



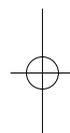
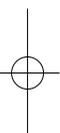
Think local, act local



Uganda

Effective financing of local governments to provide water and sanitation services

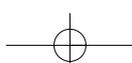




A WaterAid report

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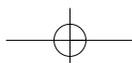
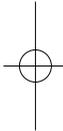
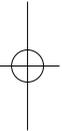
Front cover image: WaterAid/Caroline Irby





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Recommendations

WaterAid in Uganda calls for:

- The Ministry of Water and Environment to allocate more finance to rural water supply, and to promote equity by respecting the allocation formula for district conditional grants
- More coordination at district level between relevant central government ministries, development partners and civil society agencies
- Sanitation to become a priority in national development plans and sector policy, reflected in resource allocation at all levels and a single budget line

Section 1

Water and sanitation in national context: policy and plans

A number of policies guide development planning at local government level. The planning and implementation of water and sanitation under the decentralisation framework is guided by the Local Government Act of 1997, the National Water Policy and the sector performance framework. The water sector is currently revising the sector investment plan for the years leading up to 2015.

The Poverty Eradication Action Plan (PEAP) is the over-arching framework that guides government action to eradicate poverty. All actors at both central and local government level are required to work within this framework and priorities. The current PEAP (2004/5–2007/8) has five pillars: economic management, competitiveness and incomes, security, conflict resolution and disaster management, good governance and human development. The domestic water supply and sanitation sector falls under pillar five of the PEAP: human development.

The PEAP outlines investment plans for urban and rural water supply, and some of the challenges faced in achieving sector targets. In addition, the PEAP prioritises actions needed in order to achieve the ambitious policy objectives, goals and targets.

The priority actions for the water sector are to:

- Review the water sector targets in light of the Long Term Expenditure Framework projections.
- Prioritise provision of water and sanitation services to the rural population and the urban poor.
- Continue to invest in expanding rural water supply, while ensuring that facilities are maintained and costs kept down.

Despite low coverage, sanitation is given cursory attention in the PEAP. This is partly because responsibility for sanitation is currently spread across three ministries with no main institution charged with providing leadership and coordination. At the macro planning level, there is a critical need to strengthen analysis of the economic impact and benefits of improved sanitation, and its role in poverty reduction, in order to justify prioritising investment in sanitation. Sanitation needs to be raised to a priority action in the next poverty reduction and economic growth strategy.

Finance

Overall expenditure on water and sanitation needs to be increased. According to the World Bank's Water and Sanitation Programme (WSP), by the end of 2006, Uganda required USD \$242 million annually for the next ten years to achieve its Millennium Development Goal targets as compared to the current budget of approximately 150

billion Uganda shillings (at the exchange rate of UGX 1860 to USD.¹) Breaking down the overall figure into water and sanitation requirements, WSP calculates that USD \$95 million is needed for water supply and USD \$147 million for sanitation, with the largest share required by rural areas. However, Uganda's Ministry of Water and Environment does not yet have a distinct budget allocation for sanitation. However, the water and sanitation sector working group is working towards this. The modalities of disbursement to districts are still being worked out. A separate budget for sanitation will improve sanitation funding and make it possible to define how much finance is spent on sanitation-specific services at both central and local government level.

The figures highlight a wide funding gap nationally which must be bridged if the water and sanitation Millennium Development Goal targets are to be met. At the moment, in the interest of ensuring macro-economic stability, the government sets a ceiling which limits the amount of funding any sector can raise, including from sources outside government. However, in view of the serious shortfall between water and sanitation targets and government funding available to meet these targets, this ceiling needs to be raised.

In addition, there is an imbalance in the allocation of resources between the rural and urban sub-sectors. While only about 15% of Uganda's population lives in urban areas, urban water and sanitation receives approximately 56% of the total budget. The 85% of the population in the rural areas receives about 44% of the total sector allocation. This imbalance needs to be redressed. There are also discrepancies in the allocation of funds to districts, where some districts with higher coverage continue to receive more resources, giving rise to concern that in some instances political influence, rather than need, may guide planning.

Sector coordination

At national level, the water and sanitation sector is well organised with a range of sector activities which provide opportunities for different actors to influence policies and priorities. These include the Joint Sector Review and the technical review which are attended by donors, government and civil society organisations. There are also sector working groups such as the sector performance thematic team, the sector finance working group and the sanitation sub-sector working group. These working groups are useful in coordinating the sector, providing advice and guidance on priorities and monitoring performance of the sector. At the national level, the sanitation sub-sector working group has been very influential. Local governments are sometimes invited to participate in these national level working group meetings. Formal meetings are also organised by the centre in order to bring together technical officers responsible for water and sanitation at district and municipal levels.

Donors are increasingly seeking to promote joint budget support by a number of donors rather than individual project support. A new joint programme was finalised recently. This will replace the previous Joint Partnership Fund.

At the local government level, coordination remains weak and, in some cases, non-existent. The districts have, or at least are expected to have, district water and sanitation committees. They are active in less than half of the districts, but there are efforts to form and activate more of them.

¹ The exchange rate fluctuates but at the time of writing was 1860 Uganda shillings to \$1.

Decentralisation

Decentralisation as a key policy reform began in 1992, with the aims of promoting democratisation, improving service delivery and ensuring good governance in the management of local development. The reform is enshrined in Article 176(b) of the 1995 Constitution of the Republic of Uganda which identifies decentralisation as a principle applying to all levels of local government, in particular from higher to lower local government units, to ensure peoples' participation and democratic control in decision-making. The 1997 Local Government Act also touches upon peoples' right to participation in their own governance by taking part in decision-making processes that affect their livelihoods.

Decentralisation in Uganda takes three forms: de-concentration, delegation and devolution.² However, the long-term objective is to achieve a fully operational devolution. Decentralisation is being pursued on three fronts – fiscal, political and administrative – which, ideally, should be moving at the same pace. However, because some districts are still in the process of being divided into new districts, some aspects of decentralisation are being delayed. In newly created districts, their three year rolling plans need to be revised. Human resources and equipment have to be split between new districts, affecting their ability to implement decentralisation. There are also limits to the extent of districts' autonomy and independent decision-making, especially with regard to finances. Districts' own sources of funding are limited, and most of their funding comes from grants from central government, which still largely determines the level of district budgets.

A Decentralisation Policy Strategy Framework (DPSF) was developed in late 2006 as the main reference point for decentralisation. The purpose of the DPSF is to improve coordination, systems and reporting on decentralisation policy within the context of eradicating poverty.

Specific objectives of DPSF include:

- to provide a strategic direction for decentralisation policy in relation to other ongoing fundamental reforms
- to strengthen the role of the Ministry of Local Government in promoting and coordinating the implementation of decentralisation
- to provide the basis for defining a mechanism for financing local government.

Role of local government in water and sanitation services delivery

The Local Government Act (1997) states that the provision and performance of central government services or projects within areas of jurisdiction of local governments should be monitored by local governments. In districts and urban centres the provision of water services and maintenance of facilities is the responsibility of local councils under the guidance and support of relevant central government. With regard to sanitation, local governments are responsible for

² **De-concentration** is the transfer of powers and responsibilities to lower administrative units staffed by centrally appointed officials who implement defined functions under tight central control. **Delegation** is the transfer of powers to lower administrative units which are granted some relative discretion in managing defined responsibilities, although they still report directly to the centre. **Devolution** is a much more expansive transfer of power to lower administrative units while the centre retains policy-making and oversight functions.

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institutional facilities and sanitation around water facilities. However, even at this level, responsibility is still fragmented across departments: the water department is responsible for sanitation around water facilities, while the Department of Education is in charge of school sanitation and the Department of Health controls sanitation around health units. Provision of sanitation in public places like markets remains undefined, but the responsibility is usually fulfilled by the local authority in charge.³ Household sanitation is the responsibility of individual families: the role of local government is limited to public health education and enforcement of the Public Health Act, which is largely neglected.

Local governments, therefore, have direct responsibility for planning, implementing, monitoring and reporting on water and sanitation services within their jurisdiction. Central government allocates budgets and it can also solicit extra funding from civil society, the private sector and development partners to supplement official budget allocations. The districts are expected to form functional water and sanitation committees. However, currently water and sanitation committees only exist in 43 of the 80 districts in the country.

³ The authority may be the town council, the private operator if management is privatised or the local council in case of rural facilities.

Section 2

Fund flows to the district level

Water and sanitation activities are funded by central government, development partners, civil society and the private sector. The main source of funds is central government which provides a range of conditional, unconditional and equalisation grants disbursed by the Ministry of Finance through the relevant ministries. Local governments are expected to spend the funds on priority activities identified at the local level and report directly to the centre on the use of these funds. Monitoring the use of these funds is carried out by both the parent ministry and the Local Government Finance Commission of the Ministry of Local Government.

District Water and Sanitation Conditional Grants (DWSCG) make up the bulk of funding for local water and sanitation services. In the financial year 2006/07, the total national budget for water and sanitation within the Ministry of Water and Environment was 143 billion Uganda shillings (at the exchange rate of 1860 UGX/ USD). Of this, 124.6 Uganda shillings was released and 120.5 billion shillings was actually utilised.⁴ The District Water and Sanitation Conditional Grant was budgeted at 40.66 billion Uganda shillings; of this 40.5 billion Uganda shillings was released and 36.62 billion Uganda shillings was utilised. The under-expenditure is mainly due to procurement delays resulting from hold-ups in the appointment and approval of contracts committees in some district local governments. At central level there were also delays in spending the Joint Partnership Funds due to delayed recruitment of staff for the technical support units.

When the figures for the DWSCG allocation are analysed against targets in the Poverty Eradication Action Plan (PEAP), it is clear that there is a serious shortfall in the funding required to meet the PEAP target of 77% coverage for rural water supplies by 2015.

There is potential to bring in more money for water and sanitation, but spending levels are regulated and monitored by central government through sector ceilings which limit the amount of resources a sector is allowed to use. The government's argument for inflexible sector ceilings is that they promote macro-economic stability.

Even at the current level of funding, there are other limitations which reduce the amount of resources directly committed to water and sanitation service delivery. According to the Ministry of Water and Environment's Sector Performance Report 2007, despite a growth in the DWSCG allocation at national level (see table below), there is a notable drop in the percentage of the grant being spent on water facilities: from 81% in 2002/03 to 70% in 2006/07. This is a direct result of the recent political decision banning local governments from collecting graduated tax, which was a source of local revenue formerly used for most local government operating costs. This has meant that districts now largely depend on the grants from the centre, hence, in actual terms, reducing the amount of funds available for water and sanitation service delivery. This has further been exacerbated by the creation of 23 new districts (the number of districts increasing

⁴ Ministry of Water and Environment figures, September 2007

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from 56 in 2003/04 to 79 in 2006/07) leading to a sizeable proportion of the DWSCG in the new districts being spent on running costs, setting up and equipping new district water offices.

Table 1: Summary of national DWSCG expenditure and proportion spent on facilities 2003/03 – 2006/07

Item	2002/03	2003/04	2004/05	2005/06	2006/07
Total budget	24,481,861	25,420,325	27,986,786	27,736,116	40,502,835
Released	24,127,033	25,300,352	27,856,204	27,601,535	40,520,000
Percent released	99.53%	99.53%	99.53%	99.51%	99.96%
Total expenditure (30 June)	22,070,381	24,159,847	26,955,596	25,063,792	36,620,551
Percent of DWSCG	91%	95%	97%	91%	90%
Water supplies facilities expenditure	17,863,082	19,285,938	21,085,955	19,065,920	25,760,751
Percent spent on water facilities by 30 June	81%	80%	78%	76%	70%

Source: MWE, *Water and Sanitation Sector Performance Report September 2007*.

Snapshot of finance at local level: the case of Katakwi district

Katakwi district receives a number of different grants from the centre as shown in the table below. The pattern of funding is common to all local governments across the country. Most funding comes from grants from the centre. While it was not possible for the study to ascertain the total expenditure for the water and sanitation sector in Katakwi district, the majority of income for the sector comes from earmarked grants (conditional, unconditional and equalisation grants), because the district generates minimal resources locally. Analysis of the overall funding for Katakwi district over the last three years reveals that conditional grants contributed over 75% of the total district budget, while the equalisation grant and local revenue generated the least. Local revenue is very low nationally due to the abolition of graduated tax and because of insurgency in key parts of the country.

Table 2: Katakwi district's sources of funding and revenue performance

Revenue source	2003/2004 Estimate	Actual	% Var.	2004/2005 Estimate	Actual	% Var.	2005/2006 Estimate
Local revenue	337,042,400	242,360,456	-28.1	391,837,592	259,682,938	-33.7	344,336,742
Unconditional grant ⁵	1,065,879,000	1,066,024,577	0.01	1,101,264,000	1,104,099,999	0.26	1,711,952,000
Conditional grants	9,781,806,255	7,762,284,498	-20.6	9,086,130,000	8,737,326,788	-3.84	8,642,650,700
Equalisation grant	101,608,000	92,174,000	-9.3	101,617,000	101,617,000	0	125,576,000
Development partners	519,999,168	537,636,335	3.4	1,828,004,152	880,778,079	-51.8	1,766,228,000
Grand total	11,806,377,223	9,700,479,866	-17.8	12,508,852,744	10,202,726,725	-18.4	12,590,743,442

Source: *Katakwi district development plan: July 2007/08 - June 2009/10*

In addition, some donor contributions go directly to the district for various sectors including water and sanitation. In the 2007/08 financial year, donors and non-governmental organisations contribute a total of 1,021,933,974 Uganda shillings (at the exchange rate of UGX 1860/USD 1), with the major funds coming from UNICEF, ADB and DANIDA.⁶ However, this figure of donor contributions does not include funding for projects implemented directly by non governmental organisations.

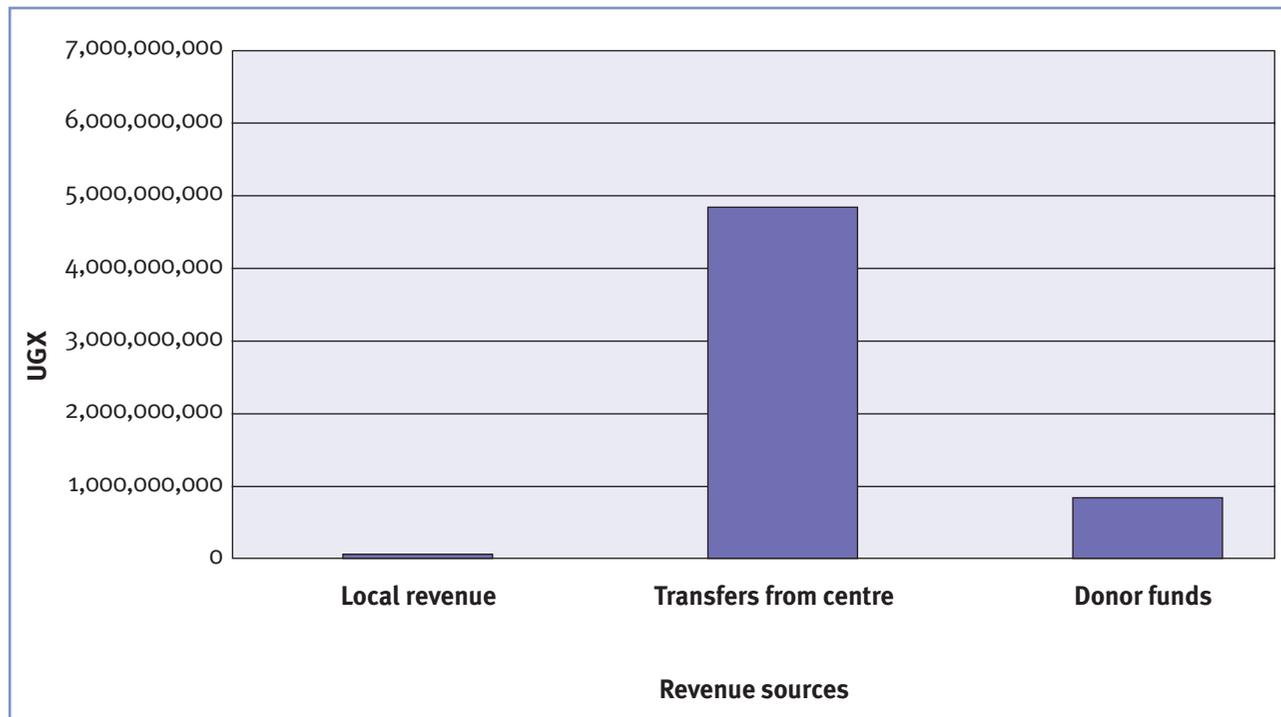
⁵ The unconditional grant is provided by the Ministry of Finance for districts to use for their identified priorities. Unconditional grants cater for both wages and non-wage expenditures.

⁶ These funds are sent to the district but they are outside the budget from the centre, hence outside the sector ceiling.

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The graph below summarises the projected funding for Katakwi district for the 2007/08 financial year.

Figure 1: Revenue projections for Katakwi local government for financial year 2007/08



Source: *Chief Administrative Office, Katakwi*

Inter-governmental transfers

Inter-governmental transfers include conditional grants, unconditional grants and equalisation grants. **Conditional grants** are funds given to local governments to finance programmes agreed with central government. They can only be spent on agreed purposes, in accordance with agreed conditions. The DWSCG is a type of conditional grant and has to be spent according to guidelines set by the Ministry of Water and Environment. The district is required to use about 12% of the total DWSCG for running the district water office, up to 8% for renovating broken water sources and the balance (around 80%) for construction of new water and sanitation facilities. **Unconditional grants** are the basic minimum grant paid to local governments to run decentralised services, and cover both wages and other recurrent expenditures. **Equalisation grants** refer to money paid to local governments for giving subsidies or making special provisions for the least developed districts. They are provided for specific sectors; for example, a district may receive an equalisation grant to top up the DWSCG. Allocation is based on the degree to which a local government is lagging behind the national average standard for a particular service.

There is a central government formula used both to calculate funds for the water sector and also by the Local Government Commission to decide on other local government grants. The formulae used by the centre are not well known to the district-level officers. However, during the budgeting period, the Ministry of Finance organises regional local government budget workshops and issues guidelines and indicative planning figures by sector. The problem is that no discussion or inputs are

sought from the district participants to influence the resources allocated, and the workshops are reduced to the ‘top-down’ delivery of the planning figures for the following year.

At the district level, the technical committee proposes an allocation which then has to be approved by the district council. The district has to work within central government guidelines in all its decision-making, and if the district does not comply, the centre can withhold or recall the funds.

Off-budget funds

There are off-budget sources of funding at local government level. These include funds for specific projects from donors and non-governmental organisations. Due to the absence of a central government policy on direct funding of water and sanitation services at local level by donors and non governmental organisations, off-budget funds normally follow the policy and implementation rules of the different donors and non governmental organisations.

Off-budget funding is guided by respective project documents and memoranda of understanding which specify the nature and form of partnership between donors and the government of Uganda. These funds may not always be reflected in the reports to the centre, although in some cases during budget conference meetings at the local government level, some of the donors and non governmental organisations make known their anticipated financial support to the sector and to the local government.

Analysis of local-level expenditure

Quality: Across all districts, it is a challenge to spend all released resources while at the same time ensuring high quality work. Problems are caused by the late release of funds from central government. In the two financial years before 2006/7, about half the budget in all districts was released in the last quarter of the financial year. This improved slightly in 2006/07. The late release of funds results in hurried work due to the pressure to spend the funds in the last quarter of the year, because the district must return unspent money to the Ministry of Finance. The rush to spend allocated funds also means that vital steps to develop human resources to manage water and sanitation services – such as community mobilisation, training of pump mechanics, and selection and training of water and sanitation committees – are often neglected. The pressure to spend funds quickly partly explains the high non-functionality rate – on average over 25% – of facilities.

Efficiency: The ever rising per capita cost of providing water and sanitation services by both local and central government is a cause for concern. This concern is shared by the Joint Sector Review team and was adopted as an undertaking to be monitored and discussed at the next Joint Sector Review in September 2008.

Equity: The need for an equitable allocation of resources at local level is still a daunting challenge for the water officers at district level who complain that political interference leads to some localities being over-resourced while others are disadvantaged. In order to ensure a fair allocation of resources according to need, management information systems need to be improved. Regular mapping of water and sanitation sources needs to be carried out, updated regularly and disseminated to guide planning as well as political decision-making.

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As is the case at national level, sanitation is not a priority at the district and lower levels. It is difficult to estimate how much districts spend on sanitation in terms of budget figures. This situation will certainly improve with a separate budget and grant for sanitation.

Transparency and accountability

The Local Government Finance Commission monitors local governments to ensure that local government spending is consistent with what is budgeted. In addition, the Ministry of Finance (MFPED) and line ministries also carry out monitoring and supervision to ensure that conditional grants to local governments are used efficiently and effectively. The Auditor General is mandated to carry out an independent audit of the expenditure of all public money. The Auditor General presents an annual audit report to Parliament about the utilisation of public funds, and Parliament uses this report to hold government, including local governments, to account. The weakness in the audit function is that it is carried out two or even more years after the financial year being audited, which makes it difficult to reprimand or take appropriate action against an individual once he or she has left office.

While there are efforts to improve transparency through the Joint Sector Review process, there are still challenges for all actors relating to freedom of information. The local government systems and procedures are slow, and getting hold of transparent and comprehensive information takes time.

In terms of accountability to citizens, local governments are required to report to the local council and to display information relating to what funds have been received by local government and for what activity. There are clear gaps in this process: citizens have no forum for engaging with the accounting officers to ask for clarification, or to engage with them on issues of value for money or quality of services.

Conclusion

Uganda has a well developed policy framework which clearly spells out its development objectives in order to reduce poverty and continuously improve service delivery. However, there are key gaps such as an insufficient analysis of sanitation problems, and immediate action is needed to address this. Sanitation must be made a priority both in national plans, including the PEAP, and at sector level in terms of resource allocation with a single budget line. Nevertheless, there have been recognisable steps in relation to sanitation financing, which are to be encouraged.

Year on year, central government is providing lower levels of finance for the delivery of water and sanitation but these need to be increased given the glaring wide resource gaps if Millenium Development Goal or PEAP targets are to be realised. At national level, there is a need to raise the sector ceiling by the Ministry of Finance and also the allocation to the rural areas where more than 80% of Uganda's population live. At the local level, districts should increase their capacity to utilise the budgets released, as well as improve on the procurement process.

Collaboration is still a major problem for the water and sanitation sector, mostly at district level but also at national level. Better communication and information sharing is needed between relevant central government ministries, development partners and civil society agencies to ensure coordination, accountability and consolidation of interventions in order to achieve agreed sector targets.

Conclusion

Facts

National

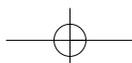
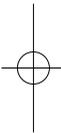
Population	Census (2002) – 24.2 million, (projected 2007 – 28.4 million)
GDP	19,479,930,000 Uganda shillings (Approximately USD 10 billion)
Access to safe water (rural/urban)	Rural 63% and urban 51%
Access to safe sanitation (rural/urban)	59% latrine coverage, no data for urban
Current annual water and sanitation spend	149 billion Uganda shillings
Current annual sanitation spend	Not disaggregated
Percentage of ODA in budget	40%
Annual MDG finance gap	416 billion Uganda shillings (USD 242 million) annually

Katakwi

Population	Total population of the local area: 118,928 (Census 2002), (projected 2007 – 137,000) Growth rate over the past decade: 6.2% (national growth 3.2%)
Socio-economic	Main economic activities: predominantly subsistence agriculture and small-scale animal keeping Poverty incidence: 54% of the population live below the poverty line
Water and sanitation profile	Access to water supply: 71% access water within a radius of 1.5 km, and 57% within 1 km. Access to sanitation: Safe latrine coverage in 2006 was 56%. Water supply: Open sources – 32.6%; boreholes – 57%; protected springs – 9%. Point sources – 42,773, Piped schemes – 81, Functionality – 76% Number of latrines : <i>Number not available</i>
Service providers	Main water service providers in the local area (eg local government, community managed user associations, small private providers, etc.)
Total annual expenditure by local government	222,798,000 excluding urban operation and maintenance.
Funding gap at local level	Approximately 1.4 billion Uganda shillings each year

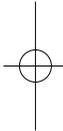


Notes





Notes



Think local, act local

Finance for water supply and sanitation is not reaching local authorities charged with providing services. This report maps out the key blockages and systemic weaknesses that need to be addressed in order to move the water and sanitation sector forward.



WaterAid's mission is to overcome poverty by enabling the world's poorest people to gain access to safe water, sanitation and hygiene education.

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