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## PUBLIC SPENDING IN THE WATER SUB-SECTOR IN UGANDA: EVIDENCE FROM PROGRAM BUDGET ANALYSIS



By:

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MADINA GULOBA AND MILDRED BARUNGI**

**NOVEMBER 2011**





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## ABSTRACT

The main objective of this paper was to conduct Programs Budget Analysis of the water sub-sector in Uganda over the period 1999/00 to 2009/10 in order to gain an understanding of sources of funding and the way funds were allocated to different programs. This sub sector has been identified as one of the sectors that can greatly accelerate the stride towards the achievement of the Millennium Development Goals. The Directorate of Water Development has highlighted provision of sustainable safe drinking water supply to 77 percent of the rural population as well as 100 percent to the urban population by the year 2015. This set target is based on management responsibility and ownership by the users, with an 80 percent-90 percent effective use and functionality of facilities". Using data on expenditure outturns from Ministry of Finance, Planning and Economic Development, the study established that with limited resources available, the allocative efficiency has been high as non wage expenditure has overtime attracted the highest allocation as compared to wages. Besides, the development expenditure has seen over reliance mainly on domestic funds with less reliance on fluctuating donor commitments. To sustain provision of safe water in both rural and urban, the water sub-sector should develop human resource capacity to match with the level of infrastructure development and operations and maintenance plans should equally be focused on.

### Key words

*Uganda, Public spending, water sub-sector subsidies.*

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## 1.1 BACKGROUND

In past years, the Government of Uganda (GoU) has carried out several national campaigns geared towards the provision of safe water as a way of preventing cholera and other water borne diseases. However, despite the GoU effort, 40 to 60 percent of Ugandans still lack access to safe drinking water and often rely on open water sources like unprotected springs/wells, rain water, gravity flows and dam water (DWD, 2009). Besides, government allocations on water programs are still insufficient as the demand for safe water increases. For instance, 3.4% of national budget is allocated to water and sanitation programs (MWE, 2010). This may curtail any efforts by the government to achieve both the National Development Plan (NDP) and Millennium Development Goals (MDGs) indicators in the water and sanitation sub-sector.

Moreover, it is noted that public spending in the water sub-sector can directly or indirectly influence output growth through capital formation or productivity growth (Santiago, 2007). The direct channel is mediated by the effectiveness and efficiency with which spending in water and sanitation is transformed into good health and human capital. The level of efficiency and the social benefit derived from the water projects may guide the policymaker to choose among alternative projects. This may further help in evaluating the impact of public spending on outcomes to make changes if the water project objectives are not being met. Other stakeholders may evaluate efficiency as part of their assessment of the delegation contract subscribed with their representatives to guide spending and project implementation (Santiago, 2007). The indirect impact of public spending in water sub-sector fosters growth through people's production, labour supply and factor incomes.

From the project perspective, spending in water sub-sector and more generally, project implementation are not independent. The cost-benefit analysis of any public project such as water and sanitation project is, essentially a comparison of its expected social benefit with the marginal social cost of public funds, which is society's cost of raising an additional dollar of public revenue. The policy relevance for this paper, therefore, is to generate an understanding of how best government spending and subsidies are distributed among the water sub-sector implementing agencies, and the other possible sources of funds, their trends and priority water sector areas.

## 1.2 Institutional Framework and Policy Thrust

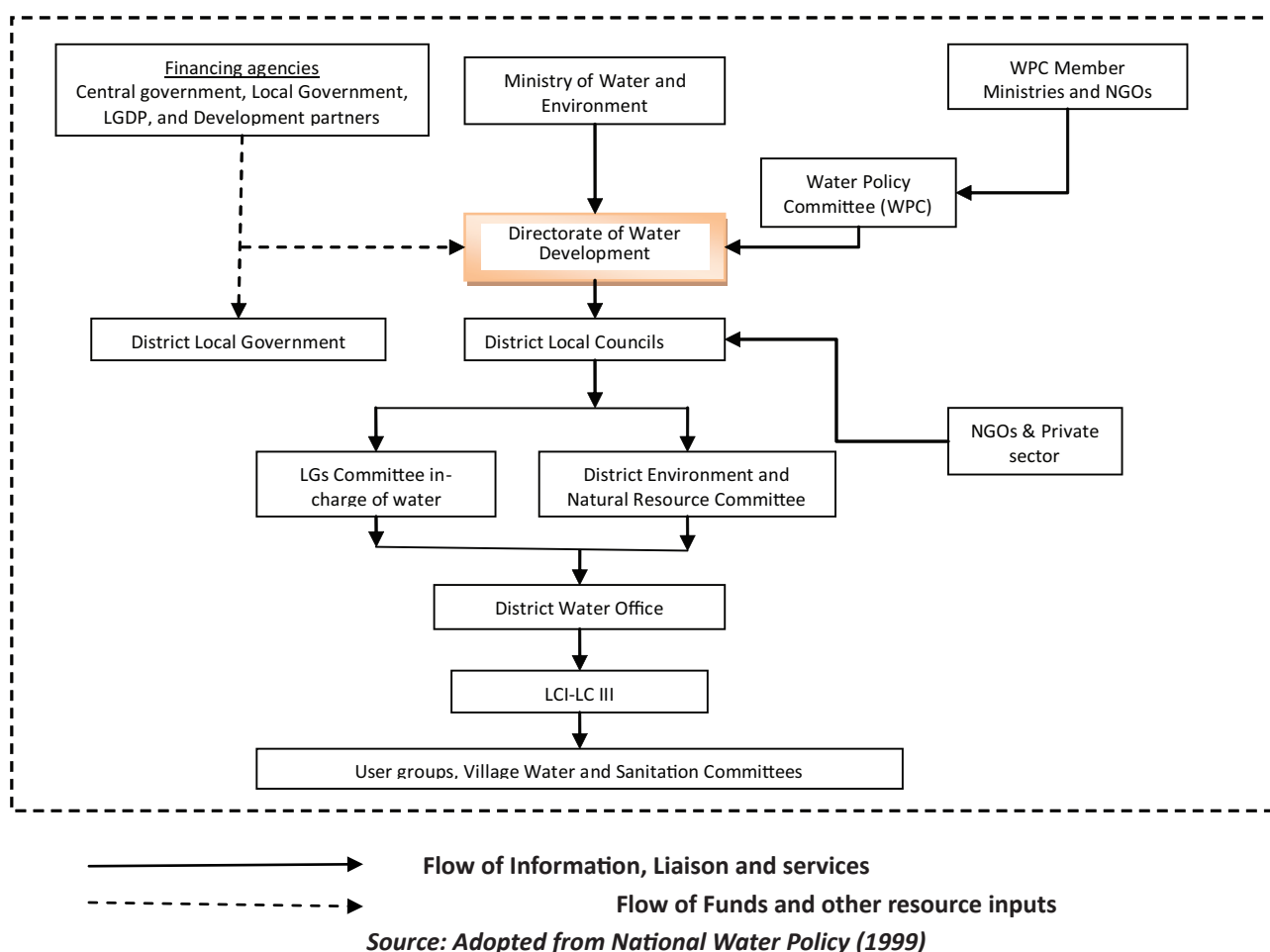
The Water and Sanitation Sub-Sector (WSS) comprises water resources management, rural water supply and sanitation, urban water supply and sanitation, and water for production. With effect from July 2008, the Water and Sanitation Sector Working Group (WSSWG) was merged with the Environment and Natural Resources Working Group (ENRWG) to form the Water and Environment Sector Working Group (WESWG). The ENRWG provides policy and technical guidance for the sector. It comprises representatives from all key sector institutions (Government, Development Partners and NGOs). The institutional framework for the water and environment sector, comprises Ministry of Water and Environment (MWE) and its three Directorates and various parastatal organizations, as well as related Government and non-Governmental organizations and stakeholders at community, district, regional and national levels (MWE, 2009).

The water resource development and management for the last one and half decade in Uganda, was being guided by the Water Action Plan (1995). The Plan was the review of the water resource management and provided the foundation for formulation of the Water Statute (1995) and enactment of the National Water Policy in 1999. The National Water Policy (1999) recognises water as the key resource in the socio-economic basic needs of our society and as an important factor in the development potential of the nation. Besides, the major strategic objectives outlined in the policy documents such as NDP is the “provision of safe water within easy reach and hygiene sanitation facilities, based on management responsibilities and ownership by the users, to 77 percent and 100 percent in rural and urban areas respectively, by 2015. This will require strategic intervention such as implementing domestic rain water harvesting at household and community levels, constructing piped water systems that are trans-district boundaries as well as improving effective use and functionality of water systems.

It is against this background that this paper attempts to establish whether the public expenditures within and outside the Medium Term Expenditure Framework (MTEF) are aligned to sector priorities. It is worth noting that the government and water development partners embarked on the new mode of thinking with the quest to improve water resource management using the multi-sectoral approach in the prevailing socio-economic context including:- (i) treating water as a socio and economic good; (ii) relying on markets and pricing to determine water allocation among various sectors and user groups; (iii) involving the beneficiaries and the private sector resources and (iv) recognising water as a finite resource in human kind. It can also be noted that the provision of water services, development and maintenance of the facilities take a decentralized form with the support and supervision of relevant government agencies.

The funding levels given the existing institutional and management arrangements have not been adequate to address the management challenges facing the water sub sector (MWE, 2009). This is could be because of trans-boundary nature, increasing demand on the resources for development activities, the decentralized and the devolution of powers to lower levels of government. The existing institutional structure for handling the flow of funds and management of the water resources is outlined in the **Figure 1**.



**Figure 1: Resources Flow and Organizational Structure for Water Resources Management**

At the national level, the water resource development and management is under the Ministry of Water and Environment. With the help of the Water Policy Committee (WPC), the ministry has the responsibility for setting national policies and standards, managing and regulating water resources and determining priorities for water development and management. It also monitors and evaluates sector development programmes to keep track of their performance, efficiency and effectiveness in service delivery. The members from relevant government ministries, district administrations, private sector and NGOs constitute the WPC.

The Local Governments (LGs) (Districts, Town Councils, sub-Counties) in this respect are empowered by the Local Governments Act (1997) to provide water services and manage the Environment in the districts. Local Governments, in consultation with MWE appoint and manage private operators for urban-piped water schemes that are outside the jurisdiction of National Water Sewerage Corporation (NWSC). The District Water Offices manage water and sanitation development and oversee the operation and maintenance of existing water supplies in the District. As far as funding is concerned, the Local Governments receive funding from Central Government in the form of conditional grants, or specifically called District Water and Sanitation Development Conditional Grant (DWSDCG). These are funds that are managed by District Water office in conjunction with District Water and Sanitation Coordination Committees (DWSCCs). The DWSCC membership consists of administrative and political

<sup>1</sup> The private sector firms undertake design and construction in water supply and sanitation under contract to local

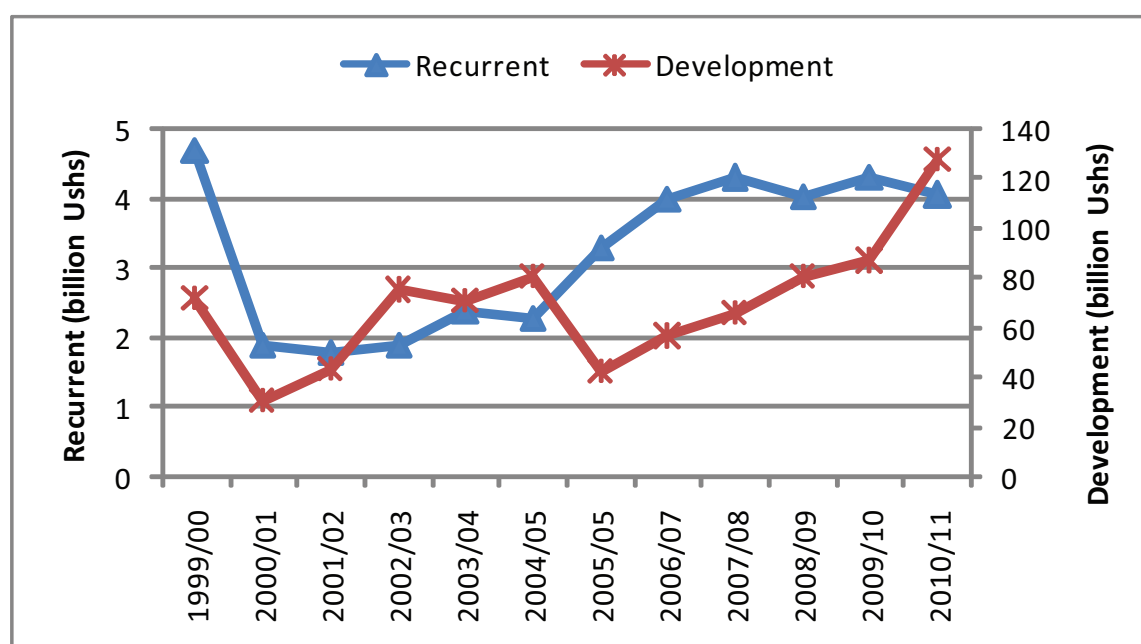
leaders, technocrats and NGO/CBO representatives at district level. The role of the DWSCC is to oversee the implementation of WSS programmes, strengthen collaboration and coordination with other sectors (health, education, social development and agriculture) and other players (private sector, NGO and CBOs and civil society) .

Currently about 200 NGOs are working in water supply and sanitation. The Uganda Water and Sanitation NGO Network (UWASNET) is a national network organization established in 2000, with the aim of strengthening the contribution of NGOs/CBOs in achieving the Water and Sanitation Sector goals. The framework is a guide for Local Governments and NGOs on how to jointly plan and implement community mobilization/software activities with respect to water supply and sanitation. It also provides guidance to districts on how to procure NGOs to undertake software activities. Civil Society Organizations (CSOs) are also active in service delivery and advocacy for sustainable water sub-sector development. They work especially at the grassroots levels, mobilizing and sensitizing local people, supporting active local participation in water and sanitation projects.

In this respect, the communities have been empowered and sensitized on the usefulness of water services for good health and hygiene to the families. The communities are responsible for demanding, planning, making cash contributions to capital cost, and operating and maintaining rural water supply and sanitation facilities. A Water User Committee (WUC), which is sometimes referred to as a Water and Sanitation Committee (WSC) is ideally established at each water point.

Under the National Water policy, DWD is mandated to manage and develop the water resources in an integrated and sustainable manner in order to secure and provide water of adequate quantity and quality for all social and economic needs, with the full participation of all stakeholders, and not to leave the future generations any worse off than the current population. The Directorate has three major departments and one specialized division sectors that cover: Rural Water Supply and Sanitation department, Urban Water Supply and Sanitation department, Water for production department, Water sector liaison division and each of these departments is headed by the commissioner.

However, the mandate, responsibilities, and targets of DWD have been tied to funding. According to the expenditure analysis, the water sub-sector has witnessed fluctuations in capital/ development expenditures over the past 10 years. One could observe that total development expenditure increased from Ushs72.1 billion in 1999/2000 to Ushs90.6 billion in the FY 2009/10. The increase in total capital expenditure has been attributed mainly to steady increases in domestic funding. The donor funding on this expenditure head has been inconsistent. Besides, the capital expenditure funding has been as a result of Joint Partnership Fund (JPF) established by the Ministry of Water and Environment (MWE) and Participant Donors through the JPF-Memorandum of Understanding (MOU).

**Figure 2: Recurrent and development expenditures**

Source: MoFPED, various issues

For the past years, the government has been releasing funds under two expenditure votes (i.e. Water and District Water Conditional Grant). The releases under the MTEF, mainly exclude Arrears and Non-VAT Taxes. The expenditure heads have been the wages/salaries, non-wage (recurrent), domestic development and donor project aid. Unlike the recurrent expenditure (both wage and non-wage recurrent), the development expenditure has been increasing steadily (**Figure 2**). It can also be observed that, while the infrastructure development is expanding, first, the expenditure as proportion of total government budget is declining. Second, this development may not be matched with the upsizing of the workforce as reflected in the wage bill trends. In other words, the government has achieved allocative efficiency but less on productive efficiency where most of the facilities that are in place may need enough workers to routinely maintain them.

### 1.3 Directorate of Water and Development

The Directorate of Water Development (DWD) under Ministry of Water and Environment has three departments (**Figure 3**) headed by the commissioners as technical staff and vote controller in the directorate. These include the following:

#### 1.3.1 The Rural Water Supply and Sanitation Department

This is headed by a commissioner and apparently, the projects under this sub-sector include: - Rural water supply that covers those communities that have a population of 5,000 people or less. The sub-sector considers two divisions of communities, villages with populations of up to 1,500 people and Rural Growth Centres (RGCs) with populations between 1,500 and 5,000 people. These communities are under the jurisdiction of districts (LC V) and rural growths centres (LCI) and exclude those urban areas governed by LC II to LC V structures (i.e. Town Boards and Councils, Municipalities and the City of Kampala).

<sup>2</sup> Throughout this report, expenditures have been deflated into real figures for all the years

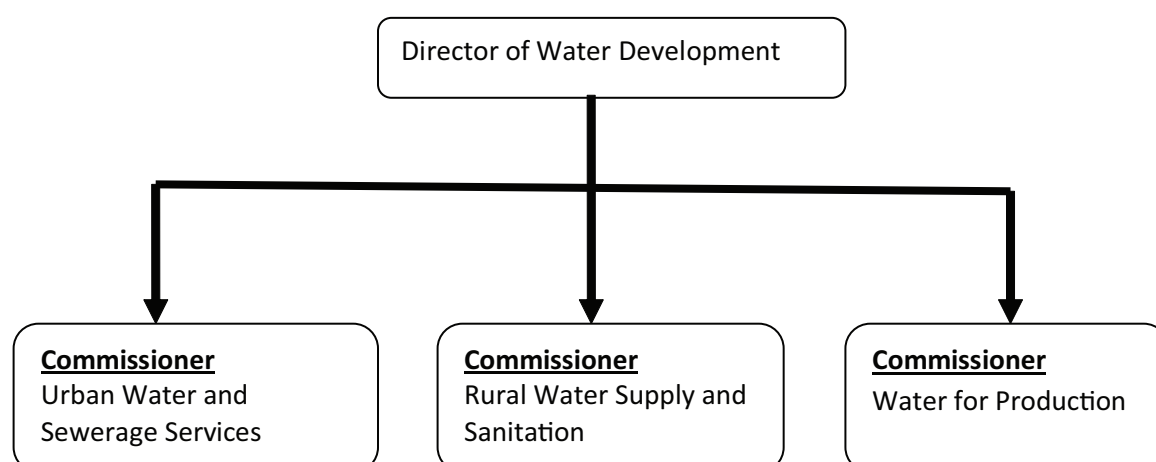
### 1.3.2 Small (Urban) Towns Water and Sanitation department

By definition, small towns are the gazetted Town Councils, Town Boards and District Headquarters. This category therefore includes all centres with populations of above 5,000 and those outside NWSC. All other centres with populations below 5,000 and above 2,000 are referred to as rural growth centres. There are 92 gazetted small towns out of over 170. In regard to the small towns, the Local Governments Act (1997) vests the responsibility for the provision of water services to the Local Governments. The appropriate Local Governments are then appropriately appointed as Water Authorities by the Ministry of Water and Environment, for their respective water supply areas in accordance with the Water Act. The NWSC is a parastatal of the Ministry of Natural Resources. Virtually, the NWSC and its activities are under this department. The NWSC is currently in-charge of: Kampala, Jinja, Entebbe, Tororo, Mbale, Masaka, Mbarara, Lira, Mukono, Iganga and Gulu. The coverage of water services in these major towns is about 60-80 percent, while for the rest of the smaller towns, coverage is below 40 percent.

### 1.3.3 Water for Production Department

This refers to development and utilization of water resources for productive use in crop irrigation, livestock, aquaculture, rural industries, wildlife, recreation, hydropower generation, transport, commercial uses, and security. It is a shared responsibility between the MWE and other relevant line ministries. The ministry is responsible for “off farm” activities whilst the Ministry of Agriculture Animal Industry and Fisheries (MAAIF) is responsible for “on-farm” activities in respect of irrigation, livestock and aquaculture and Ministry of Trade, Tourism and Industries (MTTI) is responsible for in house facilities for rural industries, wildlife and recreation. Water for production sub-sector includes; a) Water for crops; b) Water for livestock; c) Water for aquaculture; and d) Water for rural industries. Water for Production facilities include: dams, valley tanks, aquaculture and irrigation facilities. These facilities are owned by the Government, communities and private individuals or companies. Management of the Water for Production (WfP) facilities is by private operators and community based organizations with support from the local governments.

**Figure 3: Organ-gram of Directorate of Water Development**



Source: Directorate of Water Development, 2009

### 1.3.4 Water Projects under DWD and their Funding Portfolio

#### 1. The Community Water and Sanitation Project

The project is being implemented by the Government of Uganda in Northern and Eastern Uganda. It is aimed at the improvement of water supply and sanitation facilities in the Internally Displaced Camps (IDPs) through the provision of water using 15 motorized water supply schemes. The project is funded by GOU to the tune of Ushs. 3.907 billion within the MTEF ceiling of the sector.

#### 2. Support to Rural Water Sub-sector

This is a long term project funded by GOU and donors (Sida, DANIDA and DFID) to the tune of Ushs. 15.2 billion. The project is to be completed in 2016 and its objectives are: - to Support the local governments (LGs), NGOs, humanitarian organizations and CBOs to build capacity for efficient and effective service delivery in the water and sanitation sector

#### 3. Other medium and long term projects

The other water development projects that are being funded by both government and donors in the medium and long term include:

- o Water for Energy for Rural Transformation
- o Mid-Western Towns Water and Sanitation project
- o Small towns WSS Project
- o South Western TWSP-Austria
- o Support to small town
- o Urban Water Reform
- o Support to NWSC through development of; Gulu Town Water Supply, Water and Sanitation Development Facility in the Northern region and Water and Sanitation Development Facility in the Eastern region
- o Water for Agricultural Production projects.

### 1.3.5 Funding Sources and Flows

For the past decade, the central government has made a deliberate effort to take the lead in water infrastructure development. Most schemes being under taken are borne by the government and the greater percentage of the project expenditures are met by the central government under MTEF. Besides, there is a Joint Partnership Fund (JPF) established by the government through Ministry of Water and Environment (MWE) where the funds are mobilized from the central government and the development partners, some of them include: African Development Bank (ADB), Austrian Development Cooperation (ADC), Danish International Development Agency (DANIDA), Germany Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) and KfW, Swedish International Development Cooperation Agency (SIDA), Department for International Development, UK (DfID), European Union (EU), United Nations Children's Fund (UNICEF), WSP/World Bank, Japan International Cooperation Agency (JICA), and United States Agency for International Development (USAID), NGOs (UWASNET, WaterAid, Kapraron, Primary Health Care, UMURDA and the Umbrella Organizations



for Eastern and South-Western Uganda. The donors give the support under various terms and conditions and the grants can be budget or off-budget support. What is not captured are the grants from donors that are off budget support and channelled directly to the recipients or the frontline implementing agencies like districts, schools, hospitals or NGOs.

### **1.3.6 Direct Transfers from Donors and Charitable Organizations**

Local bodies such as Local Governments (LGs) and Municipalities also receive direct transfer from other foreign and local donors directly ear-marked for small water and sanitation projects. The donors sometimes spend and supervise the implementation of water projects (such as drilling deep wells, boreholes and gravity flow water systems) under a corroborative arrangement with the Local Governments. Some of the funds from donors are sent directly to the districts as conditional development water and sanitation grants. What may not be clear now is ascertaining the amount of funds the districts receive directly from the donors.

### **1.3.7 Organization of the Report**

The paper is organized as follows: Section one presents the background to the study and the institutional set up of the water sub-sector and its mandate; section two provides the sector budgeting processes and accountability framework in the sub-sector; section three presents the methodology used and the necessary assumptions made on data sources and data validity; section four gives the tables for the budget analysis as per PBA requirements; the results and discussion are presented in section five and section six outlines the summary of discussion and conclusion.

## 2.0 SECTOR BUDGETING PROCESS AND ACCOUNTABILITY FRAMEWORK

The legal framework for the budget process is enshrined in the Uganda constitution 1995, the Local Government Act 1997, the Budget Act 2001 and the Public Finance and Accountability Act 2003. Articles 155-158, chapter 9 of the Constitution of the Republic of Uganda, 1995 provides the legal basis for the preparation and approval of the national budget. The budget is prepared through an open and transparent and widely participatory process.

According to the Ministry of Finance, Planning and Economic Development (MoFPED) through their guide to the budget process, specifically the process of budget preparation is as follows:

- The indicative estimates of revenue and expenditure plus the macroeconomic plan are submitted for the analysis and basis for budgeting and planning.
- The ministerial policy statements are presented to parliament. Those form the basis for analysis and debate of the different Ministries, Departments and Agencies (MDAs) before the budget is approved. Parliament then considers and approves the Finance bill and any other time when a supplementary expenditure request is submitted to parliament for approval.

The ministerial budgets to the MoFPED are made according to their medium and long term approved work plans. The funds are released under the two votes (under water and District water Conditional Grant). The expenditures are released by MoFPED and audited by the National Audit Office (i.e. Office of the Auditor General). It is mandatory that all government funds are audited and the audit reports approved by parliament. The releases are summarized in a standard reporting format as presented in **Table 1**.

**Table 1: Standard Template for Summarizing Financial (Nominal) Releases**

	2009/10 budget approved			2010/11 budget approved			2011/212 budget projections		
	Water	District Water Conditional Grant	Sub-total	Water	District Water Conditional Grant	Sub-total	Water	District Water Conditional Grant	Sub-total
Wages	1.79	-	1.79	2.12	-	2.12	2.23	-	2.23
Non-wages	2.15	2.29	4.44	2.15	1.50	3.65	2.18	1.52	3.70
Domestic	45.29	1.05	46.34	55.59	56.58	112.17	61.15	62.24	123.39
Donor project	24.98	-	24.98	56.58	-	56.58	62.24	-	62.24

Source: MFPEP, 2010

## 3.0 METHODS AND ASSUMPTIONS

### 3.1 Methods Employed in the Study

To achieve the desired objectives of understanding programme budgeting and planning in the water sub-sector, the study required the data from various sources, some of which include the following:-

- (a) Public expenditures through the MTEF to Local Governments (LGs);
- (b) Public expenditures through the MTEF to Ministry of Water and Environment, and to the beneficiaries. Benefits to beneficiaries are in form of services or commodities.
- (c) Public expenditure outside the MTEF to Ministry of Water and to LGs. This is in form of funds and services.

More specifically, this research involved identifying and compiling data on the following:

- (a) Public expenditure allocated through MTEF to Local Governments for water sub-sector;
- (b) Public expenditure allocated through MTEF to Ministry of Water;
- (c) Public expenditure outside the MTEF to and through Ministry of and Water (MWE).

### 3.2 Assumptions on Data, Reporting and Methods

For certain expenditure heads (lower level spending), it was possible to determine the nature of expenditure by studying the object head, but this is not always possible as certain expenditure heads do not detail the nature of expenditure. For example, in every budget there is an allocation for every district and vote function but it was apriori difficult to ascertain the details for each of the expenditure heads. To deal with this challenge, we collected information at National level, which has clear expenditure heads (water and district water conditional grant). It is hoped that in the subsequent tracking of funds at lower spending units, the details will be available to aid easy analysis. The understanding is that various districts have different water projects undertaken at specific point in time. The funds mainly released to districts cater for rural small projects, but big water projects that attract heavy investment and done by multi-national construction companies are centrally managed by Directorate of Water Development together with the Donor partners.

## 4.0 TABLES NEEDED FOR PROGRAM BUDGET ANALYSIS

In order to carry out Program Budget Analysis (PBA), three tables of results were prepared specifying the outturns on recurrent and development expenditures. Further, the outturns were categorized under wages and non-wages as well as domestic and donor components respectively. Specifically, **Table 2** provides outturns in real amounts, while **Table 3** provides the percentage share for the recurrent and development expenditure in the overall budget. Finally, **Table 4** gives a summary of each component in percentage as a share in the sector budget.

**Table 2: Recurrent and Development expenditure by source and expenditure head**

OUTTURNS (Ushs. Billions)						
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Total	45.90	60.90	70.70	111.70	131.87	174.52
Recurrent	3.30	4.00	4.30	5.33	6.23	5.77
• Wages	1.50	1.60	1.30	1.68	1.79	2.12
• Non-wages	1.80	2.40	3.00	3.65	4.44	3.65
Development	42.50	56.90	66.30	106.41	125.64	168.75
• Domestic	42.50	56.90	66.30	82.18	100.66	112.17
• Donor	0.00	0.00	0.00	24.23	24.98	56.58

Source: MFPED, *Estimates of Revenues and Expenditure (Recurrent and Development)*

**Table 3: Recurrent and Development expenditure by percentage**

OUTTURNS						
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
% of Recurrent						
• Wages	45.6	39.5	31.2	31.5	28.7	36.7
• Non-Wages	54.4	60.5	68.8	68.5	71.3	63.3
% of Development						
• Domestic	100.0	100.0	100.0	77.2	80.1	66.5
• Donor	0.0	0.0	0.0	22.8	19.9	33.5

Source: MFPED, *various issues*

**Table 4: Recurrent, Development, wage and non-wage expenditures by percentage**

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
% of TOTAL						
• Recurrent	7.3	6.6	6.1	4.8	4.7	3.3
• Development	92.7	93.4	93.9	95.2	95.3	96.7
% of Recurrent						
• wage	45.6	39.5	31.2	31.5	28.7	36.7
• Non-wage	54.4	60.5	68.8	64.5	71.3	63.3

Source: MFPED, *various issues*

From the expenditure patterns, it has been observed that the allocative efficiency under this sector is high as the allocations to non-wages is about twice that of wages as shown in Tables 2, 3 and 4 respectively. The allocations to the non-wage component have equally been increasing with declining allocation to wages over the periods indicated the analysis.

## 5.0 RESULTS AND DISCUSSION

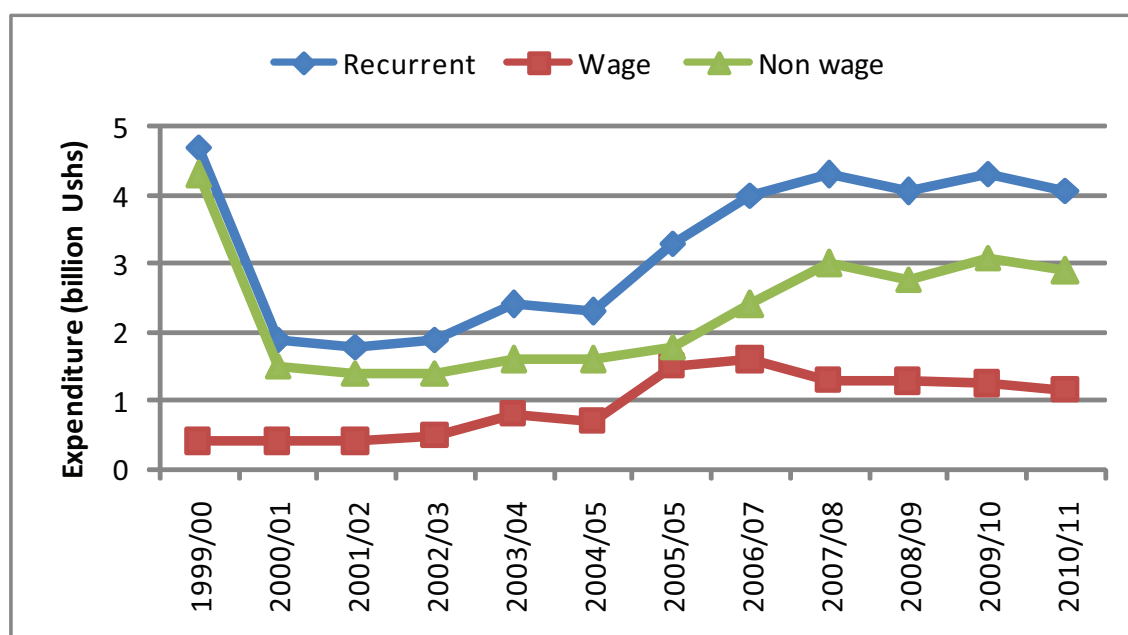
### 5.1 Introduction

This section presents a detailed analysis of the public expenditures to the water sub-sector over the past years. The presentations have been categorized and explained as per the expenditure heads and votes. This paper has utilized different scenarios to explore insights into the expenditures made on the water sector. It is important to note, therefore, that different sectoral policies have been implemented depending on the priority stance at that period. The policies on employment and infrastructure development coupled with the revenue base have been key determinants of the expenditure patterns. Besides, it can be observed that, shifts in priorities and donor demands have influenced the overall pattern of expenditures in this sub-sector. The subsequent sections discuss the various trends and give the insight of the mechanisms that prevailed at that time when the expenditure was made and projects implemented.

### 5.2 Trends of the Recurrent Expenditure Outturns

Considering the period from 2001/02, the recurrent expenditure in the water subsector has been on the incline. Previously in the FY 1999/00 to FY 2000/01, there was a decline in recurrent expenditure from Ushs 4.7 billion to Ushs 1.8 billion on account of sharp reduction in non wage component (**Figure 4**). However, since 2006/07, recurrent expenditure has been maintained at  $\geq$  Ushs 4 billion but has not attained the peak reached in 1999/00. It may also be noted that over 71% of the recurrent expenditures are spent on non-wages. However, the implication of fluctuating non-wage bill with constantly low wage bill could mean suffocating the rewards to labour supply.

**Figure 4: Trends of wage and non-wage (recurrent) expenditures**



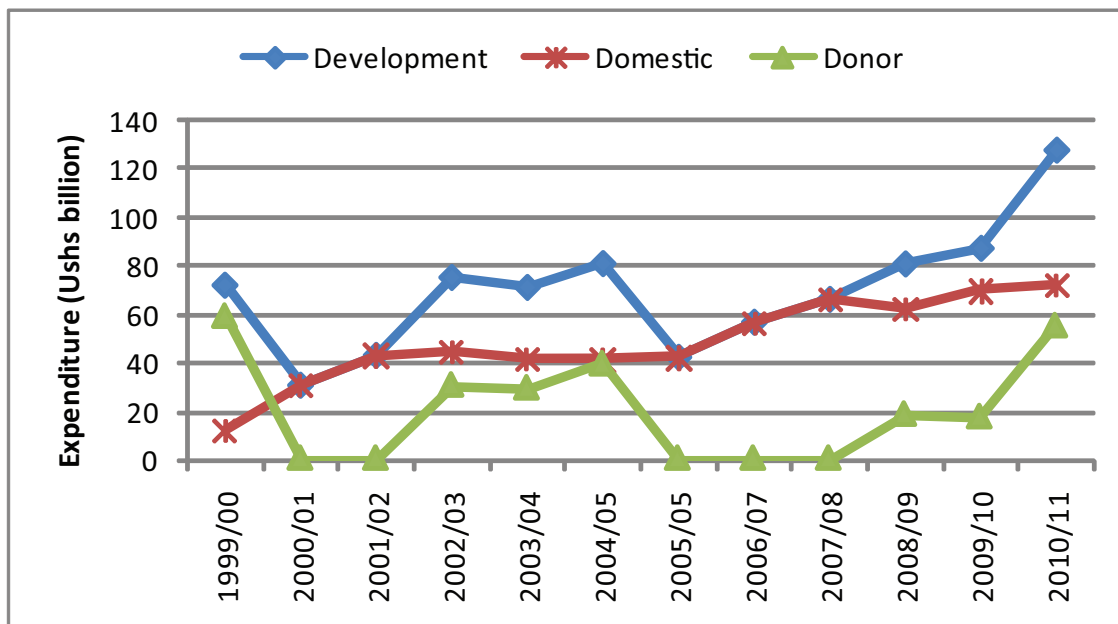
Source: MFPED, various issues



### 5.3 Trends of Capital/development Expenditure Outturns

On average, domestic expenditure forms the biggest share (75%) of the total capital expenditure. In **Figure 5**, it is shown that domestic expenditure has been steadily increasing, but the total capital expenditure has been fluctuating on account of frequent fluctuations in the donor funding. However, the donor funding was quite significant in the FY 1999/00, FY 2004/05 and FY 2010/11 and with no support over the period FY 2000/01 to FY 2001/02 and FY 2005/06 to FY 2007/08 respectively. This could mean that the donor funding mechanism is inconsistent to the water sub-sector year-in year out. The fluctuations in donor funding could partly be explained by short term programme support to the sector, for instance, between 1998 to 2002, there was Rural Water and Sanitation (RUWASA) programme which had no immediate donor funded programme replacement. Fortunately, the inconsistent donor funding was counter balanced by the increasing domestic funding. This is part of GoU long term commitment to fund most of the sector's activities through locally generated resources as the economy improves (UNWDR, 2005).

**Figure 5: Trends of capital expenditures**



Source: MFPEd, various issues

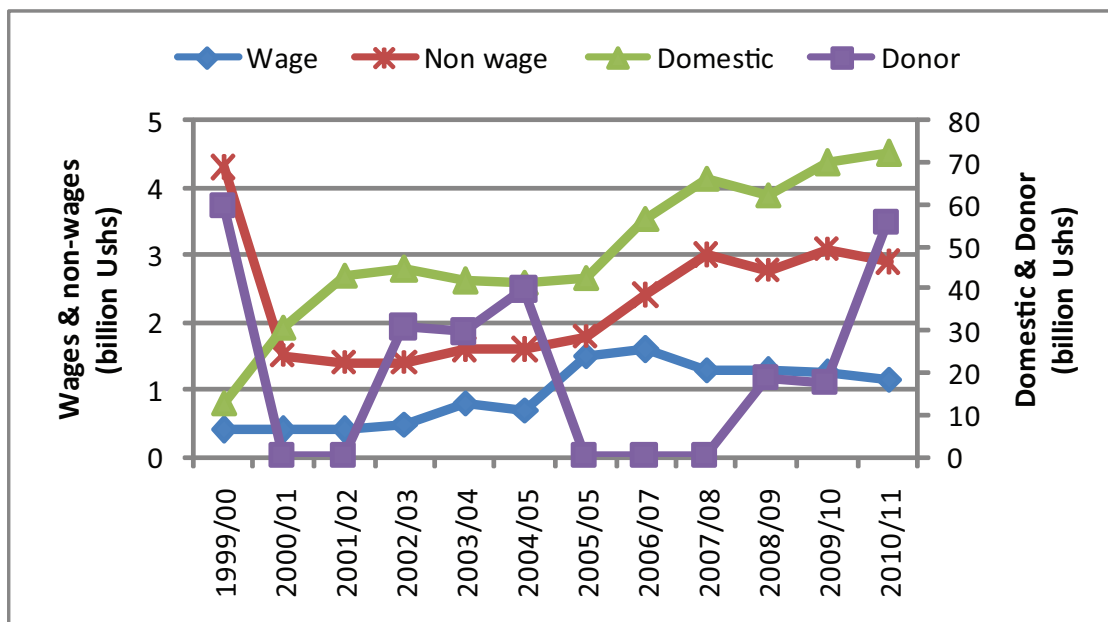
Since 2006/07 to date, the domestic spending on development activities (**Figures 5 and 6**) has been increasing. It increased from Ushs.56.9 billion in 2006/07 to Ushs.127.6 billion in 2010/11 (MWE, 2009). The government is under-taking activities both in the rural and urban areas to provide the people with safe drinking water and within easy reach. In the rural water and sanitation function, the central government undertakes activities such as design and construction of new piped water schemes with the aim of increasing accessibility to water sources and improved sanitation coverage. For example, during the period 1999 to 2006, there was an increase in rural water coverage from 46.6 percent to 58.5 percent of the population translating into 11.9 percent increase in water coverage over seven year period. The common planned urban activities included water boards/operators trained, water supply systems with energy efficient pumping systems, and construction of water facilities. In regards to water production and treatment, there has been steady increase mainly in the volume of water produced and the cost per cubic meter of water produced. The percentage of

rural water point sources increased from 82 percent in 2007/08 to 85 percent in 2008/09 while the number of new connections in urban water supply increased from 3,272 to 5,300 during the same period respectively (MWE, 2009).

#### 5.4 Comparing trends of recurrent and development expenditures

Expenditure on wages has remained low and relatively stable over the years. Since 2001/02, non-wages have been gradually increasing. Donor funding has remained highly inconsistent throughout this period (**Figure 6**). The result thus seems to suggest that employees in the water sector are not receiving adequate incentives for the services they provide. The increasing spending on non-wages perhaps explains the increase in the functionality (>86%) of improved water sources as reported in the Uganda Water and Environment Sector Performance Report of 2010.

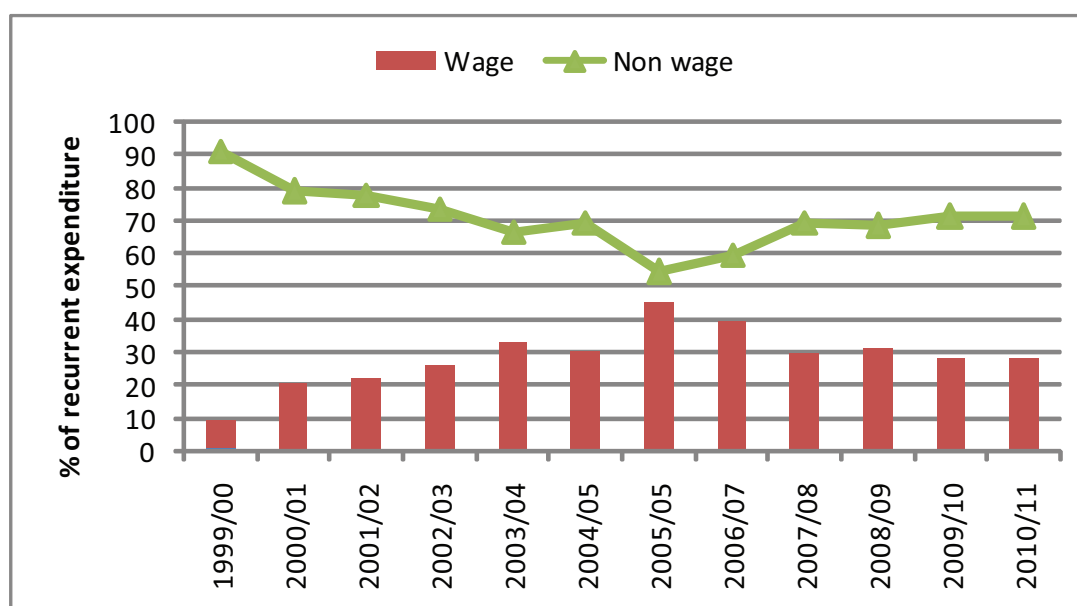
Figure 6: Trends of recurrent and development expenditures



Source: MFPED, various issues

#### 5.5 Recurrent Expenditure Trends by Percentage and Sub-Sector

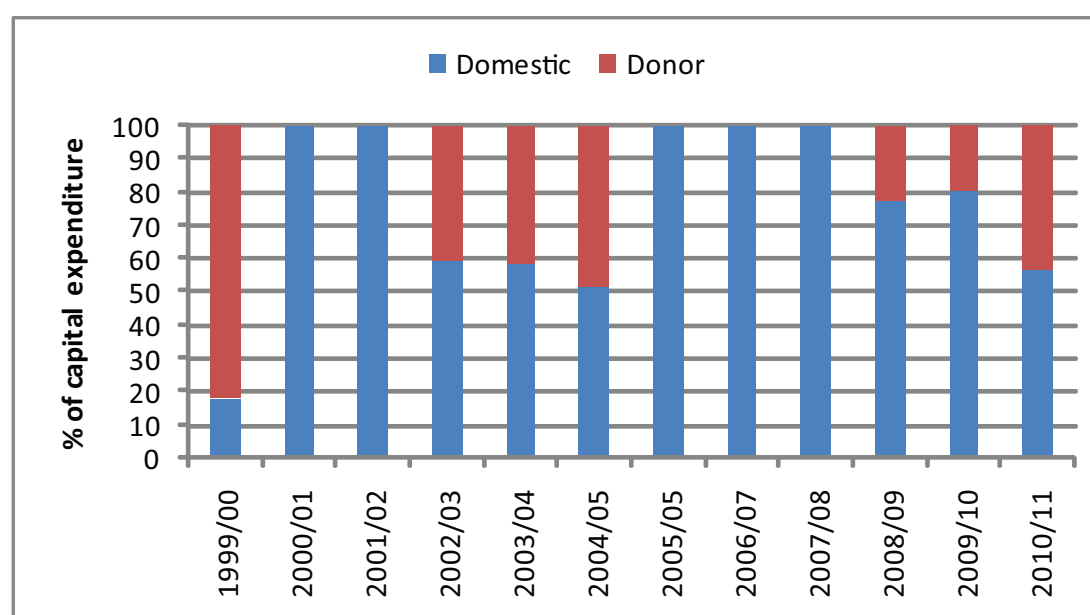
The percentage of wages initially increased from 8.5 percent to 45.5 percent between the period 1999/00 to 2005/06, before declining to 28.7 percent in the FY 2010/11 respectively. The non-wage component registered a reverse trend of initial decline from 91.5 percent to 54.5 percent before increasing to 71.3 percent during the same period (**Figure 7**). The reduction in wages could be attributed to down sizing of man power in the sector to achieve efficiency and effectiveness in service delivery. The significant allocation of funds to non wage would imply that the marginal productivity of labour is diminishing. It would be expected that as recurrent non-wages and development expenditures increase, the water sub-sector should develop human resource capacity to match with the infrastructure development and should strengthen its operations and maintenance plans to sustain the efficient service delivery.

**Figure 7: Percentage Recurrent Spending by Sub-sector**

Source: MFPED, various issues

## 5.6 Development Expenditure Trends by Percentage and Sub-sector

**Figure 8** indicates that, for the period FY 1999/00 to FY 2009/10, the percentage of the domestic funding of the total development funding has been fluctuating, recording the highest record of 100 percent for the years 2000/01 to 2001/02 and 2005/06 to 2007/08 respectively. The possible explanation to this trend is that the donors refocused expenditures to other sectors of the economy other than the water sub-sector. It can be noted that the donor funding was not realized during periods of political general elections in the country and the government was left with no option but to fund both the recurrent and development budgets. Government's development expenditure effort in this sub-sector has been a deliberate effort to address the water and sanitation related MDGs by 2015 and to minimize external borrowing.

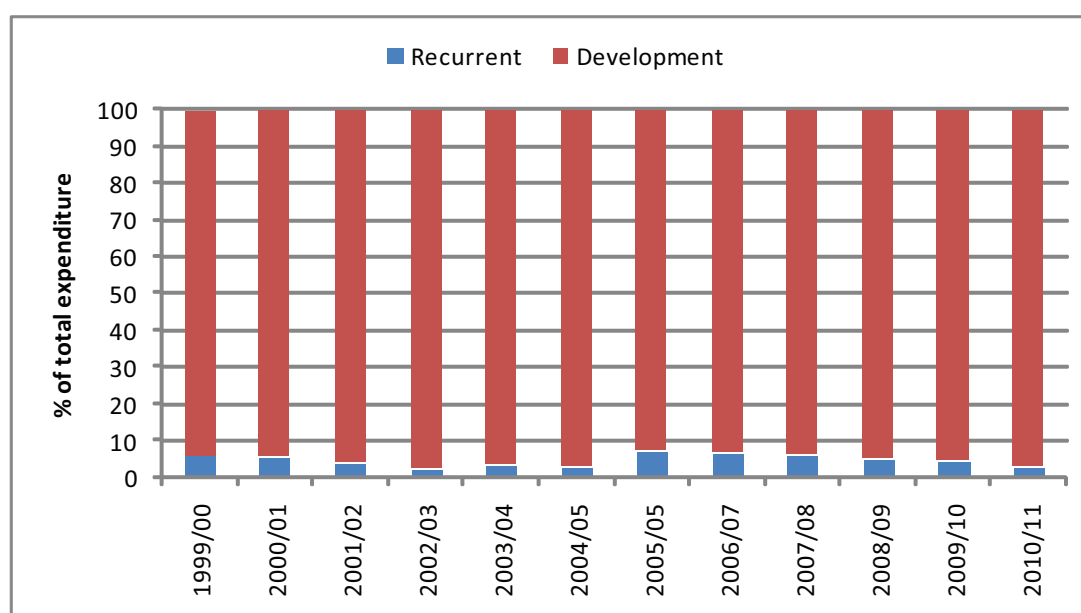
**Figure 8: Percentage Development Spending by Sub-sector**

Source: MFPED, various issues

## 5.7 Recurrent and Development Spending by Percentage Total

Results from **Figure 9** indicate that expenditure patterns in both recurrent and development expenditure heads have been parallel and the gaps between the two expenditure lines have remained wide on account of increased spending in infrastructure and constant or reduced spending in the recurrent items. As a percentage of the total expenditure, the proportion of the recurrent decline from 6 percent in 1999/00 to 3.1 percent in 2009/10, while development expenditure increased from 93.9 percent to 96.9 percent during the same period. In the next phase of analysis, the study will attempt to explore possible avenues of expenditure under recurrent non-wages to establish the efficient and effective allocation of these resources and establish how much reaches the community level. This will further attempt to answer some pertinent questions of value for money and establishing any possible leakages in the resource flows from the apex financing institutions to frontline service providers at both local government and community levels.

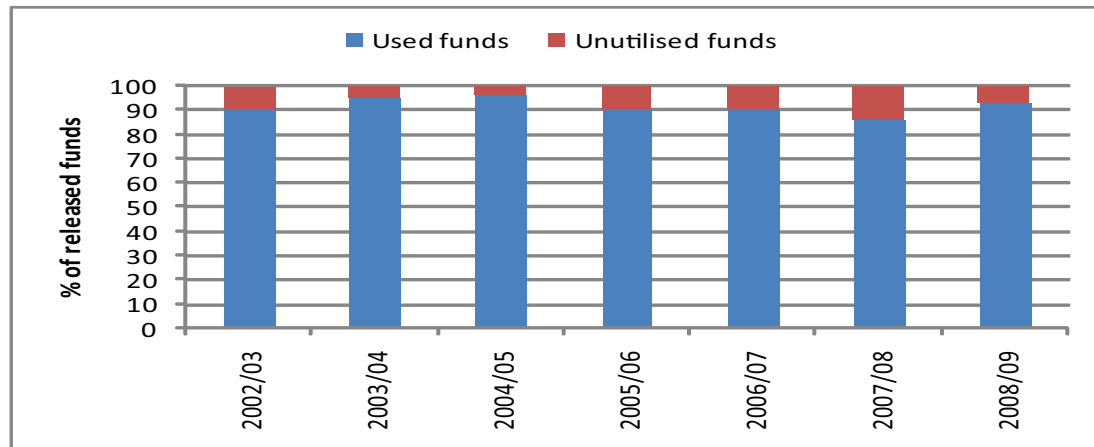
**Figure 9: Recurrent and Development Spending as a Percentage of Total spending**



Source: MFPED, various issues

## 5.8 Absorption Capacity of the District Water Conditional Grants

The government and other stakeholders have raised concerns on the absorptive capacity of local governments despite the governments' efforts to release funds on time. Less absorption of both wage and non-wage funds is posing a challenge to the government in form of planning and suffocating the development programmes at the local government levels. As part of the program budget analysis, the paper has attempted to observe trends of the total budget of water the sub-sector, the releases, the actual expenditures and the proportion spent as presented in **Figure 10**.

**Figure 10: Trends of releases and expenditure of funds in the water**

Source: MWE, 2009

In FY 2008/09, out of the budgeted Ushs 45.4 billion, MoFPED released a total of Ushs 44.1 billion (i.e. 93.8 percent) and out of which Ushs 40.9 billion was absorbed or spent. The absorption capacity was thus 92.6 percent as compared to 85.7 percent absorption reported in FY 2007/08. The trend in the absorption capacities has been rising since 2002/03 registering the highest in FY 2004/05 of 96.4 percent. Despite the absorption levels recording above the average, there exist some challenges that hinder full absorption of funds. The main challenge is associated with bureaucracies in the procurement procedures and strict expenditure guidelines/items as well as late release of funds from the central government (MWE, 2010). For instance in the district water departments, funds are spent as per the guidelines laid out in District Water and Sanitation Development Conditional Grant (DWSDCG). The guidelines on the expenditures are such that: office operations and software are allocated not more than 4 and 12 percent of the grant as compared to water supply which takes not less than 70 percent of the grants. Rehabilitation and maintenance which are regarded as essential to the functionality of the installations take no more than 8 percent of the budget.



## 6.0 CONCLUSION AND IMPLICATIONS

The paper examines trends in the central government expenditure to the Water sub-sector. The results indicate that the period from 2001 to 2009 recorded increases in non-wage expenditure but declines in the wage component, probably due to downsizing of the work force in the sub-sector. Besides, the capital or development budget was mostly funded from domestic sources, with on-off commitment from the donors. Lack of donor commitment was mainly during periods of national political campaigns. The paper concludes that in order to have better service delivery in the water sub-sector, there it would be necessary to increase funding to cater for wages, and also to facilitate human resource capacity development in the sub-sector. The results also demonstrate that, government should continue to take the lead in developing the infrastructure by increasing its budget to the sub-sector annually depending on the investment requirements.

## 7.0 PLANS FOR INFORMATION DISSEMINATION AND COMMUNICATIONS

The Economic Policy Research Centre (EPRC) plans to hold a breakfast meeting with the Environment and Natural Resources Working Group (ENRWG), which is mandated to provide policy and technical guidance for the water sector. The ENRWG comprises of representatives of all key stakeholders in the water sector. Issues to be discussed will include getting strategies for attracting and maintaining donor support and increasing funding for wages since in the past years expenditure has only increased for the non-wages. Neglecting provision of incentives to the people delivering water services to communities may lead to service delivery inefficiencies.

## 8.0 POSSIBLE EXTENSION

The current study looked at the water sector in totality, so, to track expenditure in greater detail, more data will be collected and analysed specifically for the urban water supply (Kampala city, municipalities and town councils) and rural water supply (District Water and Sanitation Development Conditional Grant, Construction and Rehabilitation of Pipes, Rainwater Harvesting, and Promotion of Appropriate Technology).

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## 10 APPENDICES

	OUTTURNS (Ushs Billion)										
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Total	76.7	32.8	45.2	77.1	73.6	83.3	45.9	60.9	70.7	111.7	131.9
Recurrent	4.7	1.8	1.8	1.9	2.4	2.3	3.3	4.0	4.3	5.3	6.2
Wages	0.4	0.4	0.4	0.5	0.8	0.7	1.5	1.6	1.3	1.7	1.8
Non-Wages	4.3	1.5	1.4	1.4	1.6	1.6	1.8	2.4	3.0	3.7	4.4
Development	72.1	31.0	43.3	75.3	71.2	81.0	42.5	56.9	66.3	106.4	125.6
Domestic	12.7	31.0	43.3	44.7	41.8	41.5	42.5	56.9	66.3	82.2	100.7
Donor	59.4	0.0	0.0	30.6	29.4	39.5	0.0	0.0	0.0	24.2	25.0

	OUTTURNS (PERCENTAGE)										
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/05	2006/07	2007/08	2008/09	2009/10
% Recurrent	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Wage	8.51	21.05	22.22	26.32	33.33	30.43	45.45	40.00	30.23	31.52	28.73
Non wage	91.49	78.95	77.78	73.68	66.67	69.57	54.55	60.00	69.77	68.48	71.27
% Development	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
GoU/Domestic	17.61	100.00	100.00	59.36	58.71	51.23	100.00	100.00	100.00	77.23	80.12
Donor	82.39	0.00	0.00	40.64	41.29	48.77	0.00	0.00	0.00	22.77	19.88

	OUTTURNS (PERCENTAGE)										
	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Total spending	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Recurrent	6.1	5.8	4.0	2.5	3.3	2.8	7.2	6.6	6.1	4.8	8.4
Development	93.9	94.2	96.0	97.5	96.7	97.2	92.8	93.4	93.9	95.2	91.6
Recurrent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Wage	8.5	21.1	22.2	26.3	33.3	30.4	45.5	40.0	30.2	31.7	14.5
Non-wage	91.5	78.9	77.8	73.7	66.7	69.6	54.5	60.0	69.8	68.3	85.5

	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Total Budget (Ushs billion)	24.5	29.61	29.6	27.74	40.66	46.35	45.44
Total Releases (Ushs billion)	24.49	25.46	27.96	27.65	40.5	41.44	44.13
Total expenditure (Ushs billion)	22.07	24.16	26.96	25.06	36.62	35.51	40.86
Absorption (% of total release that is spent)	90.12	94.89	96.42	90.63	90.42	85.69	92.59

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