

# Financial absorption in the water, sanitation and hygiene sector in Uganda, 2010–2014



WaterAid/ Caroline Irby

WaterAid commissioned Development Finance International (DFI) to carry out analysis of financial absorption in the water, sanitation and hygiene sector in five countries to identify the prevalence of low financial absorption, and help identify key steps and conditions for achieving higher future levels of absorption and effective spending. These studies help shed light on the paradox of under-resourced water, sanitation and hygiene sectors (and the high levels of water and sanitation poverty they cause) in countries where funds are available but unused. The studies highlight the cases of Ethiopia, Mozambique, Rwanda, South Africa and Uganda – all of which have had varying degrees of success in terms of improvements to financial absorption. These countries are also in various stages of decentralisation, which can help to frame lessons for future improvements in other countries. Addressing financial absorption constraints is an important part of the process to strengthen the water, sanitation and hygiene sector and provide a platform for achieving universal access by 2030. The studies, therefore, try also to identify key recommendations on which WaterAid can draw for future actions to improve financial absorption.<sup>1</sup>

## Table of contents

List of figures.....	3
List of tables.....	3
List of acronyms.....	4
Executive summary.....	5
1.0 Background	
1.1 Objectives of the study.....	7
1.2 Approach and scope.....	7
1.3 Methodology.....	7
1.4 Data availability and quality issues.....	8
2.0 Key findings	
2.1 National Level.....	9
2.1.1 Water and environment sector.....	9
2.1.2 Water and sanitation sub-sector.....	13
2.1.3 Challenges facing water and sanitation sub-sectors nationally.....	21
2.2 Local government levels.....	23
2.2.1 Water sector budget allocation and spending.....	23
2.2.2 Revenue sources.....	24
2.2.3 Water sector spending.....	26
2.2.4 Challenges of financial absorption at local government levels.....	29
3.0 Conclusion and main recommendations	
3.1 Conclusion.....	31
3.2 Recommendations.....	31
References.....	33
Appendix 1: Water and environment on-budget allocations and spending.....	34
Appendix 2: Financial absorption rates for per agency.....	34
Appendix 3: Planned spending per sub-sector.....	34

Appendix 4: On and off-budget financing of the sub-sector.....	35
Appendix 5: Sector absorption rates.....	35

List of figures

Figure 1: Water and environment sector financing.....	10
Figure 2: Water and environment sector’s share of total national budget.....	11
Figure 3: Water and environment on-budget allocations and spending.....	12
Figure 4: Absorption rates per agency.....	13
Figure 5: Water and sanitation sub-sector planned spending.....	14
Figure 6: Planned spending per sub-sector.....	15
Figure 7: Water and sanitation sub-sector spending.....	16
Figure 8: Actual spending per sub-sector.....	17
Figure 9: On-budget versus off-budget financing of the sub-sector.....	17
Figure 10: Water and sanitation budget allocations.....	18
Figure 11: Water and sanitation absorption rate.....	19
Figure 12: Water and sanitation off-budget funding.....	21
Figure 13: Amuru DLG water budget allocation.....	23
Figure 14: Nakasongola DLG water budget allocation.....	24
Figure 15: Amuru DLG sources of water funding.....	25
Figure 16: Nakasongola DLG sources of water funding.....	26
Figure 17: Amuru DLG water spending.....	28
Figure 18: Nakasongola DLG water spending.....	28

List of Tables

Table 1: Absorption rates of selected sectors.....	19
Table 2: LG Absorption rates.....	28

## Acronyms

BFP	Budget framework paper
CAO	Chief Administrative Officer
CG	Central government
CSO	Civil society organisation
DDPs	District development plans
DFI	Development Finance International
DLG	District local government
DPs	Development partners
DWO	District Water Officer
ENR	Environment and natural resources
FY	Fiscal/ financial year
GoU	Government of Uganda
IFMS	Integrated financial management system
IPFs	Indicative planning figures
LG	Local government
LGMSDP	Local government management and service delivery programme
LVEMP	Lake Victoria Environment Management Project
MDGs	Millennium Development Goals
MoFPED	Ministry of Finance, Planning and Economic Development
MTEF	Medium-term expenditure framework
MWE	Ministry of Water and Environment
NDP	National Development Plan
NEMA	Environment Management Authority
NFA	National Forestry Authority
LRA	Lord's Resistance Army
NUDEIL	Northern Uganda Development of Enhanced Local Governance, Infrastructure and Livelihoods
NUREP	Northern Uganda Rehabilitation Project
NW	Non-wage
NWSC	National Water and Sewerage Corporation
OBT	Output budget tool
OPM	Office of the Prime Minister
PPDA	Public Procurement and Disposal of Public Assets Authority
PRDP	Peace Recovery and Development Program
UGX	Ugandan shillings
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
UWASNET	Uganda Water and Sanitation NGO Network
WASH	Water, sanitation and hygiene
WSDF	Water and Sanitation Development Facility
WSS	Water supply and sanitation

## Executive summary

This report considers the performance of Uganda's water, sanitation and hygiene sector in absorbing the funds available to it. It analyses the data available from recent Annual Budget Performance reports from the Ministry of Finance, Planning and Economic Development (MoFPED), and Water and Environment Sector Performance Reports from the Ministry of Water and Energy (MWE). It also analyses the performance of local government in absorbing available resources in the districts of Amuru and Nakasongola. The financial data presented and analysed ranges from 2010 to 2014.

Absorption rates for the Water Supply and Sanitation sub-sector remain low compared to other sectors, averaging 72%, compared to other sectors such as education (averaging 107%), and security (averaging 99%). Although financial management reforms implemented by MoFPED over recent years (including the introduction of more efficient payroll systems and output-based budgeting) have improved the absorption of resources, there remain a number of challenges that limit higher absorption rates. These include delays in procurement impacting on capital expenditure, delays by donors in releasing committed funds, and the poor budget performance of some project funds.

Over 80% of resources available to the sector from the government, donors and NGOs is on-budget, facilitating planning and decision-making, although data and reporting challenges remain and proved to be a significant barrier in forming a comprehensive picture of financial absorption in the sector. Available funding falls short of the levels projected in the National Development Plan.

In the districts of Amuru and Nakasongola the absorption of central government grants is relatively high; however, understaffing, transport shortages and lengthy district bureaucratic procedures are among the issues identified that hold back stronger performance.

The report recommends that a key focus for government and donors should be to address the human resource constraints and skills gaps affecting the sector at national and local level.

## 1.0 Background

The Ministry of Water and Environment (MWE) is responsible for setting national policies and standards, managing and regulating water resources and determining priorities for water development and management. The mandate of the MWE regarding sanitation and hygiene is captured in the Memorandum of Understanding signed with the Ministries for Health, Education and Sports. The role of MWE is limited to development of public sanitary facilities and promotion of good practices of hygiene and sanitation in small towns and rural growth centres.<sup>2</sup> To be able to deliver its mandate, MWE is guided by the long-term national planning framework (Vision 2040), the Medium Term Planning Framework (NDP11), Strategic Sector

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Investment Plan (SSIP) and annual plans and budgets. For the past five years, the National Development Plan 1 (NDP1) has set policy for the delivery of water and sanitation services and set targets for both water and sanitation coverage in rural and urban areas at 77% and 100% respectively by 2015.

Over recent decades Uganda has made significant progress in improving access to both to safe water and sanitation. Currently, water coverage stands at about 65% in rural areas and 73% in urban areas (within a distance of 1km and 0.2km respectively).<sup>3</sup> Despite this achievement, funding for the water and sanitation sub-sector has remained low, averaging only 2.2% of the total national budget during the last four financial years. Likewise, absorption rates in the water supply and sanitation sub-sector have remained relatively low (averaging 72%) compared to other sectors, such as education (averaging 107%), security (averaging 99%) and public administration (averaging 98%). Issues around financial absorption, the high national population growth rate (over 3.4% per annum), increasing urbanisation and the growing pollution of water resources, all combine to pose significant challenges to the effective future provision of adequate water and sanitation services.

Addressing financial absorption constraints is an important part of the process to strengthen the water, sanitation and hygiene sector, and to provide a platform for achieving universal access by 2030. With water and sanitation now internationally recognised as a human right, effective spending of allocated resources is part of government compliance with its responsibility as a duty bearer. It is against this backdrop that WaterAid and Development Finance International (DFI) commissioned a financial absorption study of the water, sanitation and hygiene sector to shed more light on the paradox of why high levels of water and sanitation poverty can co-exist with an under-resourced sector when funds are available but unused.

## 1.1 Objectives of the study

The objectives followed for this study are to identify:

- 1 the main causes of low financial absorption, where it exists, in the water, sanitation and hygiene sector;
- 2 the key steps and conditions for achieving high levels of absorption and effective spending, and to develop recommendations for policy-makers based on these.

## 1.2 Approach and scope

The study considered national-level budgets and spending, and two district local governments, namely Amuru and Nakasongola, with a focus on the two financial years 2012/13 and 2013/14. The study identifies some key trends, analyses these and then explains the main findings. The selection of the districts was based on the following criteria:

- Achieving a regional balance: Nakasongola is in the Central Region and Amuru in the Northern Region.

- Amuru was previously in a conflict-affected (Lord's Resistance Army) area, and therefore likely to face increased challenges in the utilisation of funds; Nakasongola, by contrast, has been conflict-free.
- Likelihood of good engagement and collaboration with local government officials.

### 1.3 Methodology

a) Desk review: this involved the collection and review of all relevant secondary data, and analytical studies from various sources. Some of the documents reviewed included: the nationally approved budget; Water and Environment Sector annual performance reports, and district annual budgets and work plans.

b) Key informant interviews: interviews were held at local government level with the District Water Officers in both Amuru and Nakasongola.<sup>4</sup>

### 1.4 Data availability and quality issues

The availability of data was an important factor affecting the ability to perform analyses for this study. Public expenditure figures for the water and sanitation sub-sector presented a challenge for interpretation, as they vary depending on the sources. For example, financial data in national budget performance reports produced by the Ministry of Finance, Planning and Economic Development (MoFPED) differs from that in the Water and Environment sector annual performance reports. However, in this analysis we use financial data from the Water and Environment Sector annual performance reports.

Annual financial data presented in the Water and Environment Sector annual performance reports are sometimes adjusted during subsequent years, making it a challenge to make comparisons between years. However, for this analysis we used the most recently available financial data, e.g. from the Water and Environment Sector performance report 2014.

The amount of financial reporting in the Water and Environment Sector annual performance reports can also differ from year to year, with some more detailed than others. This also made comparison over different years challenging. However, in this analysis we made best use of the available financial data.

For donor funds, off-budget information is largely available for committed and disbursed (available) funds, but not for actual spending. This made capturing absorption performance from commitments to actual spending impossible.

Moreover, given that water and sanitation both sit within the Ministry of Water and Environment (MWE), there were problems in interpreting data specifically for drinking water (as opposed to water for other activities or more environmentally-focused spending). Similarly, spending on sanitation is hard to disaggregate from overall water and sanitation spending. Sanitation is a cross-cutting issue, with funding being

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available from the health and environment sectors, as well as the MWE. Secondly, spending on water and sanitation is largely classified under National Water Sewerage Corporation (NWSC), rural water, urban water, water for production, and water resource management. All these areas focus more on water supply than on sanitation.

At district level, budget and financial reporting has changed over time. With the introduction of the output budget tool (OBT) in 2012/13, it is now easy to capture disaggregated financial data per output. This was not the case for previous years. This research has mainly depended on the most recent financial information.

## 2.0 Key findings

### 2.1 National level

#### 2.11 Water and environment sector

The Water and Environment Sector consists of two sub-sectors: the Water Supply and Sanitation (WSS) sub-sector and the Environment and Natural Resources (ENR) sub-sector. The WSS comprises water resource management, rural water supply and sanitation, urban water supply and sanitation, and water for production.

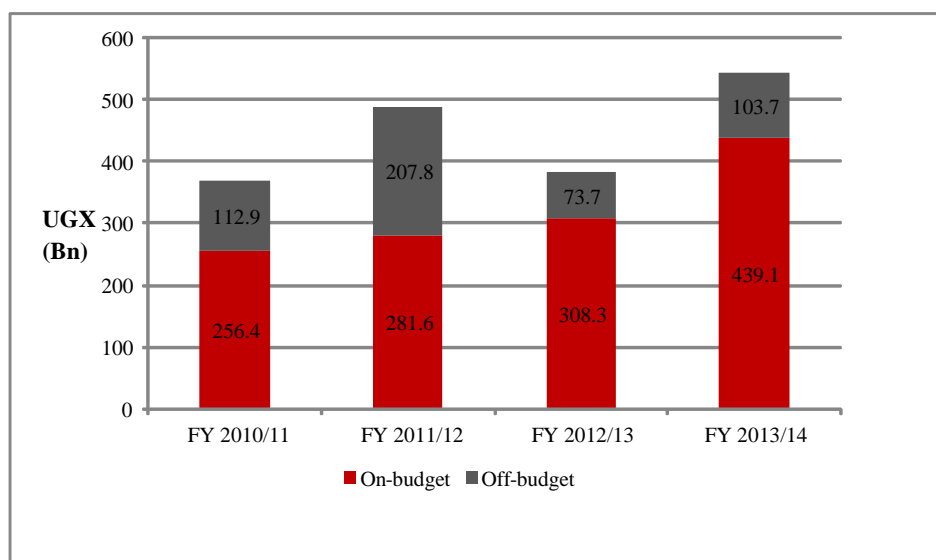
The main sources of funding for the sector are i) government funding from the Treasury;<sup>5</sup> ii) development partner funding (in the form of loans and grants); iii) internally generated funds.<sup>6</sup>

#### Planned and actual spending

In nominal terms, the overall Water and Environment Sector budget<sup>7</sup> has increased from UGX 369.3 billion in the financial year 2010/11 to UGX 542.8 billion in the financial year 2012/13. This means that the total sector budget grew by 47%. During the same period, on-budget<sup>8</sup> funds increased by 71% from UGX 256.4 billion to UGX 439.1 billion. The off-budget funds declined, however, by 8%, from UGX 112.9 billion to UGX 103.7 billion. Figure 1 shows overall sector financing.



**Figure 1: Water and environment sector financing**



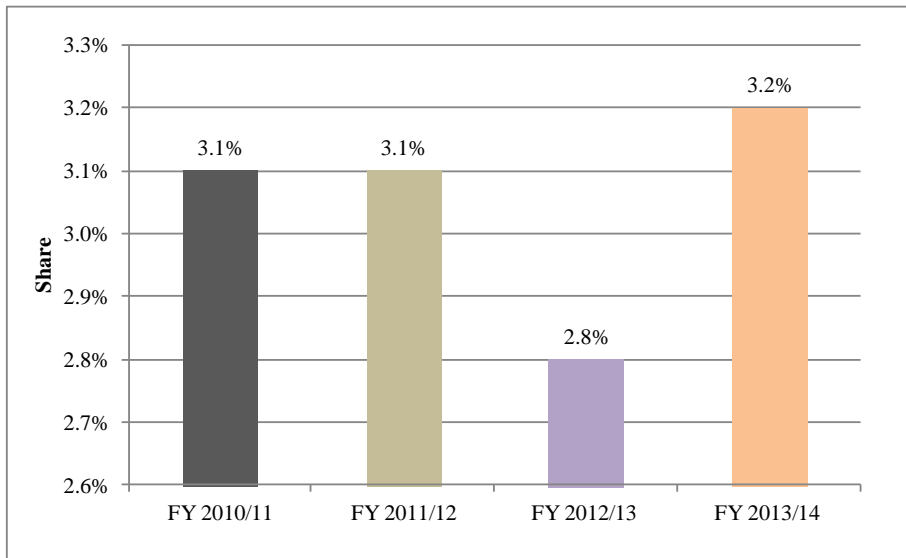
**Source:** Author's calculations based on MWE Sector performance reports 2011-2014

However, as a share of the total national budget, Water and Environment Sector allocation has remained relatively constant at 3.1%, apart from financial year 2012/13 when it declined to 2.8%. Figure 2 shows the sectoral share in the total national budget. It should also be noted that the share is far below the National Development Plan (NDP) target of 4%, and Strategic Sector Investment Plan target of 6%, which was required if sector investments were to have been sufficient to meet both Millennium Development Goal (MDG) targets for water and sanitation. The Sustainable Development Goals (SDGs, successor goals to the MDGs) include SDG 6, which commits to universal access to safe water and sanitation by 2030, and are set to increase financial gaps still further.

According to sector reports,<sup>9</sup> reasons for the stagnant sector funding share include:

- MoFPED's imposed budget ceiling, which may not necessarily allow development partners' support to the sub-sector, provided through earmarked budget support, to translate into additional funds for the sub-sector;
- inadequate drive within the sector to mobilise and attract resources outside traditional public funding sources.

**Figure 2: Water and environment sector share of total national budget**

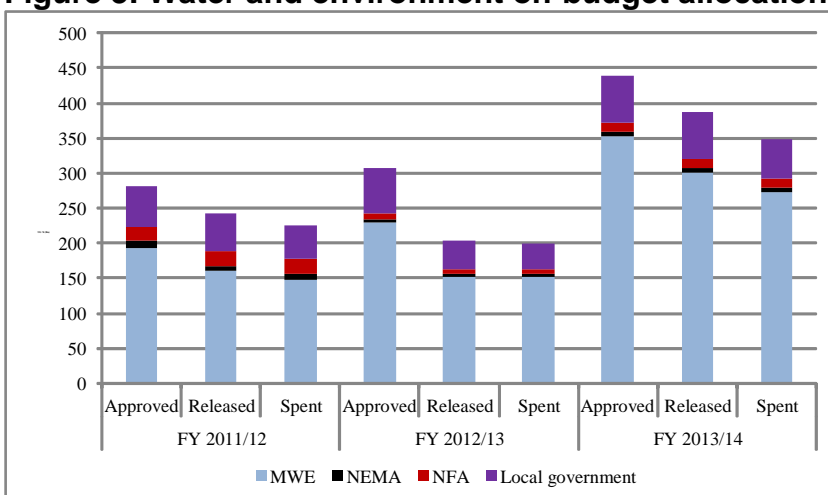


**Source:** Author’s calculations based on MWE Sector performance reports 2011-2014

On-budget resourcing for the Water and Environment Sector consists of funding from the Ministry of Water and Environment (MWE) and other sector institutions, including the National Environment Management Authority (NEMA), the National Forestry Authority (NFA), the National Water and Sewerage Corporation (NWSC) as well as local government (covering the three sector-conditional grants).<sup>10</sup>

As shown in Figure 3 and Appendix 1, most of the funds are spent by central government agencies (MWE, NEMA, NFA and NWSC). Less than 20% is spent by local government, which is provided in the form of the District Water and Sanitation Development Conditional Grant (DWSDCG). Despite this, under decentralisation, local governments are mandated to provide most water and sanitation services.

**Figure 3: Water and environment on-budget allocations and spending**



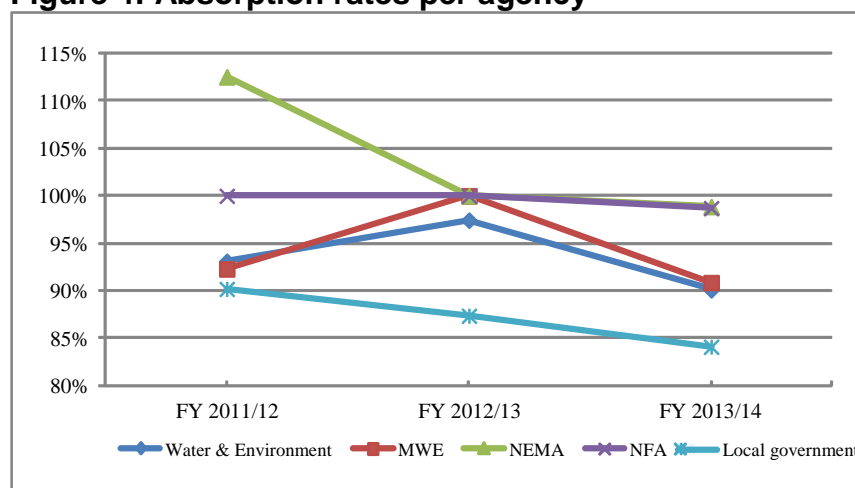
**Source:** Author’s calculations based on MWE Sector performance reports 2011-2014

## Financial absorption<sup>11</sup>

We calculate financial absorption as the percentage of funds released by MoFPED which are actually spent by the sector. Based on the available financial data, overall the Water and Environment Sector exhibited a high financial absorption rate, averaging 93.5%. However, absorption rates for all agencies have declined during the past three financial years, with local governments showing the largest decline. Figure 4 shows the absorption rates for each agency. Details are contained in Appendix 2.

The relatively low expenditure in the Water and Environment Sector in financial year 2013/14 was attributed to contractual delays relating to infrastructure, especially under the MWE. This included: the delay in procurement of inputs for the construction of valley tanks using ministry equipment; delays in contractor procurement of inputs required for installation of drip irrigation demonstration units; other equipment supplies delayed by procurement processes.

**Figure 4: Absorption rates per agency**



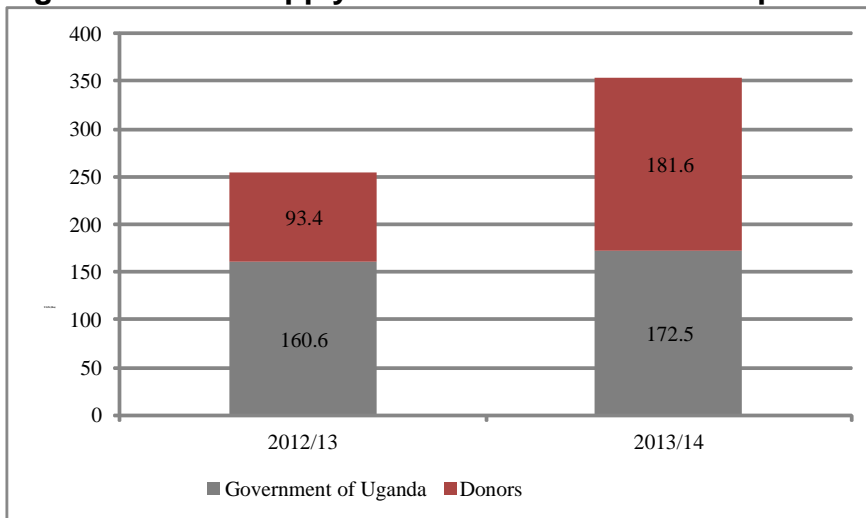
**Source:** Author's calculations based on MWE Sector performance reports 2011-2014

### 2.1.2 Water Supply and Sanitation sub-sector

#### Planned spending<sup>12</sup>

In nominal terms, based on available data, the overall water and sanitation sub-sector budget increased from UGX 254.0 billion in financial year 2012/13 to UGX 354.1 billion in financial year 2013/14. This means that the total sub-sector budget grew by 39%. During the same period, Government of Uganda funding increased by 7% from UGX 160.6 billion to UGX 172.50 billion; donor funding also increased by 95% from UGX 93.4 billion in to UGX 181.6 billion. Figure 5 shows the overall water and sanitation sub-sector planned spending.

**Figure 5: Water supply and sanitation sub-sector planned spending**

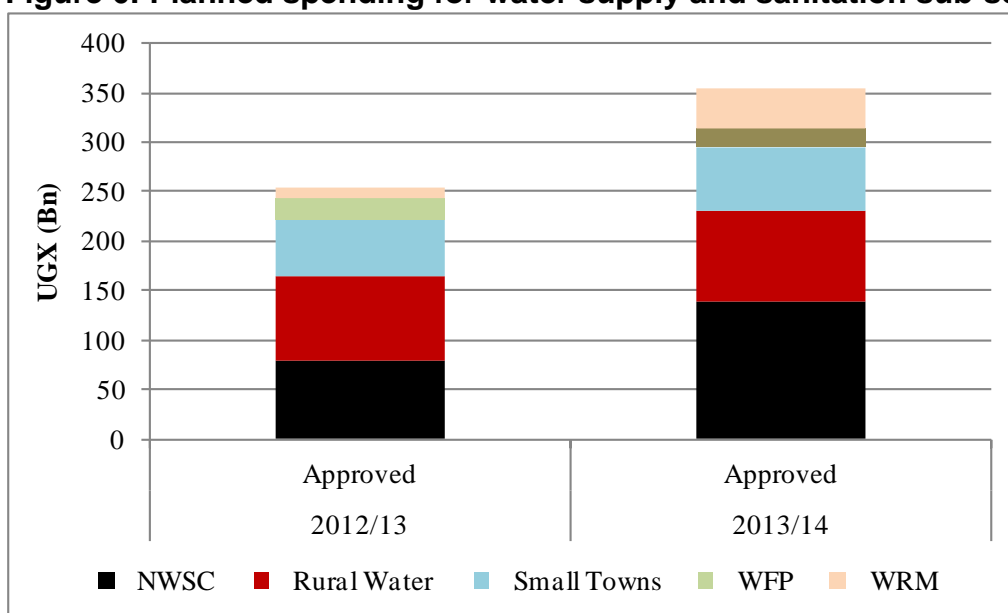


**Source:** Author’s calculations based on MWE Sector performance reports 2012-2014

Water and sanitation sub-sector planned spending is allocated to a further five subsectors. These are: National Water and Sewerage Corporation (NWSC), rural water, small towns, and water for production and water resource management. Based on available data, most planned spending was under NWSC (averaging 29%), followed by rural water (averaging 33%), and small towns (averaging 20%). The increased spending on the NWSC over the past two financial years is mainly due to expansion of services to more urban areas.

Figure 6 shows planned spending per sub-sector. More detail is contained in Appendix 2.

**Figure 6: Planned spending for water supply and sanitation sub-sectors**



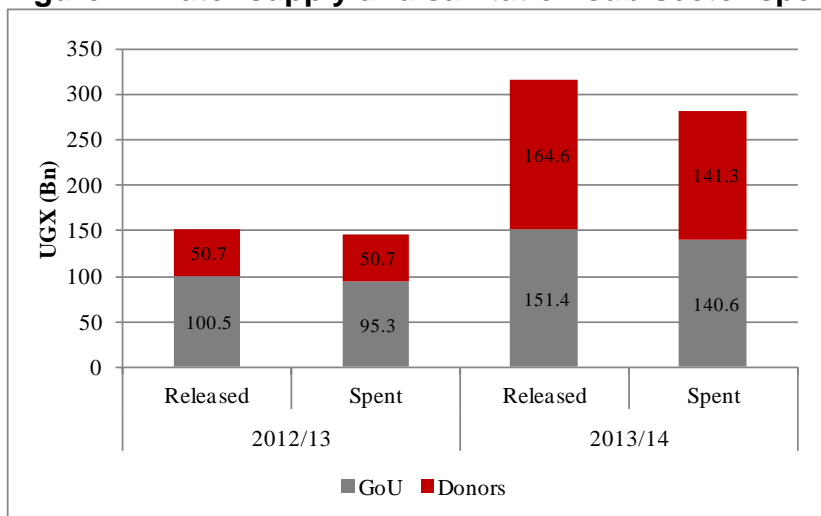
**Source:** Author’s based on MWE Sector Performance Reports 2012- 2014

## Actual spending

In terms of spending, UGX 282.0 billion was spent in financial year 2013/14 compared to UGX 146.0 billion in FY 2012/13. This means that the total sub-sector spending grew by 93%. During the same period, Government of Uganda (GoU) spending increased by 48% from UGX 95.3 billion to UGX 140.6 billion; donor spending increased by 179% from UGX 50.7 billion to UGX 141.3 billion.

Figure 7 shows overall sub-sector spending, broken down between GoU and donor funding.

**Figure 7: Water supply and sanitation sub-sector spending**

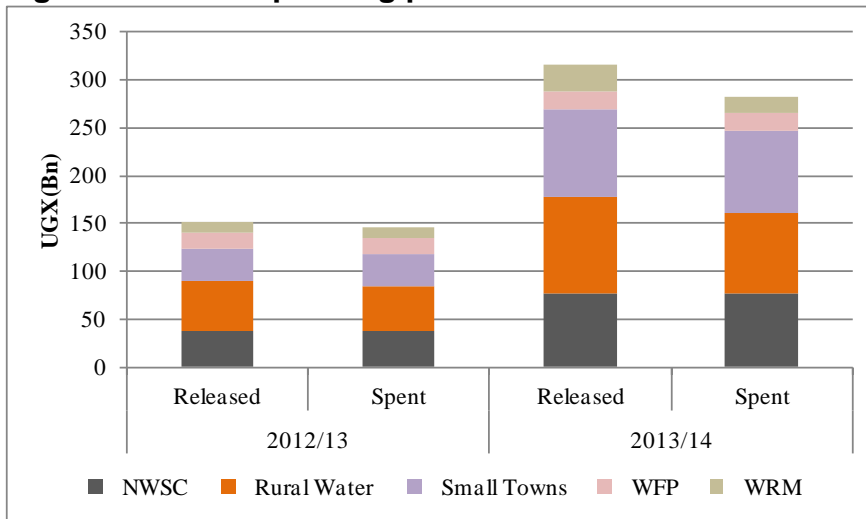


**Source:** Author's calculations based on MWE Sector performance reports 2012 - 2014

## External funding

In 2012/13, Development Partners (DPs) committed to fund the sector with up to UGX 99.6 billion, but only UGX 54.7 billion (54.9%) was released. This is attributed to several factors, including the freeze of funding by Danida, for alleged misappropriation of funds in the Office of the Prime Minister<sup>13</sup>, and suspension of disbursements by KfW (Germany) until the engagement of a Financial Co-operation Consultant (MWE, 2013). Based on the available data, most of the actual spending was under rural water (averaging 36%); followed by small towns (averaging 26%); and NWSC (averaging 21%). Figure 8 shows planned spending per sub-sector. Details are contained in Appendix 2.

**Figure 8: Actual spending per sub-sector**

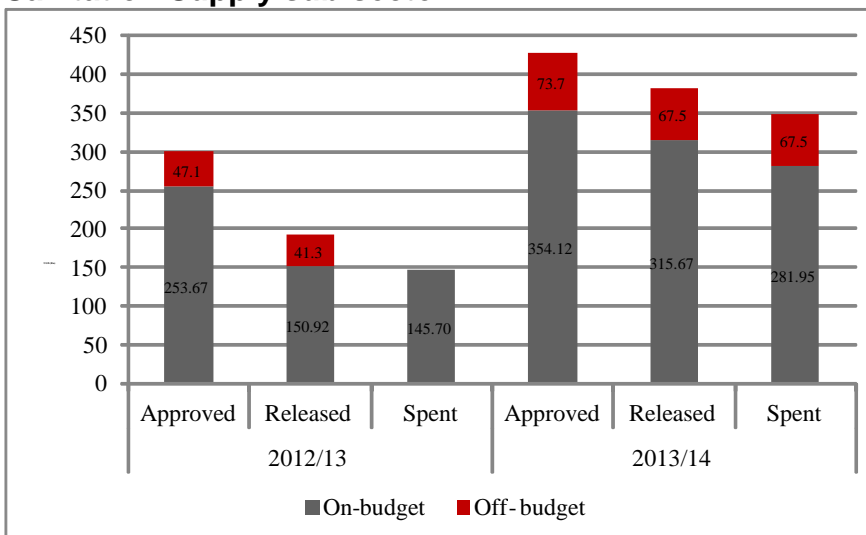


Source: Author's calculations based on MWE Sector performance reports 2012-2014

**On-budget and off-budget financing**

Available data shows that over 80% of Water and Sanitation Supply sub-sector financing was on-budget. This is critical for the sustainability of sector financing since on-budget spending enhances harmonisation and alignment of sector activities. Figure 9 shows on- and off-budget financing of the Water Supply and Sanitation sub-sector. Details are contained in Appendix 4.

**Figure 9: On-budget versus off-budget financing of the Water Supply and Sanitation Supply sub-sector**

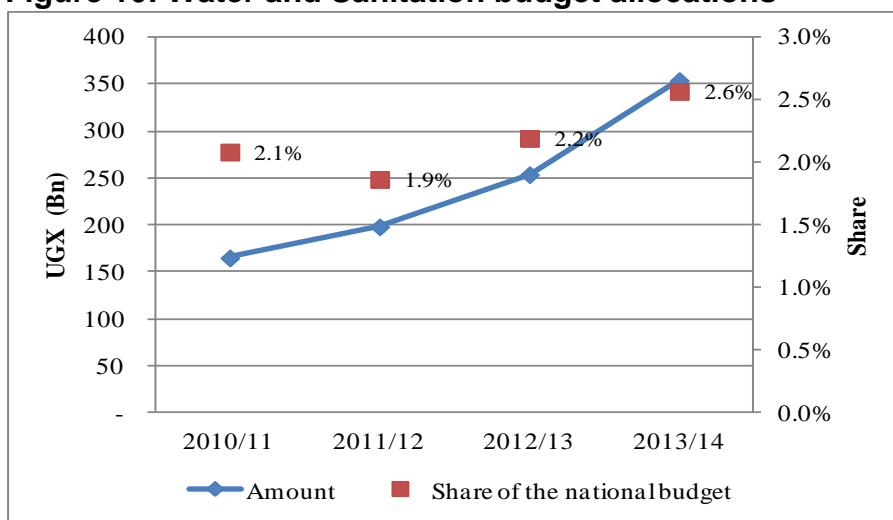


Source: Author's calculations based on MWE Sector performance reports 2012-2014

## Share of the national budget

Despite the fact that the nominal amounts of budget allocations towards the Water and Sanitation sub-sector have been increasing, the water and sanitation budget share of the national budget has remained low, averaging 2.2% during the last four financial years. Figure 10 shows budget allocations to the water and sanitation budget.

**Figure 10: Water and Sanitation budget allocations**

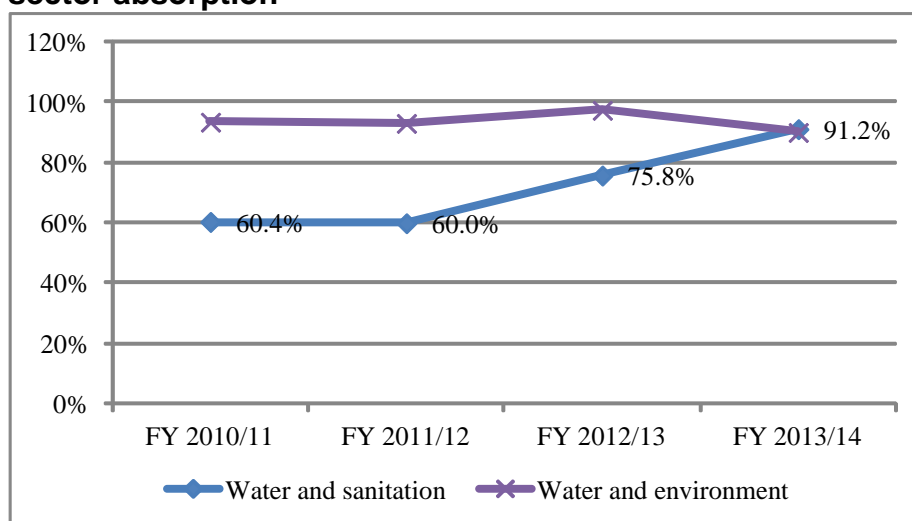


Source: Author's based on MWE Sector Performance Reports 2011-2014

## Financial absorption

Although financial absorption rates for the Water Supply and Sanitation sub-sector have improved over the past four years, they have remained relatively low compared to Water and Environment and other sectors such as education, security and public administration. Figure 11 and Table 1 show the absorption rates. Details are contained in Appendix 5.

**Figure 11: Water supply and sanitation absorption rate compared to overall sector absorption**



Source: Author's calculations based on MWE Sector performance reports 2011-2014

**Table 1: Absorption rates of selected sectors**

Sector	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14
Water and Environment	93.5%	93.1%	97.4%	90.1%
Of which Water and sanitation	60.4%	60.0%	75.8%	91.2%
Security	100.0%	100.0%	100.0%	97.6%
Works and transport	101.7%	99.3%	100.1%	98.6%
Education	102.0%	130.4%	98.1%	98.4%
Justice/law and order	99.6%	99.9%	99.5%	99.2%
Public sector management	100.3%	95.7%	96.5%	99.3%
Public administration	99.7%	99.2%	94.8%	100.0%
Legislature	98.6%	99.8%	99.6%	99.9%

Source: Author's calculations based on MoFPED, Annual Budget performance reports 2011-2014

Improvement in absorption rates is due in large part to implementation of the financial management reforms by MoFPED. These include the Integrated Finance Management System (IFMS), straight through processing of salaries and pensions (STP), electronic funds transfer (EFT), the output budgeting tool, linking funds releases to procurement plans, work plans and cash limit projections, and timely release of funds (these are explained in more detail in Box 1).



### Box 1: Key financial management reforms

- a. IFMS was introduced in 2004 to improve oversight and internal controls over cash management, commitment and expenditure, and more efficient and timely transaction processing. IFMS has improved predictability, transparency and accountability in the management of public funds.
- b. STP and EFT payment of pension and salaries was introduced to replace the use of cheques to eliminate fraudulent behaviour, improve liquidity management and reduce transaction costs. STP has been extended to service delivery facilities such as schools.
- c. Output-oriented budgeting (OBT) was introduced 2008/09 to strengthen the link between government budgets, results and policy objectives in order to improve allocation and operational efficiency of public expenditure through focusing allocation on sectors that have the greatest impact in achieving government policy objectives.
- d. In 2009/10, MoFPED moved to quarterly cash limits and releases are linked to performance. Linking of procurement plans, work plans and cash limit projections (OBT).
- e. Decentralisation of the payroll: Ministry of Public Service processes the payment; Accounting Officers (AOs) validate the payroll and clear for payment. MoFPED effects payment. AOs are accountable.

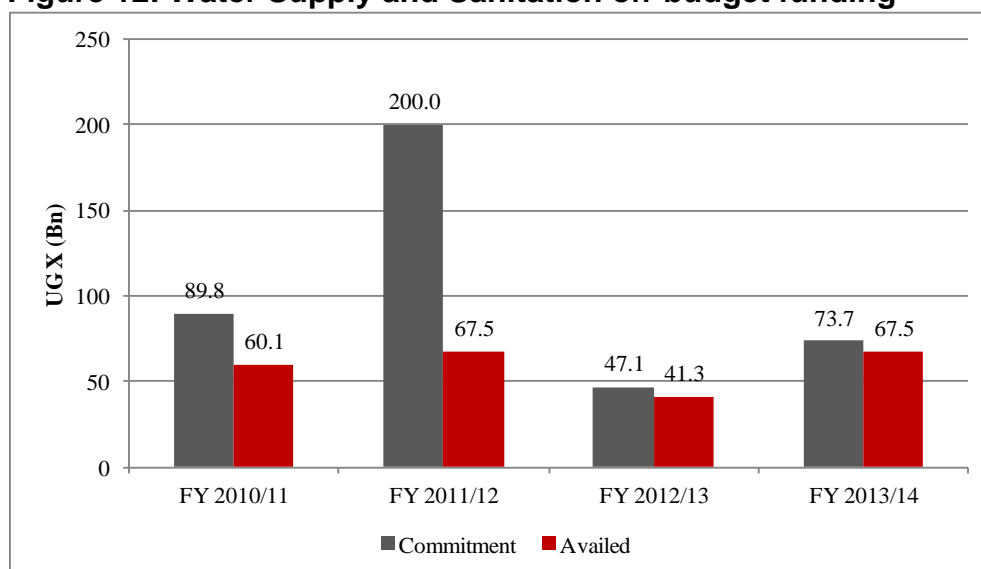
Source: William Ndoleriire, Assistant Commissioner, Infrastructure and Social Service. MoFPED.

### Off-budget funding

Off-budget funding is not reported in the Medium Term Expenditure Framework (MTEF) and budget estimate books of the government. This is either because it is not reported to the government, or because it is not related to institutions included in MTEF and government official budget estimates. This might include some aid to local government, as well as support to parastatals<sup>14</sup> and NGOs, although many Development Partners do provide information on such aid to MoFPED. Off-budget aid does not fall under sector ceilings (MWE, 2012).

Off-budget financial information is obtained from sector agencies (NWSC, NEMA, NFA) and from CSO umbrella organisations UWASNET and Environmental Alert. Reported off-budget commitments for water and sanitation declined from UGX 200 billion in financial year 2011/12 to UGX 74 billion in financial year 2013/13. However, the availed funding remained relatively stable at UGX 67 billion during the same period (there is no information on actual off-budget spending). Figure 12 shows off-budget financing.

**Figure 12: Water Supply and Sanitation off-budget funding**



**Source:** Author's calculations based on MWE Sector Performance Reports 2011-2014

### 2.1.3 Challenges facing the Water and Sanitation sub-sector nationally

There are a number of factors that lead to low absorption rates at national level. Some of these include:

- Budget cuts due to revenue shortfalls. For instance, domestic revenue for financial year 2011/12 experienced shortfalls due to slow economic growth<sup>15</sup> and persistent inflation pressures.<sup>16</sup> This resulted in the Uganda Revenue Authority (URA) registering revenue shortfalls of UGX 130.1 billion in 2012/13. Consequently, MoFPED releases to all sectors were cut.
- Supplementary budget appropriations during the financial year. Supplementary budget appropriations have grown in size from 7.2% in 2009/2010 to 27.7% in 2010/11, and 38% in financial year 2011/12. Although supplementary spending is unavoidable, it is used by the government to alter budget expenditure priorities. Supplementary appropriations mainly benefit public administration and security sectors, and often deplete spending on sectors like water and sanitation.
- Unpredictable donor flows and reductions in disbursements due to the global slowdown and recession, and misuse of aid resources. For instance, in 2012 some donors<sup>17</sup> suspended aid totalling \$372 million (UGX 964.23 billion). In the water sector, Danida froze funding due to mismanagement of pension funds in the Ministry of Public Service (MoPS) and Peace Recovery and the Development Program (PRDP) basket fund for northern Uganda in the Office of the Prime Minister.
- Delays in procurement, especially for capital expenditure. There are usually long and bureaucratic procurement processes for consultants, civil works and other goods and services.
- Donor delays in meeting their financial obligations. For instance, according to the sector performance report 2012, MWE had included funding from KFW/Germany

towards the Water and Sanitation Development Facility (WSDF) (North and East) in the approved budget for 2011/12, to be used for construction of piped water schemes in northern and eastern regions of Uganda, respectively. However, signing the financing agreement was delayed, consequently delaying the release of donor funds.

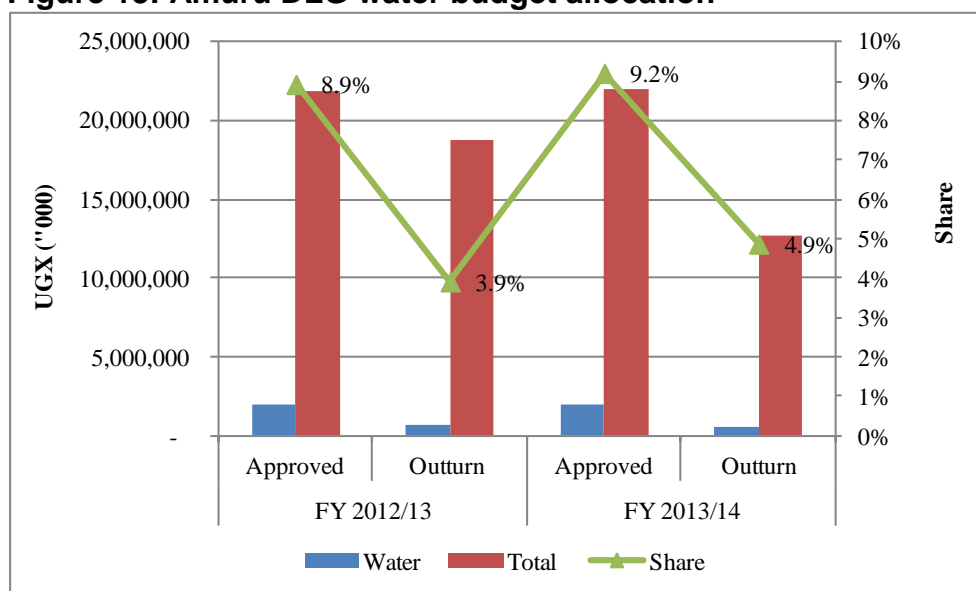
- f) The poor budget performance or low absorption of project funds (such as the Lake Victoria Environment Management Project, LVEMP II) is partly due to (i) lack of harmony between donors and the country’s internal clearance procedures (by Cabinet and Parliament) for projects; (ii) the complexity of some project designs.

## 2.2 Local government level

### 2.2.1 Water sector budget allocation and spending

In Amuru, the total approved district budget was UGX 21.9 billion in 2012/13 and UGX 22.0 billion in 2013/14 of which UGX 18.8 billion and UGX 12.7 billion (by mid-financial year) was spent respectively. As a share of the total district budget, allocation to the water and environment sector (within which the water supply and sanitation sub-sector lies), was 8.9% in 2012/13 and 9.2% in 2013/14. However, in terms of spending, the share fell to 3.9% in 2012/13 and 4.9% in 2013/14. Figure 13 shows Amuru district local government (DLG) water sector budget allocation and the share of the total district budget.

**Figure 13: Amuru DLG water budget allocation**

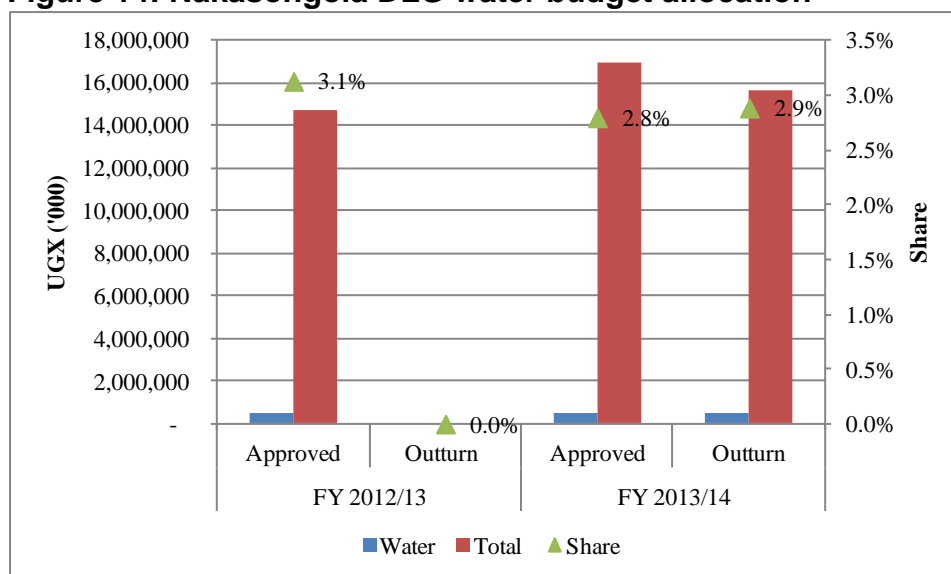


**Source:** Author’s calculations based on Amuru DLG approved annual budgets

For Nakasongola, the district total approved budget was UGX 14.7 billion in 2012/13 and UGX 16.9 billion in 2013/14, of which UGX 15.6 billion was spent in 2013/14.<sup>18</sup> As a share of the total district budget, allocation to the water and environment sector (within which the water and sanitation sub-sector lies), was 3.1% in 2012/13 and

2.8% in 2013/14. However, in terms of spending the share slightly increased to 2.9% in 2013/14. Figure 14 shows Nakasongola DLG’s water sector budget allocation and its share of the total district budget.

**Figure 14: Nakasongola DLG water budget allocation**



**Source:** Author’s calculations based on Nakasongola DLG approved annual budgets

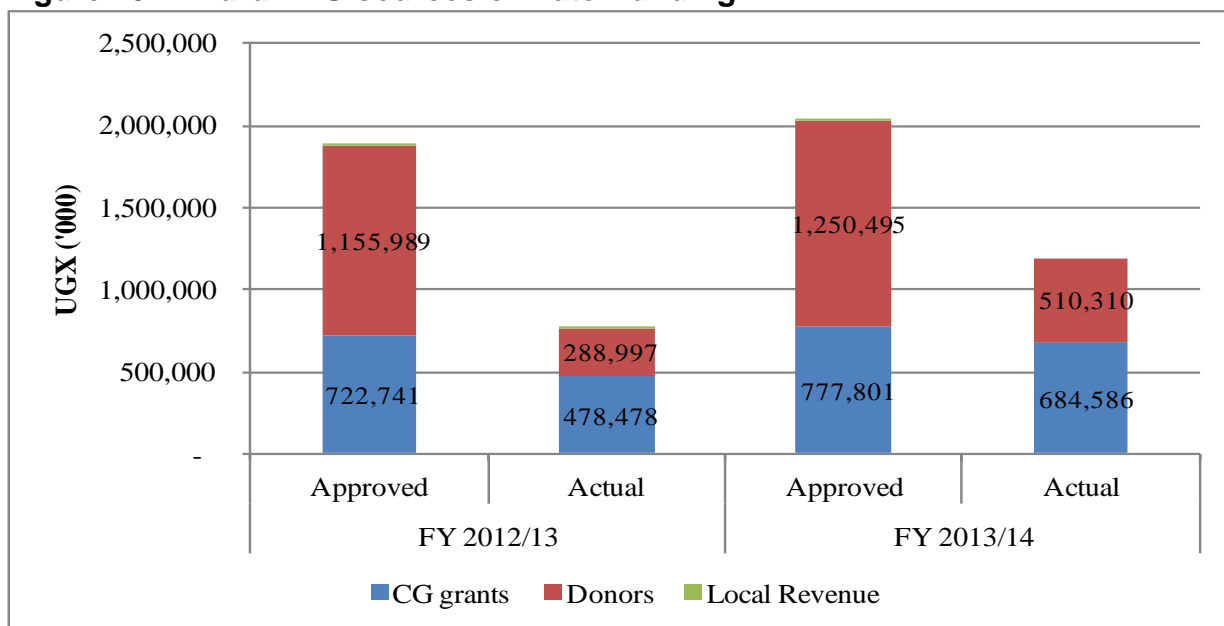
## 2.2.2 Revenue sources

The major sources of revenue for the water sector at local government level are:

- central government (CG) transfers (Urban and Rural Water, Sanitation and Hygiene conditional grants, and Local Government Management and Service Delivery Programme (LGMSD));
- donors and local revenues.

In Amuru, during 2012/13, donor funding, CG transfers and local revenues constituted 61.5%, 38.4% and 0.1% respectively of the approved budget. However, in terms of spending, donor funding, CG transfers and local revenues constituted 37.6%, 62.3% and 0.1% respectively. A similar pattern occurred in 2013/14, where donor funding, CG transfers and local revenues constituted 61.6%, 38.3% and 0.1% respectively. However, in terms of spending, donor funding, CG transfers and local revenues constituted 42.7%, 57.3% and 0.0% respectively (see Figure 15).

**Figure 15: Amuru DLG sources of water funding**

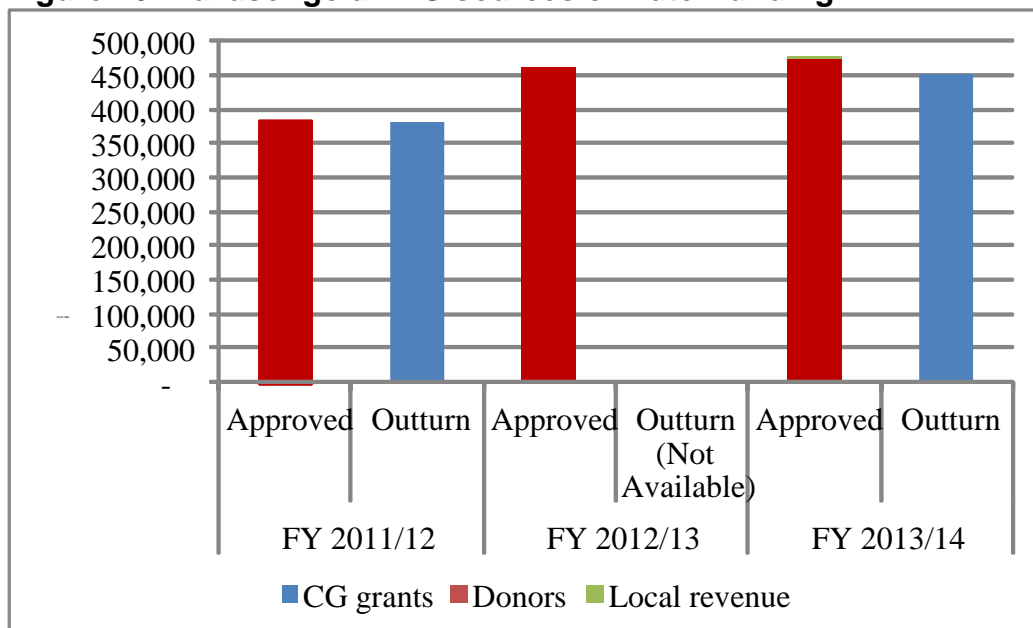


**Source:** Author's calculations based on Amuru DLG approved annual budgets

The high portion of donor funding is partly due to the Northern Uganda Development of Enhanced Local Governance Infrastructure and Livelihood (NUDEIL) project funded by USAID. However, in terms of performance, in both years, donor funding (in terms of releases) performed badly at 25% in 2012/13 and 41% in 2013/14, compared to CG releases that performed at 66% and 88% respectively.

In Nakasongola, all water sector funding was from CG transfers. In terms of performance, CG releases performed at 95% in 2013/14.

**Figure 16: Nakasongola DLG sources of water funding**



**Source:** Author's calculations based on Nakasongola DLG approved annual budgets

Central government (CG) funds are likely to be spent because of a number of reasons:

- They are conditional in nature. They need to be spent on activities agreed with the central government within a financial year, and any funds not spent are returned to the centre. To avoid returning funds to the centre, local government strives to spend all funds within a financial year.
- Local government largely depends on CG funding, which is inadequate to finance fully all planned activities. Thus, there is always a funding deficit.

### 2.2.3 Water sector spending

As discussed in Section 1.4, obtaining actual spending at local government levels is a big challenge, and this study was not able to obtain full data on water spending. However, the analysis that follows is based on available data and is shown in Table 2.

**Table 2: Local government absorption rates**

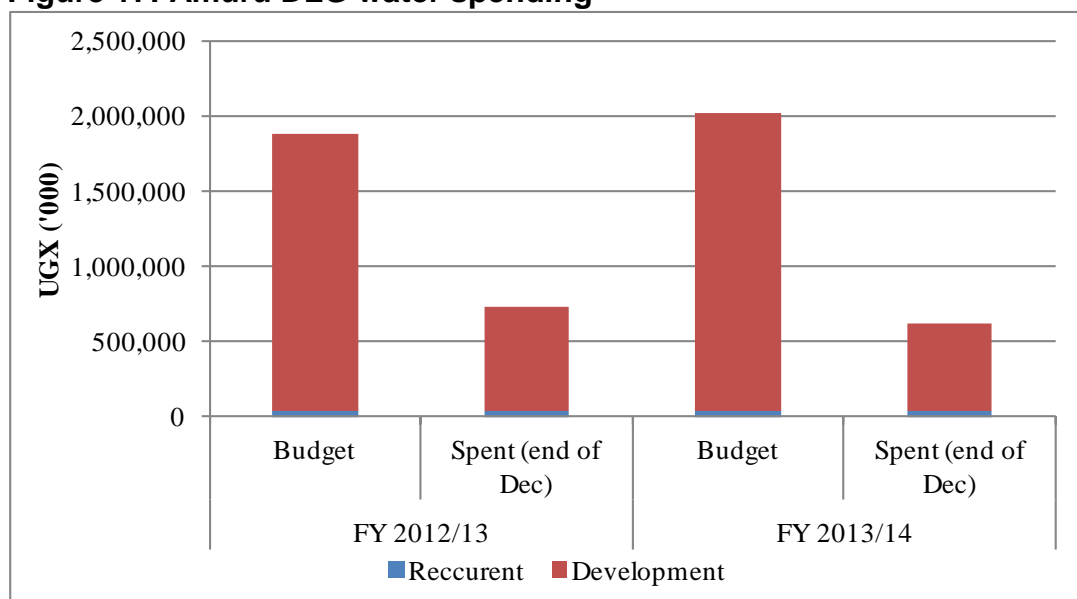
District	Category	Absorption rate	
		2012/13	2013/14
Amuru	<b>Recurrent*</b>	<b>81.9%</b>	<b>78.4%</b>
	o/w wage	100.0%	100.0%
	o/w non-wage	71.1%	66.0%
	<b>Development*</b>	<b>38.2%</b>	<b>29.7%</b>
	o/w GoU	63.4%	79.8%
	o/w Donor	23.3%	0.0%
	<b>Total</b>	<b>39.1%</b>	<b>30.6%</b>
Nakasongola	<b>Recurrent</b>		<b>83.9%</b>
	o/w non-wage		83.9%
	<b>Development</b>		<b>95.8%</b>
	o/w GoU		95.8%
	<b>Total</b>		<b>95.1%</b>

\*By end of December.

**Source:** Author's calculations based on Amuru and Nakasongola DLG approved annual budgets

In Amuru, in 2012/13 the total approved budget for water was UGX 1.8 billion, of which UGX 0.74 billion was spent mid-way through the financial year, indicating an absorption rate by this stage of 39%. In 2013/14 the total approved budget on water was UGX 2.1 billion, of which UGX 0.62 billion was spent mid-way through the financial year, indicating an absorption rate by this stage of 30.6%. Most of the spending is categorised as development spending funded by both donors and the Government of Uganda (see Figure 17).

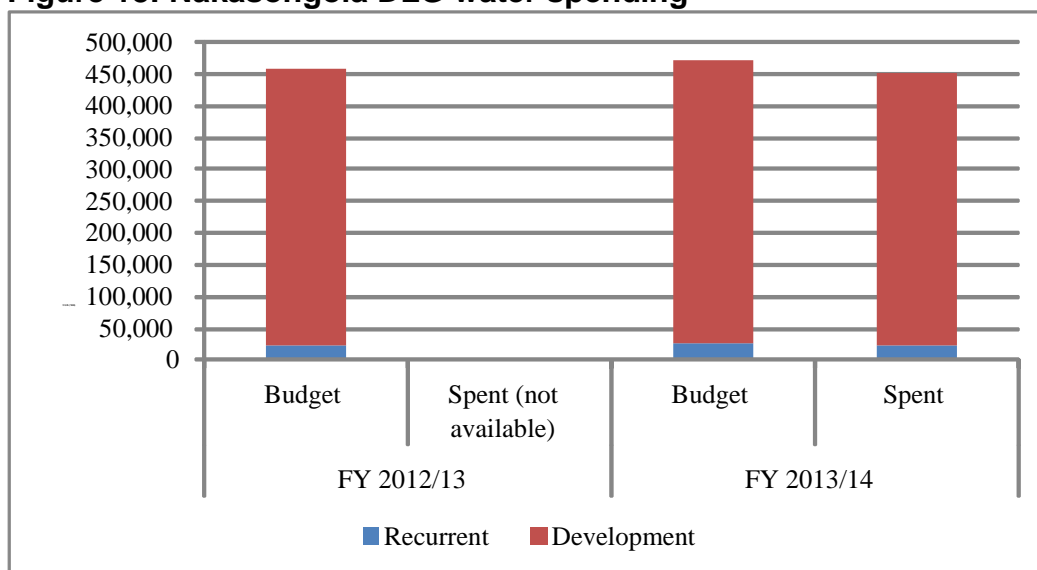
**Figure 17: Amuru DLG water spending**



**Source:** Author's calculations based on Amuru DLG approved annual budgets

In Nakasongola in 2013/14, the total approved budget on water was UGX 0.47 billion, of which UGX 0.45 billion was spent, indicating an absorption rate of 95%. Spending information for financial year 2012/13 was not available – however, the approved budget was UGX 0.46 billion. Most of the spending is categorised as development spending funded entirely by the Government of Uganda (see Figure 18).

**Figure 18: Nakasongola DLG water spending**



**Source:** Author's calculations based on Nakasongola DLG approved annual budgets

The District Water and Sanitation Development Conditional Grant (DWSDCG) guidelines require that local government invest not less than 70% of the budget in water supply. The majority of this funding is heavily orientated towards capital expenditures and investments, and this may not allow enough recurrent spending to facilitate absorption.

### 2.2.4 Challenges of financial absorption at local government level

- Procurement and contracting delays.** In Amuru the procurement process involves collective advertising by all departments and it is done in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of the financial year, with contracts awarded in the 4<sup>th</sup> quarter. While this is done to reduce the cost of procurement for the district, it nevertheless affects the effective implementation of water activities. Although collective advertising was not mentioned in Nakasongola, procurement delays are prominent in the district. Procurement delays are largely caused by lengthy procurement procedures as prescribed by Public Procurement and Disposal of Public Authority (PPDA) and sometimes by conflict-of interest and corruption by some local government officials.<sup>19</sup>
- Understaffing.** In both districts, staffing in the water sector is low. For instance, in Amuru district the water department is supposed to have five staff (one District Water Officer, two Assistants, and two support staff); however, they currently



have only one Acting DWO (who was originally a Borehole Maintenance Officer) and two staff (seconded from other sectors with other additional responsibilities). The ban on recruitment of staff (this requires clearance from the Ministry of Public Service) has made the situation worse. Although the rural water and sanitation grant allows for recruitment of staff on contract, it is too small (only 6% of the total amount).

“...the rural water and sanitation grant allows some staff on contract; two were recruited, but one has left for further studies.” Acting DWO, Amuru

- **Lack of facilitation, especially transport.** In both districts, the District Water Offices lack transport facilities to enable them to implement and monitor activities effectively across the whole district. The government freeze on the purchase of vehicles (this requires clearance from the Office of the Prime Minister) has also worsened the situation.

“...in Amuru we depend on a vehicle provided by UNICEF.” Acting DWO, Amuru

- **Late releases of funds from central government.** Both districts largely depend on central government transfers for implementation of water, sanitation and hygiene activities. Although there has been some improvement in central government releases over the past year, late release affects absorption capacity. In addition to late releases, the sector also suffers from budget cuts; in some instances, indicative planning figures (IPFs) are not fully met.

“...there has been some improvement; MWE releases at least 85% by 3<sup>rd</sup> quarters of the financial year.” Acting DWO, Amuru

- **Lengthy district bureaucratic procedures.** Requisition and acquiring the funds takes a long time due to district bureaucracy; all requisitions have to be approved by the Chief Administrative Officer (CAO). This is worsened by the Integrated Financial Management System (IFMS), which delays the making of payments.<sup>20</sup>
- **Delays in acquisition of land.** It was noted in Nakasongola that in cases where boreholes are supposed to be constructed there is need to compensate land owners and this takes time, thus delaying implementation of activities.
- **Reporting and accountability.** District officials noted that never-ending accountability reporting and investigations by different bodies (such as IGG, Office of President, Audit General etc), consume a lot of time. This affects the implementation of activities.
- **Political interference in implementation.** In some cases politicians interfere in the implementation of activities, and this affects absorption of funds.
- **Limited community ownership.** In the two districts it was observed that most community members are not fully involved in the implementation and management of water facilities.

## 3.0 Conclusion and main recommendations

### 3.1 Conclusion

Gaps in funding for Uganda's Water Supply and Sanitation sub-sector continue to be large, as outlined in the introductory section of this report. Moreover, the African Ministers Council on Water (AMCOW) Uganda country case study (2011) raised the red flag around concerns about depleting funding for water and sanitation, cautioning that low investment could erode substantial gains already made.

In addition to low overall levels of investment, absorption rates for the Water Supply and Sanitation sub-sector, despite having improved over the past four years (2010/11-2013/14), remain low compared to other sectors, averaging 72%, compared to other sectors such as education (averaging 107%) and security (averaging 99%).

The improvement in the sub-sector is attributed to financial management reforms that MoFPED has implemented during the same period. However, there are a number of challenges that limit higher absorption rates, including: delays in procurement, especially for capital expenditure; delays by donors to meet their financial obligations; and the poor budget performance of some project funds.

In both Nakasongola and Amuru there is relatively high financial absorption capacity, mainly due to the fact that water and sanitation is largely funded by central government through the DWSDCG. The DWSDCG has a high spending rate since it is conditional in nature; it needs to be spent on activities agreed with central government within a financial year, and any funds not spent must be returned to the centre. However, there are still challenges at district level in relation to financial absorption, which include: procurement and contracting delays; understaffing; lack of facilitation, especially transport; lengthy district bureaucratic procedures; and political interference in implementation.

### 3.2 Recommendations

- Central government needs to increase funding to the water and environment sector, and particularly the water supply and sanitation supply sub-sector, to the levels that were projected in the National Development Plan.
- MWE and local government need to improve financial reporting, especially by providing disaggregated information that can be compared across financial years.
- Financial absorption is affected by delays and poor timing of the release of funds. MoFPED should ensure timely disbursement of water and sanitation funds to ensure effective implementation of planned activities. Where funds are released on time, local government should ensure that the procurement process does not impede implementation.

- At district level, especially in Amuru, there is a need to separate procurement for each sector/department to enable timely implementation of activities.
- Central government needs to improve district level staffing levels in water and sanitation departments to ensure effective implementation of planned activities.
- Both central and local government need to improve the facilitation available for water and sanitation officials, especially transport, to enable them to carry out their activities. At least one vehicle for each district should be procured to enable the smooth running of water and sanitation activities.

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Amuru DLG 2012, Approved Annual Budget and Workplan 2012/13  
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Nakasongola DLG 2012, Approved Annual Budget and Workplan 2012/13  
Nakasongola DLG 2013, Approved Annual Budget and Workplan 2013/14

## Appendix 1: Water and Environment on-budget allocations and spending

Sub-sector	FY 2011/12			FY 2012/13			FY 2013/14		
	Approved	Released	Spent	Approved	Released	Spent	Approved	Released	Spent
MWE	193.4	160.1	147.8	228.8	151.2	151.2	351.5	299.7	272.3
NEMA	11.1	7.2	8.1	5.8	4.7	4.7	8.4	7.7	7.6
NFA	18.3	21.1	21.1	8.7	6.5	6.5	12.5	12.0	11.9
Local government	58.9	53.6	48.4	64.9	41.4	36.2	66.7	66.7	56.1
<b>Total</b>	<b>281.6</b>	<b>242.0</b>	<b>225.3</b>	<b>308.3</b>	<b>203.7</b>	<b>198.5</b>	<b>439.1</b>	<b>386.2</b>	<b>348.0</b>

Source: MWE Sector performance reports 2011-2014

## Appendix 2: Financial absorption rates for per agency

Sub-sector	FY 2011/12	FY 2012/13	FY 2013/14
Water and environment	93.1%	97.4%	90.1%
MWE	92.3%	100.0%	90.9%
NEMA	112.5%	100.0%	98.9%
NFA	100.0%	100.0%	98.7%
Local government	90.2%	87.4%	84.1%

Source: Author's based on MWE Sector performance reports 2011 – 2014

## Appendix 3: Planned on-budget spending per sub-sector

Sub-sector	2011/12			2012/13			2013/14		
	Approved	Released	Spent	Approved	Released	Spent	Approved	Released	Spent
<b>Water and Sanitation</b>	<b>198.1</b>	<b>142.0</b>	<b>131.4</b>	<b>254.0</b>	<b>151.2</b>	<b>146.0</b>	<b>354.1</b>	<b>316.0</b>	<b>282.0</b>
GoU	198.1	142.0	131.4	160.6	100.5	95.3	172.5	151.4	140.6
Donors									
<b>NWSC</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>80.1</b>	<b>38.1</b>	<b>38.1</b>	<b>138.4</b>	<b>77.5</b>	<b>77.5</b>
GoU				45.1	17.2	17.2	42.5	24.6	24.6
Donors				35.0	20.9	20.9	95.9	52.9	52.9
<b>Rural Water</b>	<b>73.79</b>	<b>72.46</b>	<b>68.11</b>	<b>84.6</b>	<b>51.2</b>	<b>46.0</b>	<b>92.8</b>	<b>100.0</b>	<b>83.0</b>
GoU	73.79	72.46	68.11	73.2	48.2	42.9	89.3	88.2	77.6
Donors				11.4	3.0	3.0	3.6	11.8	5.4
<b>Small Towns</b>	<b>75.58</b>	<b>34.11</b>	<b>30.17</b>	<b>58.1</b>	<b>34.5</b>	<b>34.5</b>	<b>63.3</b>	<b>91.2</b>	<b>85.4</b>
GoU	75.58	34.11	30.17	13.0	10.9	10.9	13.8	13.7	13.7
Donors				45.1	23.6	23.6	49.5	77.4	71.7
<b>WFP</b>	<b>21.69</b>	<b>21.5</b>	<b>21.51</b>	<b>21.5</b>	<b>16.5</b>	<b>16.5</b>	<b>20.0</b>	<b>19.3</b>	<b>19.2</b>
GoU	21.69	21.5	21.51	21.5	16.5	16.5	20.0	19.3	19.2
Donors				0.3	0.3	0.3		0.3	
<b>WRM</b>	<b>27.0</b>	<b>13.97</b>	<b>11.61</b>	<b>9.4</b>	<b>10.6</b>	<b>10.6</b>	<b>39.7</b>	<b>27.7</b>	<b>16.9</b>

GoU	27.0	13.97	11.61	7.8	7.7	7.7	7.0	5.5	5.6
Donors				1.6	2.9	2.9	32.7	22.2	11.3

Source: Author's calculations based on MWE Sector performance reports 2011-2014

#### Appendix 4: On and off-budget financing of the water and sanitation sub-sector

Source	2011/12			2012/13			2013/14		
	Appro-ved	Relea-sed	Spent	Appro-ved	Relea-sed	Spent	Appro-ved	Relea-sed	Spent
On-Budget	198.06	142.04	131.40	253.67	150.92	145.70	354.12	315.67	281.95
Off-Budget	199.97	77.13		47.1	41.3		73.7	67.5	67.5
<b>Total</b>	<b>398.03</b>	<b>219.17</b>	<b>131.4</b>	<b>300.8</b>	<b>192.3</b>	<b>145.7</b>	<b>427.8</b>	<b>383.2</b>	<b>349.5</b>
% on-budget	50%	65%		84%	78%		83%	82%	81%
% of national budget	1.9%	1.6%	1.5%	2.2%	1.6%	1.6%	2.6%	3.1%	2.8%

Source: Author's calculations based on MWE Sector performance reports 2011-2014

#### Appendix 5: Sector absorption rates

Sector	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14
Water and Environment	93.5%	93.1%	97.4%	90.1%
o/w Water and Sanitation	60.4%	60.0%	75.8%	91.2%
Security	100.0%	100.0%	100.0%	97.6%
Works and transport	101.7%	99.3%	100.1%	98.6%
Agriculture	99.7%	94.4%	95.3%	95.6%
Education	102.0%	130.4%	98.1%	98.4%
Health	100.0%	99.6%	97.4%	98.1%
Justice/law and order	99.6%	99.9%	99.5%	99.2%
Accountability	102.4%	98.5%	99.3%	99.6%
Energy and mineral development	102.4%	99.8%	99.1%	92.5%
Tourism, Trade and industry	102.4%	100.0%	99.8%	100.5%
Lands, housing and urban Development	100.1%	98.8%	96.2%	98.6%
Social development	100.0%	94.4%	90.9%	99.5%
Information and communication Technology	98.2%	99.0%	88.2%	99.1%
Public sector management	100.3%	95.7%	96.5%	99.3%
Public administration	99.7%	99.2%	94.8%	100.0%
Legislature	98.6%	99.8%	99.6%	99.9%

Source: Author's calculations based on MoFPED Budget Performance & MWE Sector performance reports 2011-2014.

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<sup>1</sup> This report was written by Imelda Namagga, resource person from Uganda, on behalf of DFI. The report had inputs and edits carried out by Jo Walker of DFI and Grace Alupa, John Garrett and Wen Hoe of WaterAid.

<sup>2</sup> A rural growth centre has a population ranging from 500 - 5,000 people, and a small town a population of between 5,000 and 50,000 people.

<sup>3</sup> Background to the Budget financial year 2014/15; Sector Performance Review 2015; the urban distance is 200 metres, as agreed by the sector in the Sector Investment plan and National Development Plan 11.

<sup>4</sup> Mr Robinson Payolem, District Water Officer, Amuru, and Mr Hussein Mulondo, Acting District Water Officer, Nakasongola.

<sup>5</sup> Government funding from the Treasury comprises both GoU's local resources as well as grants and loans from development partners operating under the sector budget support framework.

<sup>6</sup> This consists of revenue generated from water sales and sewerage services, and environmental services to the general public.

<sup>7</sup> The figure includes both reported on-budget and off-budget funding under the sector. The figure excludes internally generated resources, but does not capture investments under other ministries such as the Office of Prime Minister (PRDP, NUREP) and Ministry of Local Government (LGDP), UNICEF and ENR sub-sector CSOs.

<sup>8</sup> Refers to financial resources reflected in the government's "Estimates of Revenue and Expenditure Book for the Financial Year."

<sup>9</sup> MWE (2011), Water and Environment Sector Performance Report 2011.

<sup>10</sup> For rural water and sanitation development, wetland management and urban water operation and maintenance.

<sup>11</sup> These data are for on-budget funds, i.e. those formally recorded in the national budget process.

<sup>12</sup> This is for on-budget funds.

<sup>13</sup> In 2012, some donors suspended aid due to the mismanagement of pension funds in the Ministry of Public Service (MoPS) and Peace Recovery and Development Program (PRDP) basket fund for northern Uganda in the Office of the Prime Minister (OPM).

<sup>14</sup> Companies or agencies owned or controlled wholly or partly by the government.

<sup>15</sup> Economic growth dropped to its lowest level in more than a decade, at 3.4% in 2010/11.

<sup>16</sup> Headline inflation stood at 23.5% in 2010/11.

<sup>17</sup> Mainly Denmark, Ireland, Norway and Sweden.

<sup>18</sup> Data on spending was not available for financial year 2012/13.

<sup>19</sup> Before increasing it to UGX 200 million on 28 October 2014, only contracts above UGX 50 million or the equivalent were supposed to be sent to the Attorney General/Solicitor General by Government Procuring and Disposing entities for clearance.

<sup>20</sup> To note, this view conflicts with that expressed by MoFPED above.

**Cover photo:** Beatrice Imoni collecting water at the hand pump, Katina Village, Abarilela Sub-County, Amuria, Uganda.