Areas for the Water & Sanitation Sector

Issues /Challenge	Key action areas	Plan of action: September 2002 - August 2003
Poor coordination	The transition to WSS SWAP is being finalized. Better sector coordination, including full buy-in to the budget support framework by key donors is critical for the SWAP's success.	Functional Committees [Water Policy Committee (WPC), Water & Sanitation Steering Committee (WSSC), Water Sector Working Groups (WSWG) and the District Water & Sanitation Committees (DWSC)] are established and have met. Scheduled meetings will take place during the year for effective coordination and collaboration for all stakeholders.
Inadequate resources to meet the demand and requirements	WSS services (especially, sanitation in rural and sewerage in urban areas) are not expanding fast enough to cater for the (growing) populations' demands due to paucity of resources. Refer to Annex 2 -Analysis of financial requirements.	
Value for Money	Although, there was a substantial increase in resources, the rural water coverage is not increasing any faster than in previous years. MWLE/DWD is to carry out a value-for-money study of the sector to determine the areas that need to be addressed.	DWD to prepare Direct Operation Manual that will guide the Local Governments in the procurement, contract supervision and management. DWD to intensify the monitoring of Water sector activities according the Conditional Grants guidelines. Annual value for money surveys will take place in 8 – 10 districts according to guidelines to be worked out before December 2002.
Decentralization; local capacity weaknesses	Success of reform hinges on focused support to capacity building at districts (poorly functioning decentralized sector planning/management capacity; problems in procurement/contract management). Community/local involvement in longer-term financing and operational sustainability of completed works to be addressed.	On-going re-structuring of the Local Governments, especially the District water offices by Ministry of Public Service will be revisited to take into the consideration the proposal by DWD/MWLE. The 8 Technical Support Units (TSU) will carry out the capacity building of the Districts.
Broader capacity/institutional issues. Role of central agencies	Some recent progress in institutional transition and incentives. But, current institutional arrangements with Directorate of Water Development (DWD) need re-structuring; DWD continued to be heavily involved in donor project implementation leave few staff to do the main sector roles. Lack of adequate regulatory framework and incentives for commercial operations.	The restructuring of DWD will be implemented by December 2002. MWLE will immediately start implementing the implementable parts of the recommendations including job descriptions, works schedules and lower level organisational changes. Various training programmes will be offered to the water sector staff in DWD and Local Governments from within and

		outside the country
Sustainability of services	Projects emphasized physical implementation not improved service delivery. Poor maintenance culture. In rural WSS, about 30% of systems are non-functional. In urban WSS- a high degree of operational inefficiency.	To improve the maintenance of rural WSS a supply chain study will be carried out before December 2002. Introduction of PSP has greatly improved efficiency in small Towns. NWSC has registered efficiency gains with internal reorganisation and the introduction of PSP in Kampala.
Delays	Timely creation of autonomous professional WSS authorities in urban areas, and strengthening operations/financial standing of NWSC would encourage private sector involvement. Delays in appointment of WSS authorities have delayed procurement of private operators for some water systems management	NWSC has undergone internal restructuring and strengthening. The performance contracts with each town has greatly improved efficiency. WSSA (Water Supply and Sanitation Authorities) have been created for 27 water supply areas since last review. Total now is 37.
Absence of effective, practical, user-friendly monitoring system	Problems in schemes underway or completed works not caught or corrected in time. Despite progress, districts, sub-counties and towns are required to monitor too many indicators. DWD/MWLE is establishing a comprehensive management information system (MIS) with data on water resources, water and sanitation systems, work plans, usage and functioning of systems combined with financial management, personnel management and stores control etc. e.g using a Geographical Information System (GIS) data on water and sanitation systems were collected and a Maps produced.	The MIS systems in DWD/MWLE will be completed. Procedures and guidelines and pilot implementation for decentralising MIS to the districts will take place before September 2003.
Implementation of Reform	Institutional framework for Private Sector Participation needs to be set up.	Cabinet Memorandums on the urban and rural reform proposals will go through approval process. Policy Co-ordinating Committee (PCC) and Implementation Technical Committee (ITC) for the sector reform will be established. Agreement on regulatory system needs to be found and institutional and legal changes need to be implemented accordingly. Legal and institutional changes for the establishment of the Asset Holding Authority (AHA) will be carried out.

Annex 2: Analysis of Sector Financial Requirements

The total flow of resources to the sector tripled from Ug. Shs. 44.9 billion in 1997/98 to 133.9 billion in 2000/01. The contribution from Government has increased almost tenfold resulting in a higher Government share to the Water sector in the MTEF from 0.5% (1997/98) to 2.4% (2000/01). The resources contributed by donors doubled over the same period. However, there is still some shortfalls to meet set targets. Financial analysis for the two sub-sectors (Rural WSS and Urban WSS) are represented below:

Rural WSS

A Rural WSS Strategic Investment Plan (SIP) has been prepared and will provide 95-100% coverage by 2015 and requires of US\$ 950m for 15 years as reflected in table 6 below and is being used to allocate funds to districts. The Rural water supply and sanitation action plan has been agreed upon and funds are sent to Local Governments as District Water and Sanitation Development Grant. In short term, all available development funds (from Government and Donors/NGOs) will be challenge as conditional grants for water supply and sanitation (sector earmarked basket funding).

Table 6 gives the GOU budget ceilings and projected allocations over the 5-year period.

Table 6: GOU budget allocations and projections for the Water Sector and for the RWSS (US\$ millions)

	2000/0 1	2001/0 2	2002/0 3	2003/0 4	2004/0 5	2005/0 6	2006/0 7
Water Sector	24.8	31.65	32.60	34.23	35.94	37.74	39.62
RWSS	16.00	19.00	16.12	17.99	18.89	20.62	22.51
Rest Water Sector	8.80	12.65	16.48	16.23	17.05	17.12	17.11
Share of RWSS	65%	60%	49%	53%	53%	55%	57%

Sources: Projections based Ministry of Finance, Planning and Economic Development, for the year 2000/01 and 2001/02, and DWD, for the years thereafter.

Comparing to the Investment needs (US 215.98m) and allocations/ projections (US\$ 96.13m) (Table 7), there is a financing gap in the order of US\$ 126 millions in the next five years, or around US\$ 25 million per year. GoU should therefore channel financing resources and mobilize more donor assistance for the RWSS.

Table 7: According to government plan taking into account PEAP targets of service provision

	FY 2002/03	FY 2003/04	FY 2004/05	FY 2005/06	FY 2006/07	Total
Investment needs (US\$ mill)	40.45	42.51	44.22	43.71	45.09	215.98
New persons to be served (mill)	0.965	1.014	1.055	1.042	1.075	5.151
Rate of coverage achieved	52.0%	55.2%	58.4%	61.5%	64.5%	
Financing gap (US\$ mill)	24.33	26.01	26.23	24.97	24.78	126.33

Urban WSS

Urban WSS requires investment of about US\$657million for 78 towns in the next 10 -15years. Table 8 gives the urban WSS investment needs under two scenarios (Base -80% piped water and 20% Point sources and high-100% piped water)

Table 8 capital investment needs for Base and High Scenarios

	Water Rehabilitation (million \$)		Water Expansion (million \$)		Wastewater Rehab. (million \$)		Wastewater Expansion (million \$)		Total (million \$)	
	Base	High	Base	High	Base	High	Base	High	Base	High
7-KEJ	30.6	30.6	93.1	189.7	6.3	6.3	60.9	205.5	190.9	432.1
26 towns	43.8	43.8	209.3	394.0	7.7	7.7	100.8	308.5	361.6	754.0
45 towns	44.6	44.6	236.0	449.4	7.7	7.7	100.8	308.5	389.1	810.2
All	45.5	45.5	283.3	546.3	7.7	7.7	100.8	308.5	437.3	908.0

The Urban WSS investment requirement is US\$ 50 -60m per year, thus an additional requirements of US\$ 20 -30million to top up the current sub-sector funding level of about US\$ 30 million per .The investments will go for the rehabilitation and expansion of existing WSS systems and construction of new systems. There is an urgent need to rehabilitate and extend the existing sewerage systems and construction of new sewerage systems in towns. Plans are underway to prepare a Sewerage Master Plan, starting with Kampala.

Water and sanitation service and coverage is below 10% in slum areas. And incidences of water borne diseases are the order of the day. Extension of services to poor areas should be considered as part of the overall Government Policy of Poverty Alleviation and thus as a social mission.