

## Challenges of Financing Rural Water Supply Services in the Context of Decentralisation in Uganda

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*The Government of Uganda has been vigorously pursuing the policy of Decentralisation since 1993. The type of decentralisation pursued is a mixture / hybrid of Devolution, Deconcentration and Delegation. In order to control inflation and maintain macro-economic stability, the Government of Uganda (GoU) is increasingly phasing out projects in favour of budget support. This means that all available financial resources from Donors/Development partners, and GoU are put in one 'basket' and then every sector, including the water sector, has a budget ceiling in which to carry out all its activities. Furthermore, there is 'No additionality' to the sector ceiling even when extra donor grants are identified for support to the water sector. This paper questions the rationale of sector ceilings and highlights the inherent weaknesses of implementing such a broad policy shifts, especially as they relate to achievement of longterm sector targets and sustainability of the facilities constructed.*

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### Introduction

The Government of Uganda has vigorously pursued a policy of decentralisation, since 1993, that involves the devolution of specified powers and responsibilities from the centre to local governments. The responsibilities that had hitherto been the domain of central government, affected the pace and quality of service delivery for both Rural Water Supply and Sanitation (RWSS) and planning, implementation and management of piped urban water supplies outside the towns run by the National Water and Sewerage Corporation (NWSC).

The regulatory framework for decentralised delivery of Rural Water Supply (RWS) is provided for in the Local Government Act (LGA 1997) that provides for the continued process of decentralisation. The powers, responsibilities, functions, funds and services from the central government are devolved and transferred to Local Governments in order to increase local democratic control and participation in decision making, and to mobilise support for a development that is relevant to local needs. Under the LGA 1997:

- District, Municipal, Sub-county and Division Councils are corporate bodies.
- District administrations are responsible for the planning, development, rehabilitation and maintenance of the rural water and sanitation systems in liaison with the Ministry responsible for water.
- District administrations are entitled to funding from the central government in form of conditional, unconditional and equalisation grants.
- The District Administration can contract out public services including water and sanitation to the private sector.
- The central government is charged with the responsibili-

ties of policy making, coordination, technical guidance, support supervision, inspection, monitoring and providing specialised training.

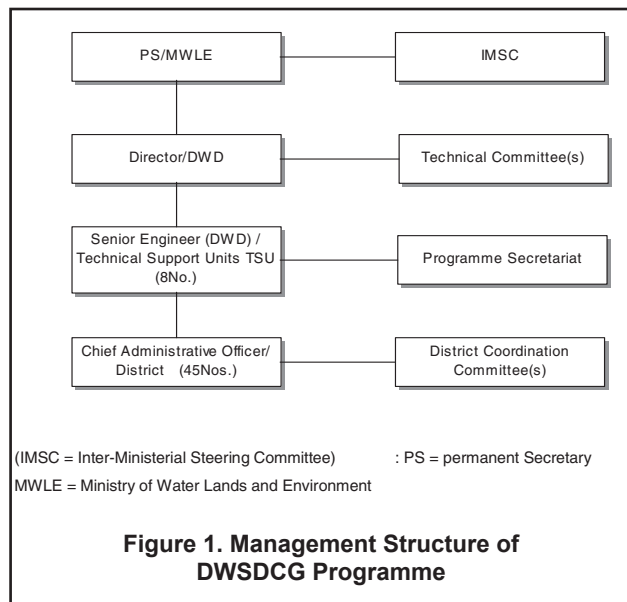
The lead central government agency for RWS is the Directorate of Water Development (DWD) under the Ministry of Water, Lands and Environment. The Directorate has the mandate for the overall water resources management and development, and planning and supervision of rural water and sanitation programmes in liaison with relevant line ministries, development partners and stakeholders.

The Rural Water Supply and Sanitation sub-sector covers 85% of the population of Uganda whose scattered homesteads are largely served through communal point water sources such as protected springs, boreholes, shallow wells and gravity scheme standposts.

At present about 55% of the rural population have access to safe water supply and 52% to basic sanitation facilities (Annual Sector Performance Report; DWD 2003). These figures however, mask considerable disparity between and within districts and do not consider the functionality of water sources. The Government of Uganda has responded to the poor access to basic water and sanitation services by including investment in the sector as a key component of the Poverty Eradication Action Programme (PEAP). The water sector will thus benefit from additional funding under the Highly Indebted Poor Countries (HIPC) initiative. According to the RWSS Investment Plan – 2001; the total investment for RWSS sub-sector, is estimated at US\$ 910 million over the period 2001 – 2015 in order to achieve 95 – 100% coverage.

Effective from 2000/2001 Financial Year (FY), RWS sub-sector development budget was disbursed directly to local governments as conditional grants to finance the District

Water and Sanitation Development Conditional Grants (DWSDCG) Programme. The districts utilise and account for quarterly releases of funds from the centre before accessing subsequent releases. This approach however, has now been deemed unconstitutional because according to LGS 2000, District Local Governments are autonomous and should not be given conditionalities on every funding release from the centre.



The conditional grants will therefore be phased out starting from 2004/5 Financial Year, in favour of sector grants where districts will have more autonomy to decide on implementing broad government priorities.

**1.1 DWSDCG Programme Structure**

The District Coordination Committees compile workplans and budgets, with support from the TSU. TSUs are regionally based for a group of (5-6)districts. The workplans are then sent to DWD for final compilation, by the programme secretariat, and the submitted to Ministry Finance for funding. The funds are released directly to district accounts.

**Implementation Arrangements for RWSS**

**The Rural Water and Sanitation Strategic Investment Plan (SIP15)**

A Rural Water Supply and Sanitation reform study was carried in the late 1990s and resulted in a sub-sector Strategy and Investment Plan for the period 2000-2015 (SIP 15), which is the main long-term guiding document for the sub-sector. It was prepared on the principle of “SOME FOR ALL and NOT MORE FOR SOME”. The plan aims at “provision of sustainable safe water supply and sanitation facilities, based on management responsibility and ownership by users, within easy reach of 65% of the rural population by the year 2005 with an 80-90% effective use and functionality of facilities. Then eventually to 95% of the rural population

by the year 2015”. The SIP 15 incorporates two investment scenarios of every district progressively increasing her present coverage to 77% and 95% by 2015, with investment needs USD 608mill. and USD 950mill. respectively. The rural sub-sector is defined as rural communities up to population of 500 and Rural Growth Centres (RGCs) with populations up to 5000.

The SIP-15 outlines key strategy concepts for the sub-sector which include Demand Responsive Approach (DRA), Decentralized implementation, adoption of Sector-Wide Approach to Planning (SWAP), Integration of sanitation and hygiene with water supply, Sustainability and Financial viability.

**5-Year Operational Plan (OP-5)**

During 2002, a 5-year Operational Plan for the Rural Water Supply and Sanitation (OP-5) was developed, covering the period July 2002-June 2007. Its overall purpose was/is to operationalise the SIP 15. The OP 5 aims to contribute to the realization of the SWAP process. It aims to establish a decentralized service delivery system in which all significant public sub-sector funding follows a common approach that relies on government procedures for disbursement, accounting, monitoring and reporting on progress. The OP-5 is an important element for fulfilling the conditions necessary to accomplish a full SWAP process in the next few years

**Sector Monitoring**

The mechanism established for monitoring of the water and sanitation sector is the use of a Joint GOU/Development Partners Sector Review (JSR) held annually in September/October and attended by sector ministries, civil and political leaders, district sector staff representatives of development partners (funding bodies, embassy staff, officials from foreign aid departments). Progress and shortcomings are reviewed and undertakings for addressing priority issues during the following year made. As part of preparation for the conference field visits are carried out. In addition to the sector conference a joint technical/mid term review is also carried out in April. More detailed field visits are carried out during the technical review.

Other monitoring instruments / means of verification include; Quarterly monitoring visits to all districts by the MWLE/DWD, Tracking studies to verify expenditure in the RWSS, Value for money studies to verify that expenditure has resulted in increased number of facilities, per capita cost, functionality of new installations, Annual Water Sector Performance Report based on a “ Sector Performance Measurement Framework, Management Information System (MIS) established at the centre in DWD and in the process of being set up in each district., Annual service delivery surveys and household surveys on water use and satisfaction

**Funding Modalities**

The ranking of the donor support modalities by the GOU, in descending order of preference is as follows: i) General

budget support; ii) Budget support through PAF and earmarked by sector; iii) Sector budget support; and iv) Project aid. Water and Sanitation was chosen as one of the five key priority areas under the Poverty Action Fund or PAF (the others are primary education, feeder roads, agricultural extension and primary health care) for poverty eradication which increased sector funding significantly (i.e. from 0.5% of the total national budget over the last 5 years to approx. 2.5% in 2003/04FY).

The rural water and sanitation sub-sector adopted a "Sectorwide Approach to Planning (SWAP)" with effect from 2000/01 FY. Briefly this implies that all rural sub-sector funding follows a common approach, and is within a framework of a single sub-sector expenditure plan (SIP 15) and relies on GoU procedures for disbursement, accounting, monitoring and reporting on progress. Consequently, all funds for RWSS investments (both from donors and GoU), are transferred to the GoU consolidated fund as budget support. The funds are then remitted to Districts as Conditional Grants for rural water and sanitation (using agreed allocation criteria in SIP 15) in line with the Fiscal Decentralization strategy (FDS). For example, a total of USD 15.5 Million, and USD 17.4 Million and USD 18.1 Million are earmarked for FY's 2004/05, 2005/06 and 2006/07 respectively (SIP 15, 2001). The disbursement of funds directly to districts has allowed implementation of RWSS activities to take place in all districts at the same time, with the aim to ensure equity in service delivery, at least at district level.

## Impact of General Budget Support and Sector Ceilings on RWSS

### Susceptibility of RWSS to 'Budget Cuts'

The district ceilings for RWSS are set during the Medium Term Budget Framework process and undertakings made by the central government to guarantee the funds earmarked to districts. However whenever there are 'budget cuts' to raise funds for emergency defence expenditure, the funds earmarked to districts are 'cut' from the budget support pool funds and reallocated for "emergency needs". These budget cuts have raised major concerns with Development Partners to the sector, to the extent that DFID has suspended its contribution to Development Assistance especially contribution to budget support until the emergency defence expenditures are explained / properly accounted for.

### Erratic Releases from Centre to districts

According to the Memorandum of understanding signed between the Districts and the Centre, releases of funds from the centre to Districts are supposed to be effected twice quarterly to facilitate implementation. The practice is however not smooth and untimely because the central government operates a cash budget (only releases funds from the central pool after collecting the revenue). Districts receive 60% of their releases in the last 2 months of the Financial Year. These erratic releases have two major impacts on the implementation:

- i) The bidding process for private contractors is delayed because districts can only procure works when they have funds on their account. This leads to delays in implementation of programmes at the local level, and also leads to poor contract management by the district staff.
- ii) When funds are released late, the districts do not devote sufficient time to software activities (community mobilisation, sensitisation, and trainings) that are necessary for the sustainability of the facilities constructed. Local governments are always in a rush to utilise the released funds in order to avoid sending back the unused funds to the centre at the closure of the Financial Year.
- iii) Insufficient mobilisation of communities leads to insufficient devotion of time and resources to implementing a demand responsive approach which is a key principle for implementing RWS services. This, not only affects the sustainability of facilities constructed, but also results into insufficient community contributions for the facilities constructed and thus the overall reduction in the number of facilities constructed country wide due to 'loss' of this contribution.

### The Irony of Sector Ceilings – "No Additionality"

Sector Budget Ceilings (SBC) are set by Ministry of Finance based upon the estimates of the overall resource envelope and sector priorities depending on the strength of the case for expenditure in a particular sector relative to the claims of other sectors. The argument for budget support and sector ceilings is that different donor funded projects are inflationary and destabilise the macro-economic framework. Thus each sector should have a ceiling dependent on the general priorities within the economy and then each sector should prioritise within the ceiling and not go outside it. Should any donor agree with the sector to provide a grant for extra work identified within the sector, MoF deducts from the sector ceiling an equivalent amount provided by the new donor; in total therefore the ceiling stays the same (No additionality). This funding principle raises the following issues:

- i) What rationale is used in determining the priority of say rural roads over rural water; the allocation principles between sectors have never been explained away.
- ii) When sector ceilings are set, it implies that no extra funding can be devoted to the acceleration of rural water supply provision even when extra resources are mobilised by the sector in form of grants. (The current safe water coverage is about 58% for a population of 24 Million people). The current sector ceilings within the MTEF would imply that the country can not achieve the MDG targets and Strategic Investment targets for the RWS set in over the next 15 years even when development partners are willing to devote extra resources to the sector!!

### Insufficient Investment in Piped Water systems for Rural Growth

The current level of funding released to the districts is in the average of USD 200,000 per year per district. This low

funding level is dictated by the sector ceiling and has resulted in districts' apathy to investing in small rural growth centres / trading centres (population between 1500 – 5000 persons) which are centres of economic activity in the rural areas. The population concentrations in these centres is so high that point water sources, which are cheaper compared to piped water sources, would be easily contaminated. The districts however argue that they can not invest all their annual release into one centre at the expense of other unserved population in the rural areas.

### **Inequities in Support to Marginalised Districts**

Districts closer to larger towns, with more resources and better organisation, often attract and benefit from assistance than those with less resources and not well organised, which is unfair in terms of inequity reduction. The current preferred mode of funding (budget support) treats all districts the same and yet some boarder districts with difficult terrain and poor infrastructure would be better served by project Aid, but this is currently discouraged.

### **Conclusions**

Analysis of the trends in rural water financing and increments in safe water coverage leads one to the following conclusions:

1. The overall cost for achieving the target rural coverage of 95-100% by the year 2015 (SIP 15 target) is estimated at USD 950 million (SIP 15, DWD 2001) or approximately USD 63 million per annum. The Ministry of Finance from the Medium Term Expenditure Framework (MTEF) has indicated that only about USD 33M will be availed to the sector so as to keep within the sector ceiling. This implies that the current targets under SIP 15 can not be achieved and thus the sector ceilings should be revised.
2. Presently Districts have different levels in respect of capacity for implementation. In the transition period it is important to assist the districts in building capacity to undertake the responsibility for planning and management of implementation of water supply and sanitation services. This may necessitate allowing some targeted project Aid to some particular disadvantaged districts to enable them catch up. The results of the VFM study carried out by MWLE/DWD in 2002 indicate that most districts are not achieving "value for money" as most of the works are of poor quality and the unit cost for water and sanitation facilities is increasing.
3. In order to reduce the susceptibility of budget support funds to 'budget cuts', area based programmes should be encouraged as one of the modes of RWS financing. This is a form of project Aid but area based where donor funds are deposited on special accounts that are not subjected to erratic requests by the centre, and only replenished periodically depending on progress of implementation.
4. Decentralisation is more likely to succeed if flexibility is built into it; for instance, when districts are allowed

to go into partnerships with competent NGOs for implementation of some activities where savings can be made. This flexibility is not adequately tapped by the current financing modes preferred by the RWS sub sector.

### **Recommendations**

The following are recommendations for the current rural water supply programme in Uganda but the same recommendations are also relevant to other countries engaged in the process of decentralising water supply and sanitation services to rural areas:

1. The effectiveness of investments in rural water supply, under decentralisation, should not be judged purely in terms of increase in safe water coverage because to achieve long-term sustainability of the facilities constructed, some of the funds have to be invested in aspects of training, capacity building for staff and WSCs, orientation of districts staff into their new roles, management of contracts and sensitisation of district and other lower local government councils. These aspects do not result in physical increase in safe water coverage but are key to the success of the decentralisation.
2. Decentralisation presents an opportunity for major sector reforms and requires patience, political support and an interactive approach between the centre and local governments to resolve the issues that inevitably arise during implementation.
3. Base the support to the process of decentralisation on long-term (10–15 year) and strategic reforms and investment plans to enable the process and systems to evolve and be fairly judged.
4. Private sector participation in construction of facilities is pursued on the assumption that it is more efficient than public sector and that eventually unit costs for delivery of services would be reduced. The overall management of contracts is however, critical to the realisation of this intention/objective; and thus the need to offer backup support and training to district / local government staff in the management of contracts.

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