



SUSTAINABLE FINANCING FOR WATER SUPPLY AND SANITATION Ugandan Experience

**Presentation to
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Outline of Presentation

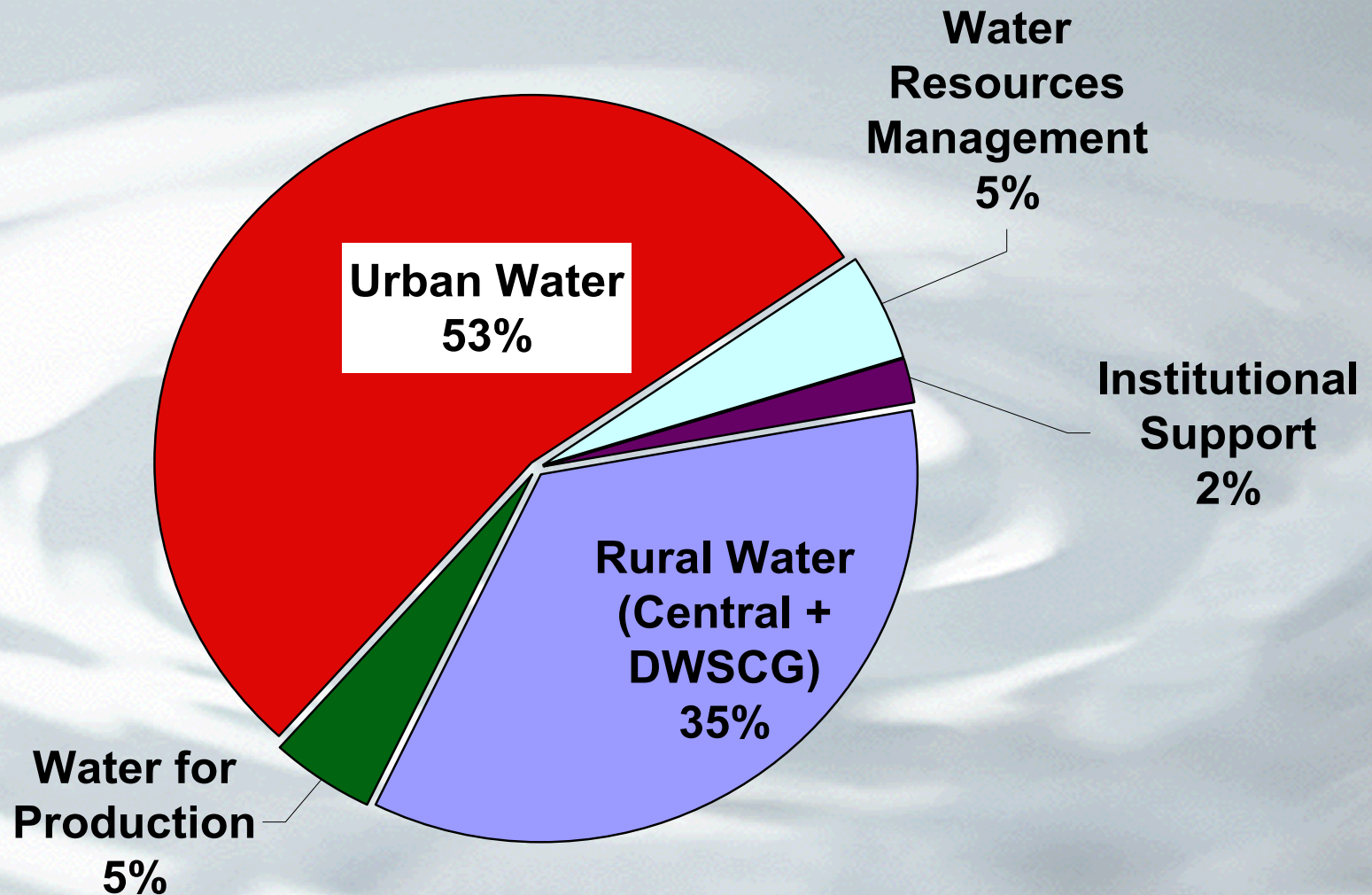
- 1) **Background**
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 - b) **Off-budget financing**
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1. Background

- **Uganda Population is est. at 28 million (2007), with a growth rate of 3.2% (2002 Census): 15% Urban and 85% Rural.**
- **Water and Sanitation Sector organisation in sub-sectors:**
 - **RWSS: point sources & small systems serve population upto 5,000 people**
 - **UWSS:**
 - Large systems (22No) to population > 15,000 people
 - Small systems to pop. greater than 5,000 but less than 15,000
 - **WFP: water supply for agricultural production and rural industries**
 - **WRM: assessment, regulation and monitoring, IWRM**
 - **SPS: Institutional and capacity development**

1. Background

Sub-Sector Budget Allocation for 2006/7



2. Rationale / Sector framework

- National development framework: Poverty Eradication Action Plan (PEAP) since 1997
- WSS relevant to PEAP:
 - Pillar 2: Enhancing production, competitiveness and incomes (includes water for production and water resources management) and
 - Pillar 5: Human Development (includes rural and urban water supply and sanitation).
- Decentralisation: Policy (1993), Act (1997) => RWSS, UWSS
- Water sector reforms (1998 – 2004): => equity, efficiency & effectiveness through decentralisation, privatisation / commercialisation, SWAP
- Sector ceilings for macroeconomic stability: present sector funding varies between 2% - 3% of budget instead of 5% as recommended by PEAP;

3. *Sector Financing*

Midum Term Expenditure Framework (MTEF)

- **Clear structured and concultative Budgeting Process involving all stakeholders**
- **Basis of costing: Sector Investment Plans**

Aid modalities

- **Budget Support**
- **Sector Budget Support**
- **Basket Fund (JPF)**
- **Ministerial and bilateral Projects**

3. Sector Financing

Joint Water and Sanitation Sector Programme Support (JWSSPS)

- Multi Donor –GoU approach, based on SWAP (2001), UJAS, Partnership Principles, Paris Declaration on Aid Effectiveness (2005)
- Harmonizes Development Partners' support worth 150 Million USD to the Ugandan Water and Sanitation sector (2008 – 2012)
- Fund flows, financial management and reporting aligned to GOU systems
- The Water and Sanitation Sector Working Group (WSSWG) with its sub-committees responsible for programme management .

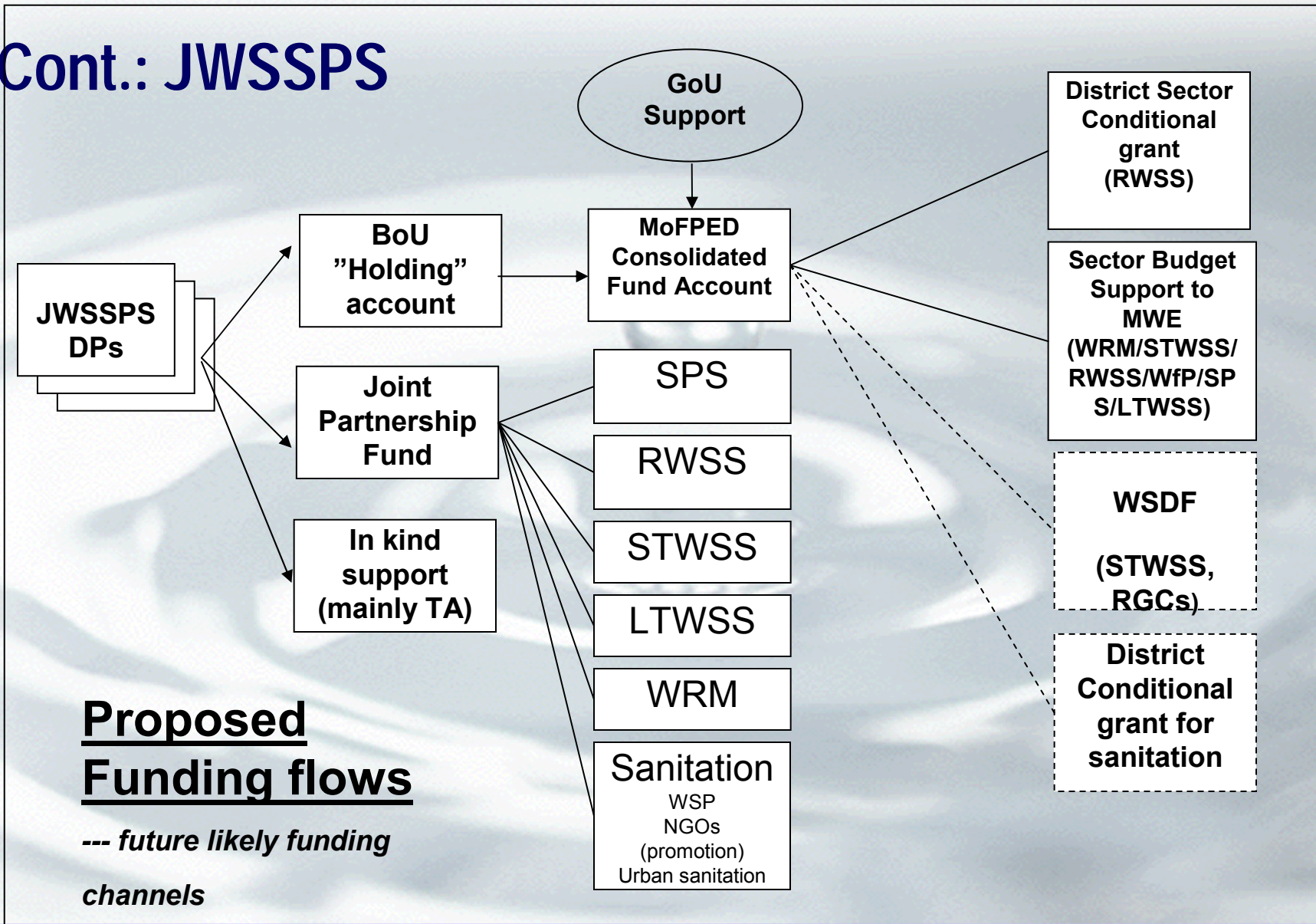
3. Sector Financing

Cont.: JWSSPS

- The support programme feeds into the MTEF / MTBF and complements Government's contribution and budget support from donors
- Costing of investment is set-out in sub-sector SIPs
- Overall and consolidated sector SIP is under preparation
- Main variables for SIPs are (rural, urban):
 - Unit costs based on applicable technologies
 - Sub-sector targets: i.e. coverage 77% rural, 90% urban in 2015
 - Rural: status and target at sub-county levels

3. Sector Financing

Cont.: JWSSPS



4. Strategies: On- budget financing

4.1.1 District Water and Sanitation Development Conditional Grants (DWSDCG)

- Funded by GOU, HIPC savings & Sector Budget Support
- Allocation based on RWSS Strategic Investment Plan
- Direct disbursement from MFPED to Local Govts based on approved plans/budgets
- Annual negotiations between MWE, Local Govts & Local Govt Finance Commission

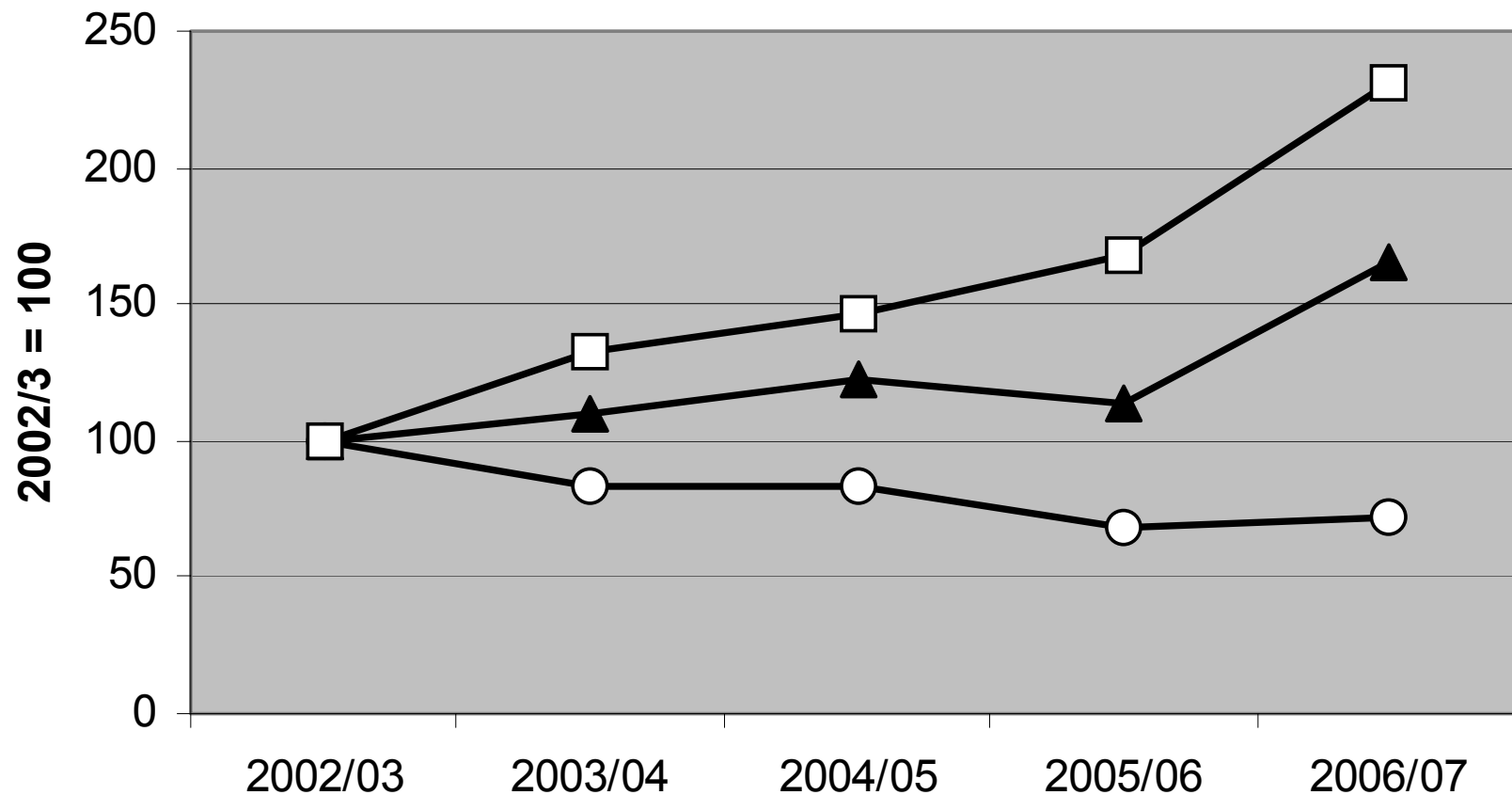
Performance:

Years	2002/03	2003/04	2004/05	2005/06	2006/07
Budget/Release (UGX Billions)	24.486	25.463	27.956	27.646	40.502
Additional people served	895,498	742,942	743,817	607,738	646,826
coverage	55%	57.2%	61%	61%	63%

4. Strategies: On-budget financing

Cont.: 4.1.1 DWSDCG - Challenge

DWSCG spent and people served



▲ Expenditure District ○ People served □ Cost per person served

4. Strategies: On-budget financing

4.1.2 Water Supply Development Facility (WSDF)

Purpose:

- To support the development of multi-year investments in water supply and sanitation through a decentralized and demand driven financing mechanism.

Scope:

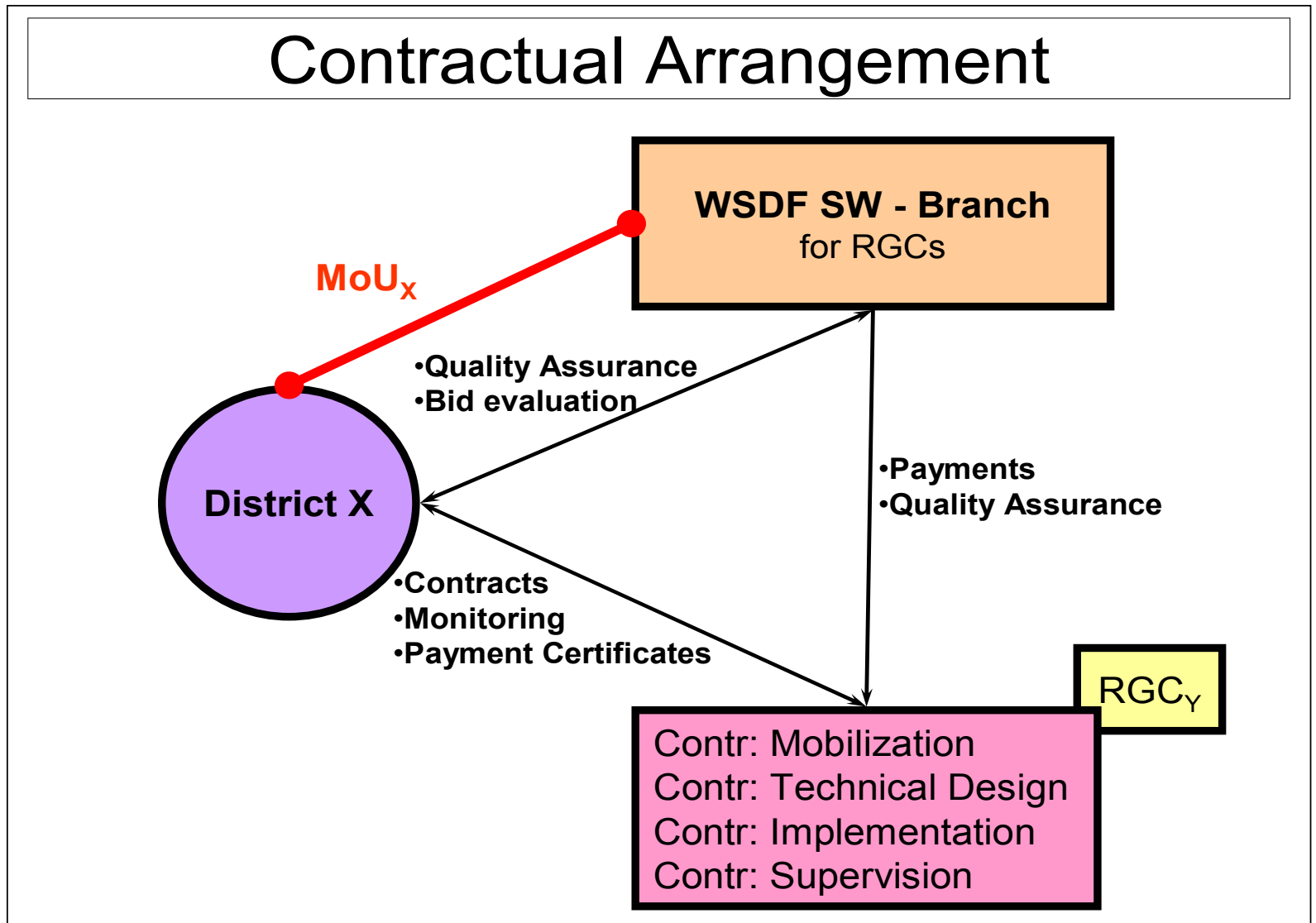
- Target: >800 RGCs and >150 STs in Uganda
- WSDF provides financial support and targeted TA to Districts and Town Councils
- WSDF operates through regional branches (started with pilot in SW)

Next Steps

- Establishment of a second regional branch in Northern Uganda in response to the post-conflict needs in the area.
- Study the feasibility of legal establishment of a Water Development Fund based on the WSDF operational approach.

4. Strategies: On-budget financing

Cont.: 4.1.2 WSDF



4. Strategies: On-budget financing

Cont. 4.1.2. WSDF Pilot in SW Uganda:

Characteristics:

- Funding: 17.5 Mio Euro (EU Water Facility, ADA, GoU)
- Coverage: 17 Districts, 75 RGCs and STs benefiting 300.000 people
- Holding account allows tendering out of multi-year investments.

Phases:

- Awareness creation, MOU between WSDF & Local Govt.
- Application / Selection of projects
- Participatory design stage
- Fulfilment of community and LG obligations
- Construction stage
- Commissioning

4. Strategies: On- budget financing

4.1.3 Integrated Sanitation Budgetline (Under discussion)

- 75% of Uganda's heavy disease burden considered preventable, caused by poor personal and domestic hygiene, inadequate sanitation facilities and practices.
- Sanitation shared between MOH, MWE, MOES, MLG (Local Govts) => fragmentation, marginalisation, poor coordination
- Accountant General has established a national budget line for sanitation and hygiene promotion
- Question: additional funding - unlikely
- Disbursement mechanism:
 - Earmarking within existing Sector Conditional Grants
 - Cross Ministerial Sector Conditional Grant
 - Anchor Line Ministry Sector Conditional Grant
 - LDG Sanitation and Hygiene top-up/grant

4. Strategies: Off- budget financing

4.2.1 Output Based Aid (OBA)

- Principle of performance based subsidy (GPOBA)
- Private Sector Leveraging: 10-30% of capital costs depending on small town/RGC.
- Private fiduciary agent (PricewaterhouseCoopers) will hold monies in a special account and will disburse on independently verified outputs.
- Implementation agency will be Ministry of Water – Directorate for Water Development (DWD), who will work with local authorities on procurement and monitoring – (central approach!)
- Piloted in: xx Small Towns and 4 RGCs
- Funds: 3.2 m USD grant agreement, 415,000 USD TA

4. Strategies: Off-budget financing

4.2.2 Private Sector Financing

IFC's "Uganda Small Scale Infrastructure Programme: WATER" with two components:

- Strengthening PPP: The assistance will focus on building the public sector's capacity to identify, structure, bid out and manage enhanced PPPs, including OBA modalities.
- Access to private finance: Build the capacity of local banks and small private operator companies (water distributors AND sanitation services) to qualify for financing.
 - Assistance to local banks to lower the risks of lending to the small operator companies
 - Assistance to local banks of financial products such as risk-sharing or credit enhancement products
 - Assist small private operators to present, defend and negotiate bankable project proposals for funding to local financial institutions.

4. Strategies: Off-budget financing

4.2.2 Non-Government Organisations (NGOs)

- NGOs access funding from donors for WSS delivery (small water systems and sanitation promotion)
- GOU funded the NGO Secretariat (UWASNET) for coordination and capacity building of members (2000-2007)
- International NGOs mainly operating in relief operations are coordinated under the WASH cluster
- Feasibility study for scaling-up funding of NGOs for increased service delivery on-going.
- Performance for FY 2006/07:
 - 226.000 people served
 - 19 m USD

5. Highlights for Discussion

- Sector Ceiling
- Challenge of unit costs: decentralised implementation, technology choices
- Sanitation: fragmented responsibility
- Sanitation: high infrastructure cost for sewerage
- Sustainability: O&M subsidy, Tariff setting
- Attracting private sector funding
- Current fiduciary constraints for multi-year investments

A close-up photograph of a single water droplet suspended just above a surface, about to fall. The droplet is perfectly spherical and highly reflective. Below it, several concentric ripples spread outwards on the surface, which appears to be a light-colored, possibly metallic or ceramic, material. The background is a soft, out-of-focus light blue.

end

Thank you for your attention