



# **UGANDA**

## **Water Supply and Sanitation Sector**

### **Fiduciary Risk Assessment**

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## Abbreviations

BFP	Budget Framework Paper
CBMS	Community Based Monitoring System
DFID	Department for International Development
DWD	Directorate of Water Development
DWO	District Water Office
DWSDCG	District Water and Sewerage Development Conditional Grant
FRA	Fiduciary Risk Assessment
FY	Financial/Fiscal Year
GGWG	Good Governance Working Group
GoU	Government of Uganda
IRWR	Internal Renewable Water Resources
JPF	Joint Partnership Fund
JWSSPS	Joint Water Supply and Sanitation Programme Support
LGMSDP	Local Government Management and Service Delivery Programme
MFPED	Ministry of Finance, Planning and Economic Development
MOH	Ministry of Health
MWE	Ministry of Water and Environment
NDP	National Development Plan
NEMA	National Environment Management Agency
NWSC	National Water and Sewerage Corporation
OAG	Office of Auditor General
PCIC	Per Capita Investment Cost
PEAP	Poverty Eradication Action Plan
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management

PHCCG	Primary Health Care Conditional Grant
PI	Performance Indicator
PPDA	Public Procurement and Disposal of Public Assets Authority
SIDA	Swedish International Development Agency
SWAp	Sector Wide Approach
TSU	Technical Support Unit
UWASNET	Uganda Water and Sanitation Network
WATSAN	Water and Sanitation
WIN	Water Integrity Network
WSDF	Water Supply Development Funds

## 1 Introduction<sup>1</sup>

1.1 The provision of access to safe water supply and effective sanitation services to all Ugandans is an important social policy of the Government. It is also an area of development that has received, and continues to receive, large amounts of support from the international community. Whilst it is true that, in recent years, a declining share of the budget has been allocated to the sector, the size of national and international investments in the water supply and sanitation (WATSAN) sector are significant and warrant an examination in the way financial and other resources are being managed.

1.2 The FRA follows the standard approach and methodology set out in DFID's FRA "How to Note" concerning sector FRA and the approach was agreed with DFID and the Embassy of Sweden. The work comprised desk research of relevant documentary material, both generic and specific to the WATSAN sector. This was supplemented by a limited number of interviews and discussions with Government of Uganda (GoU) officials and sector development partners. Finally, a field trip was organised to the Mpigi District to obtain valuable information at the district level.

1.3 The FRA begins in Section 2 by reviewing the broad historical, governance and institutional context in which the WATSAN sector operates. Section 3 comprises an analysis of the performance of the public financial management (PFM) system in the sector, employing selected Public Expenditure and Financial Accountability (PEFA) assessment approach and sector specific issues. Section 4 draws out from the PFM analysis the main fiduciary risks in the sector. This is followed by an assessment in Section 5 of the credibility of the reform process in the sector. Section 6 attempts to identify the financial impact of the sectoral fiduciary risks. Sections 7 and 8 contain respectively proposed safeguards to mitigate risks and a number of key performance indicators with which to monitor fiduciary risk. The FRA concludes with a bibliography of key documents consulted.

1.4 The broad conclusions of the FRA are that the level of fiduciary risk in WATSAN is SUBSTANTIAL while the risk of corruption is HIGH. These conclusions are identical to those in the national FRA, reflecting the fact that, typically, the PFM weaknesses and deficiencies found at the national level are mirrored by performance at the sector level. Similarly, the problems that Uganda faces generally in dealing with corruption of all kinds are also prevalent in WATSAN.

1.5 The WATSAN sector has undertaken extensive reforms in the past decade aimed at improving effectiveness and efficiency of service delivery. In addition, there are recent initiatives established to tackle governance and corruption issues within the sector (the formation of the Good Governance Working Group as an example). However, much remains to be done by the GoU to reduce both fiduciary risk and the risk of corruption. Development partners will need to consider how best they can assist GoU in achieving this. Civil society will also have a role to play in mitigating these risks, especially at the district and lower levels.

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<sup>1</sup> The Executive Summary for this document is contained in the Executive Summary of the national FRA.

## 2 Historical, Governance and Institutional Context

2.1 National goals set out in the NDP 2010/11—2014/15), aim at increasing access to safe water from 65% to 77% in the rural areas and from 66% to 100% in the urban areas. Functionality<sup>2</sup> of water supply facilities is expected to increase from 85% to 90% and the percentage of people with access to improved sanitation in schools and households should increase from 69% to 80% in the rural areas and from 77% to 100% in the urban areas. The NDP target for per capita investment cost is \$38 and this is expected to increase to \$45 by 2014/15 for rural areas and in urban areas from the current \$58 to \$85 by 2014/15. In institutional terms, management of the sector has been broken down into four manageable component sub-sectors: rural water supply and sanitation, urban water supply and sanitation, water for production and water resources management.

2.2 *Rural water supply and sanitation:* Nationally, access to safe water supplies in the rural areas stood at 65% by June 2010, representing no change from the level in the FY 2008/09. This is an increase from 63% in both 2007/08 and 2006/07. Functionality which is pertinent for sustained access dropped to 80% from a fluctuation between 83% and 82% in the last three FYs. Sanitation coverage is 70% in June 2010 and has increased significantly in relative terms, rising from 59% in 2006/07 to 62% and 68% respectively in 2007/08 and 2008/09.

2.3 Taken as a whole, this representation obscures marked inequalities at district and lower local government level. In 2009/10 up to 38 districts out of 79 were below the national average for access to safe water. Coverage in 10 districts is below 40%. Up to 82 sub-counties had water coverage below 50%. Many water stressed districts continue to lag behind in terms of coverage and access to safe water supplies and sanitation. Water supply technologies that are appropriate for these places are too costly. These districts are able to provide only limited resources for sanitation, and in some years they record no expenditure on sanitation at all.

2.4 *Urban Water supply and Sewerage:* Urban water supply is categorized in terms of large, small towns and town boards. Currently there are 18 large towns (with 23 Service Areas) with piped water supplies managed by the National Water and Sewerage Corporation (NWSC), based on a new incentivized performance contract with GoU<sup>3</sup> and about 85 piped small towns managed by the Directorate of Water Development (DWD) of the Ministry of Water and Environment (MWE), through performance contracts with water authorities<sup>4</sup>. These set up Water Supply and Sewerage Boards to directly run the schemes or indirectly through private operators, guided by management contracts. By June 2009, there were 105 town boards in existence of which 64 managed piped water supply schemes. Safe water coverage in both large and small towns is currently 67% in 2009/10. As in the case of rural water and sanitation, there are gaps in coverage within the urban areas. Of the 85 small towns outside the NWSC mandate, access to safe water is 53%, with up to 16 towns

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<sup>2</sup> % of improved water sources that are functional at the time of spot-check (rural and WfP). Ratio of the actual hours of water supply to the required hours of supply (urban)

<sup>3</sup> Outgoing contract PC 3 expired on June 30<sup>th</sup> 2009. Although a new one is in place and provides basis for reporting, it is not yet signed by the MoFPED

<sup>4</sup> By June, 2010, there were 85 Urban Councils outside the NWSC mandate. The Urban Council Water Authority work is guided by a performance contract set up with the MWE. In the Town Boards, the Town Board is appointed as the Water Authority.

recording less than 20% access to safe water. A growing backlog of re-investments in system repairs and expansions especially for the older systems has contributed to the very low coverage in some of these small towns. Other challenges faced by the sub-sector include: weak management and institutional capacity of water authorities and private operators; inadequate physical planning in urban areas that hampers systematic expansion; poor cost recovery including substantial arrears and Value Added Tax on water revenues; and inefficient operations and asset management. Recent capacity development initiatives undertaken to improve sector regulation have had important impacts including in the allocation of resources. Nonetheless this function remains fragmented amongst a number of sector agencies, including the Utility Reform Unit (Ministry of Finance), DWD and DWRM, TSUs, District Water Offices and NEMA, and is still relatively underdeveloped. Funding to sanitation is limited and remains a major challenge.

2.5 *Water for Production:* Over 75% of the productive workforce in Uganda is engaged in the agriculture sector<sup>5</sup>. At the same time the growth in the agriculture sector has slowed significantly, averaging 1.1% from 2004 to 2008, with negative growth recorded in 2006. The slow growth highlights the need to devise appropriate strategies to increase productivity. The importance of strengthening the Water for Production sub-sector partly stems from this. There is also growing demand for water for production to irrigate crops, engage in fish farming, livestock farming, industrial processing and wildlife conservation.

2.6 Crop irrigation (of about 14, 418 hectares) currently stands at 3.6% of the total national irrigation potential. Publicly managed irrigation schemes are run down as a result of poor maintenance and their service area has substantially reduced. Recently there has been intensified construction of dams in the Karamoja region which is a nomadic cattle keeping area, and is water stressed. In water stressed districts dams and valley tanks are also used for domestic water supply. Dams and tanks constructed so far provide water to about one million livestock. This is roughly 68% of the livestock in the cattle corridor, and 28% of the livestock outside the cattle corridor. Although, as noted already, the water demand for fish farming, industrial processing and wildlife conservation is high, water provision for these segments is still underdeveloped.

2.7 Irrigation schemes and dams are costly to construct and to maintain especially for individual farming households. Funding to this sub-sector in 2008/09 was 10.3 billion or 7% of the sector budget. This is limited in terms of the outputs achievable. Many observers argue that the Ministries of Finance, Water and Environment, Agriculture, Animal Industry and Fisheries can achieve more if their investments and activities are coordinated better at policy level and within the relevant districts.

2.8 *Water Resources Management:* In Uganda, the economic activities that depend heavily on water resources are many and are diverse. These include domestic water consumption, livestock watering, industrial and commercial water supply, hydro-power generation, irrigated agriculture, marine transport, fisheries, waste discharge, tourism and environmental conservation etc. Uganda's fresh water resources including rivers, lakes wetlands, ground water and direct rainfall are for the most part trans-boundary in their occurrence. This highlights the need to manage these resources in

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<sup>5</sup> Source: NDP, April 2010

a strategic way both internally and internationally in collaboration with other riparian states. Climate variability has also increased in the past decade and this poses a challenge to integrated water resources management. If not mitigated appropriately, climate change will reduce the economic returns and socio-economic benefits derived from water resources in Uganda. As an example, droughts, floods, landslides, windstorms and hailstorms on average destroy up to 800,000 hectares of crops which translates to financial and economic losses estimated at UGX120billion<sup>6</sup>.

2.9 Lakes, rivers and wetlands occupy about 12% of Uganda's surface area and have volumes estimated at 39km<sup>3</sup>/yr, whilst groundwater is estimated at about 29km<sup>3</sup>/yr. The total Internal Renewable Water Resources (IRWR) estimate is a much lower volume at 39km<sup>3</sup>/yr, because a lot of water comes in from beyond Uganda's boundaries. External inflows are estimated at 27km<sup>3</sup>/yr; 25km<sup>3</sup>/yr from Lake Victoria, and 2km<sup>3</sup>/yr from DR Congo. Due to the increasing population, volume of water per capita has decreased from 2800m<sup>3</sup> in 2002, to 2200m<sup>3</sup> in 2008<sup>7</sup>. This is much lower and occurs with high variability in water stressed areas.

2.10 About 50% of Uganda's freshwater resources are used for non-consumptive purposes including hydropower generation, tourism, marine transport, waste discharge and environmental conservation. There have been questions about the sustainability of non-consumptive water resource use in Uganda. For example, in 2005, the water level in Lake Victoria fell significantly resulting in a 148MW deficit in power generation. The National Environment Management Agency (NEMA) estimates that about UGX 92billion is spent by the Ministry of Finance on thermal electricity generation as a result of reduced generation capacity at Jinja.

2.11 In 2009/10, Water Resources Management received 13.869 billion, which was 9.2 % of the water and sanitation sub-sector budget. Resources are being channelled to five main programme areas: a) Trans-boundary water resources management b) Water quality management c) Water resources planning and regulation d) Water resources assessment and monitoring e) Catchment based water resources management. Many of these areas are new and are highly technical. Currently, human resources are inadequate. There are skills deficits in key areas of trans-boundary resource use negotiation, pollution management and regulation, and in catchment management. This mirrors the weak legal, policy and regulatory framework and the insufficient data available for effective planning, policy formulation and management.

2.12 *Environment and natural resources management:* In recognition of the inextricable link between the natural resources environment and the sustainable use of available water resources, the water and sanitation sector was merged with that of environment and natural resources into the water and environment sector in 2008. In institutional terms the environment and natural resources sub-sector is markedly underdeveloped. Environmental policy needs to be streamlined, funding to the sub-sector is insufficient, and the human resources to deliver services in the decentralized framework are inadequate in terms of both quantity and quality.

2.13 Increased focus on the environment was not unexpected. Currently, Uganda has an estimated population of approximately 30.7 million and a 3.3% annual growth rate. The high

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<sup>6</sup> DWRM, 2010

<sup>7</sup> NDP, April 2010



population growth rate and the rapidly growing economy have combined to exert tremendous pressure on Uganda's environment and natural resource base. Demands for freshwater, fish, fuel wood, construction timber and cultivable land have increased significantly in the last decade. At the same time, inadequate regulation has contributed to an increase in pollution of land and water resources from domestic and industrial waste. It is clear that, if the environment is not managed in a sustainable way, the highly anticipated national economic growth from oil, gas energy and agriculture, will be undermined and may not even be achieved at all.

### 3 Performance of the Public Financial Management (PFM) System

#### Approach and Methodology

3.1 This assessment of the performance of the Uganda PFM system insofar as it relates to the WSS sector employs as far as possible the PEFA methodology. However, the latter is designed to assess the performance of entire PFM systems and not sector issues so inevitably there is need for a certain amount of divergence from the PEFA approach. The sectoral FRA is also closely related to both the national FRA exercise and the health sector FRA which are being conducted concurrently with the WATSAN assessment. In particular, the two sectoral FRAs employ as far as possible the same methodology based on the DFID How to Note and in particular the approach to assessing fiduciary risk at the sectoral level.<sup>8</sup>

3.2 This FRA draws on recent evidence concerning the performance of the PFM system from 2007/08, 2008/09 and 2009/10. These years have been fully reported upon by the MOFPED in its annual Budget performance assessment reports; the Ministry of Water and Environment in its annual sector performance reports and the Auditor General Annual Reports with the exception in regard to the latter of 2009/10 as the Auditor General Report for that year will be issued in March 2011.

3.3 The analysis of PFM in the sector follows the standard PEFA analytical framework that divides PFM systems into the following 6 thematic areas, but uses only selected performance indicators relevant to WSS sector:

- Credibility of the Budget (assessed by PEFA Performance Indicators [PIs] 1-4)
- Comprehensiveness and Transparency (PIs 5-10)
- Policy-Based Budgeting (PIs 11-12)
- Predictability and Control in Budget Execution (PIs 13-21)
- Accounting, Recording and reporting (PIs 22-25)
- External Scrutiny and Audit (PIs 26-28)

#### Credibility of the Budget

#### Overall Risk Level for Category: Substantial (large aggregate expenditure variances)

3.4 Table 1 provides a comparative overview of actual and budgeted expenditure in the WSS sector over the last three years. Table 2 below breaks this overview down into more detail.

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<sup>8</sup> Department for International Development *How to note Managing fiduciary risk when providing Financial Aid* pp. 23-24; Annex 11

**Table 1: WSS Sector On-Budget, Release and Actual Expenditure (in Bn. Ushs.)**

Year	Approved Budget	%	Actual Releases	%	Actual Expenditure	%
2007/08	130.5	100	128.9	98.77	122.8	94.10
2008/09	141	100	136.9	97.09	131.7	93.40
2009/10	157.5	100	153.6	97.52	147.8	93.84

Source: Sector Performance Reports 2008, 2009 and 2010

3.5 The data shown in Table 1 shows that the WSS approved budget is not a reliable predictor of actual expenditure. The variance exceeds 5% in all four years reviewed. The table also shows that budget releases are consistently less than the approved budget and even then the sector has been unable to absorb all the funds received. This appears to reflect that funds are often released too late to be spent by the year end. The field visit to Mpigi District revealed that funds for fourth quarter of 2009/10 were released in May and could not be utilised before the end of the financial year. This has an impact on the level of services and where funds are spent so late in the year increases the fiduciary risk that spending may not achieve value for money.

**Table 2: Budget and actual expenditure by spending unit for 2009/10, 2008/9, 2007/8**

Financial year 2009/10			
Component	Budget (Ushs. billion)	Expenditure (Ushs. billion)	Variance %
Rural water	73.09	69.83	(4.46)
Water for production	23.83	23.84	0.04
Urban water	43.51	42.31	(2.75)
National Water and Sewerage Corporation	2.6	2.08	(20)
Water resources management	14.48	11.71	(19.1)
<b>Total</b>	<b>157.52</b>	<b>147.77</b>	<b>(6.1)</b>
Financial Year 2008/9			
Component	Budget (Ushs. billion)	Expenditure (Ushs. billion)	Variance %
Rural water	55.1	48.89	(11.2)
Water for production	10.9	8.84	(18.8)
Urban water	43.1	42.50	(1.39)
National Water and Sewerage Corporation	21.1	19.50	(7.5)
Water resources management	10.3	10.1	(1.9)
<b>Total</b>	<b>140.5</b>	<b>131.7</b>	<b>(6.2)</b>
Financial Year 2007/8			

Component	Budget (Ushs. billion)	Expenditure (Ushs. billion)	Variance (%)
Rural water	54.81	48.60	(11.3)
Water for production	14.35	15.35	24
Urban water	32.62	40.44	7
National Water and Sewerage Corporation	16.96	14.96	(11.7)
Water resources management	7.87	7.50	(4.7)
<b>Total</b>	<b>130.5</b>	<b>122.8</b>	<b>(5.9)</b>

Sources: Ministry of Water and Environment Water and Environment Sector Performance Report, 2010, 2009, 2008

3.6 Table 2 reveals significant expenditure composition variances over the last three years. In 2009/10 every component under-spent, with the exception of water for production which spent in line with budget,. Of the five components National Water and Sewerage Corporation (NWSC) and Water Resources Management had significant under-spend of 20% and 19 % respectively. In 2008/09 two of the five components had variances of more than 10%, namely rural water and water for production. In 2007/08 Water for Production and Urban Water over-spent by 24% and 7% respectively, which reflected approved changes in budget allocations as these two components were better able to absorb available funds.

**Table 3: District WSS Consolidated Grant 2007/08, 2008/09, 2009/10**

Item	2007/08	2008/09	2009/10
Total budget	46.35	45.44	55.37
Total releases	41.44	44.15	55.37
Total expenditure	35.51	40.86	42.72
% of budget released	89	97	100
% of release spent	86	93	80

Sources: Ministry of Water and Environment Water and Environment Sector Performance Report, 2010, 2009, 2008

### Grants

3.7 The provision of basic public services like WATSAN is heavily decentralised in Uganda which makes the existence of a transparent inter-governmental funding mechanism essential. Services are financed through grants to districts, both conditional and discretionary.

### Conditional grants

3.8 MoFPED channels resources directly to districts in the form of District Water and Sanitation Development Conditional Grants (DWSDCG). Table 3 shows that for the last three years the DWSCG budget is not a reliable indicator of expenditure. For 2007/08 and 2008/09 it shows that budget predictability has increased in terms of release of funds from MoFPED. However, in 2009/10 this trend was disrupted due to late release of funds and procurement delays.

3.9 Clear sector guidelines exist that stipulate DWSCGG expenditure allocations, as follows

- Office operations 5% (not more than)
- Software activities 11% (not more than)
- Water supply 70% (not less than)
- Sanitation (hardware) 6% (not more than)
- Rehabilitation 8% (not more than)

3.10 The total expenditure on water supply activities (including software activities) was Ushs. 31.9 billion in 2009/10 representing 71% of the total expenditure of DWSDCG. The expenditure on physical; water facilities was (springs, boreholes, shallow wells, RWH, GFS) was Ushs. 28.91 billion or 90% of the expenditure of water supply facilities. Table 4 shows that the districts continued to adhere to the DWSCG Guidelines, which require investing not less than 70% of the budget to water supply.

**Table 4: DWSCG Expenditure for the last three years**

Item/Ushs. Billion	2007/08	2008/09	2009/10
Total expenditure	35.51	40.86	44.72
Water facilities expenditure	25.51	28.61	31.30
Expenditure on springs, boreholes, shallow wells, RWH, GFS	18.66	23.85	28.91
% of water facilities expenditure to total expenditure	72	70	71
% of expenditure on springs, boreholes, shallow wells, RWH, GFS to the water facilities expenditure	73	63	90.6

*Source: Uganda Water and Environment Sector Performance report 2010*

3.11 However, expenditure on sanitation in 2008/09 was only 3% against a maximum of 6% whereas expenditure on office operations and monitoring was 11% - well above the stipulated amount of 4%. Another 1% was spent on wages and salaries. There is clearly a risk of inadequate

spending on sanitation, for which a separate grant is being advocated and excessive spending on administration. The latter may continue to burgeon with the increase in the number of districts.

3.12 Actual implementation is carried out by private sector (hardware) and NGOs (software) coordinated by the district water office. Under the CBMS model user groups are responsible for operation and maintenance. However, in a number of districts, the DWO and NGOs still fulfil this function. The Ministry of Water and Environment (MWE) sets standards and liaises with MOPPED to ensure that district plans and financial reports are in line with sector guidelines. In water stressed areas, water supplies are usually multi-purpose. They are used for domestic consumption, cattle watering and for small scale industries. In these areas the DWSSCG has been used to fund investments that would normally be termed as Water for Production. The Directorate of Water Development (DWD) provides a team of consultants at regional level to support District Water Offices (DWO) in project planning and implementation. Funds to support the activities of these Technical Support Units (TSU) have largely been provided by donors through the JPF.

3.13 The Ministry of Health (MOH), through the Primary Health Care Conditional Grant (PHCCG) to local governments, in theory earmarks *not less than* 10% of the grant for sanitation. In practice this has proved difficult to implement due to the large competing needs for limited and fairly unpredictable resources within the District Health Office (DHO). NGOs continue to complement GoU efforts at the district level, implementing water and sanitation projects using other resources outside existing government channels. Recently, GoU and donors provided funds for capacity development for NGOs through an agreed regional mechanism managed by UWASNET.

### **Discretionary grants**

3.14 Under the Local Government Management and Service Delivery Programme (LGMSD), districts also receive Local Development Grant (LDG) discretionary resources which are used to finance investments prioritized and selected by the local governments. Guidelines for expenditure stipulate that 20% of these funds can be spent on administration and 80% should be used to finance investments in line with national priorities—that is, in the sectors of water, health, education, community development and agriculture. There is some concern in the sector on how the LDG is spent on WSS, as this is not reported on in the annual sector performance report.

3.15 However, the use of the LDG is reported to the Ministry of Local Government (MoLG). Whereas the LDG is fully funded by Government and mainstreamed in Government systems the management at the national level is still mainly handled by the Project Support Team (PST). It is the PST that makes the LDG calculations, based on the annual local government assessment, issues indicative planning figures to local governments, receives, reviews physical and financial performance reports and makes the necessary follow-ups. Given the limited numbers of PST staff this has led to weak support and supervision of LGs during the planning, allocation, utilisation and

accountability for the LDG. There is a need to devise an effective mechanism of institutionalising the LDG management in the mainstream of GoU/MoLG systems.<sup>9</sup>

3.16 On the revenue side the major institutional arrangement concerns the National Water and Sewerage Corporation (NWSC). Established in 1972, NWSC is a utility parastatal 100% owned by the Government of Uganda. The mandate of the Corporation is to operate and provide water and sewerage services in areas entrusted to it on a sound, commercial and viable basis. 18 towns with 23 service areas are currently served by the NWSC. Table 2 shows its revenue performance over the last 3 years (all figures in Bn. Ushs.) and demonstrates that in two of the last 3 years budgeted revenue has been exceeded in practice.

**Table 5:**

Year	Budgeted Revenue	Actual Revenue	Actual as % Budget
2007/08	76.6	84.5	110
2008/09	99.3	100.6	101
2009/10	116.3	111.1	96

*Source: Sector Performance Reports and NWSC Corporate Reports*

3.17 The NWSC turnover in 2009/10 was Ushs.111 billion compared to Ushs. 100.6 billion in 2008/09. In 2009/10 it achieved an operating profit of Ushs. 24.5 billion, which was slightly lower than the Ushs. 25 billion obtained in 2008/09. In 2009/10 the NWSC was able to plough back Ushs. 20.3 billion in form of investment projects, extending/improving pipe network and replacement of electromechanical equipment, which was slightly higher than the Ushs. 18.8 billion it self invested in 2008/09. However, donor funds still contribute the bulk of the NWSC budget for development expenditure. This amounted to 86% in 2008/09 and increased to 90% in 2009/10.<sup>10</sup>

3.18 Payment arrears do not appear to be a problem in the sector as they are more generally in Uganda. The Auditor General’s Report 2009 shows that MWE non-employee arrears fell from Ushs. 4.36 billion in 2007/08 to Ushs. 748,000 in 2008/09. No break-down by WSS components is available. Nevertheless, preventing the accumulation of new arrears is moving in a positive direction.

**Comprehensiveness and transparency**

**Overall Risk Level for Category: Moderate to Substantial (transparency generally good but incomplete information on donor funding undermines comprehensiveness)**

3.19 The WSS budget classification follows national practice, so that from 2008/09, administrative, economic and sub-functional classifications have been augmented by the introduction of a “vote function” classification which comprises a set of programmes and projects contributing to a vote objective. The MWE budget contains 6 operational vote functions plus a vote

<sup>9</sup> Republic of Uganda, *Technical Assessment of the Local Government Management and Service Delivery Programme Input to the Mid-Term Review* 15 November 2010, pp12-13

<sup>10</sup> Uganda Water and Sanitation performance Report 2009, 2010

function for Policy Planning and Support Services, each containing a number of planned outputs. The WSS component of the MWE's scope contains the following 4 vote functions:

- Rural Water Supply and Sanitation
- Urban Water Supply and Sanitation
- Water for Production
- Water Resources Management

Each vote function has budgeted cost, outputs and indicators, allowing close tracking and monitoring of performance.

3.20 A comprehensive range of budget information is made available for the sector. A Sector Budget Framework Paper (BFP) is produced which is divided into two main sections: the Sector Summary and the Vote Budget Framework Papers. The Sector Summary sets out the sector's policy objectives and summarises overall performance, plans for the medium term and key performance issues to be addressed, including costing implications. It provides an overview of sector budget allocations for 2010/11 and the medium term, highlighting major expenditures and any changes to resource allocations. It concludes by setting out any major challenges facing the sector. The second section sets out past performance and future plans for Central and Local Government Votes in more detail. It is structured as follows for each Vote:

- A Vote Overview sets out key details of the vote, including past performance, future plans and key performance issues to be addressed including costing implications.
- Annex 1 provides profiles for Vote Functions, and their composition
- Annex 2(a) provides detailed profiles of each project and programme under the vote profiles within the vote and Annex 2(b) provides annual costed work plans by programme and projects. Those to be carried out by local government are included in the latter's BFPs.

3.21 Government operations in the sector are fully reported upon in the WSS Annual Sector Performance Reports. The 2010 WSS Annual Sector Performance Report reports on GoU and donors on budget financing and donors off budget financing; providing detailed breakdowns of how on budget is allocated and spent with lesser detail in regard to off budget financing. This absence of important information clearly undermines accountability and transparency in the sector. The significance of this is borne out by the importance of donor funding to the sector. In 2009/10, for example, 30.4% of the approved budget for the Ministry of Water and Environment was to be funded by donors.

3.22 Apart from government itself, the primary public organisation involved in the sector is the National Water and Sewerage Corporation (NWSC). The audited accounts for the year ended 30 June 2009 show a profit of over UShs. 12 bn and equity of UShs. 314bn. of which UShs. 238 bn. is government funding. On the face of it, the NWSC does not currently constitute a fiscal risk to the



GoU although it should be noted that the Auditor General was able to give only a qualified opinion on the financial statements due to the absence of title deeds on leasehold land and their inability to verify revenue because of non-revenue water estimated at 35.8%.

3.23 Considerable amounts of information about the WSS sector are made available to the public through the relevant websites. The MWE website contains a range of key documents that include the annual Sector Performance Report, the Sector Investment Programme and the BFP. Taking also into account, the MFPEd and AG websites, the reader is able to access information about medium-term programmes, recurrent and capital expenditure plans and results, planned and actual outputs, end-of-year financial statements and external audit reports.

### **Policy-Based Budgeting**

#### **Overall Risk Rating for Category: Moderate (generally sound procedures)**

3.24 Orderliness in the annual budget process is measured with reference to three issues – the budget calendar, the extent of political involvement and the timeliness of budget approval. The WSS budgeting process complies with the timelines set out in the annual budget circular produced by MoFPED, producing a Sector BFP. The objectives set out in the BFP are entirely consistent with the sectoral objectives contained in the National Development Plan, promoting a strong and fundamental link between national policy priorities and sectoral budgetary allocations. This is strengthened by the connection between annual budgets and the National Budget Framework Paper FY 2009/10 – FY 2013/2014 which provides the medium-term financial planning context for the GoU's budgeting process. It also reflects the serious efforts that Uganda has made in recent years to achieve effective medium-term budget planning, even though there remain significant challenges as changes occur at least annually in revenue, overall expenditure and sectoral allocations often without adequate explanation.

3.25 An important dimension of policy-based budgeting concerns the existence of sector strategies. The current Strategic Sector Investment Plan for the sector was completed in 2009 and was prepared consultatively to support priorities identified in a more coordinated way. It is a result of comprehensive review and consolidation of the different sub-sector investment plans, and it is linked to a mapping tool (Sector Investment Model) that helps to visualize and monitor progress at the national and sub-sector level. Component plans that have been consolidated into the overall sector investment plan include: water resources management, rural water supply, urban water supply and sewerage, water for production and sanitation. In order to address the long standing relative marginalization of sanitation, it was upgraded and considered as a sub-sector. Within the SIP there are clearly established sector objectives, outputs and indicators against which progress is routinely monitored.

### **Predictability and Control in Budget Execution**

**Overall Risk Rating for Category: High (a number of significant weaknesses including late release of funds, payroll, procurement and internal controls)**

3.26 The remaining six indicators under this area of PFM are all important to the sector. The first issue to consider is predictability of funding. This is a problematic issue for the sector since releases of funds to districts are often subject to delays resulting in a surge of funding late in the final quarter of the financial year at a time when it is very difficult for the funds to be spent. This feature of PFM has been accentuated by the continued proliferation of districts and the associated capacity weaknesses which have contributed to the late submission of the quarterly reports that are required to trigger the release of funding by the Centre. There have also reportedly been instances of recipients being unsure of how the insufficient releases should be spent without detailed guidance from the Centre. In addition, the Auditor General has reported on the lack of evidence that quarterly reports have been submitted on the progress of projects funded by Germany.

3.27 Payroll controls are in need of some strengthening. In his report for the year ended 30 June 2009, the Auditor General noted that “a review of the personnel records and payroll revealed that some members of staff who had left the Ministry (MWE) due to abscondment/resignation and death remained on the payroll and irregularly continued getting salaries totalling Shs.28,858,238.” Clearly, such a situation suggests weak controls with the associate risk of misuse of public funds.

3.28 Procurement weaknesses are found throughout Uganda’s PFM system and the WSS sector is no exception. The Auditor General’s 2009 report drew attention to problems with a framework contract for the drilling of boreholes. The Ministry entered into framework contracts with providers in three lots covering North and North West, East and North East and Central and South-Western Districts of Uganda at a total value of Ushs.5.5 bn. A review of the procurement and contract implementation process revealed various types of non-compliance with the regulations. These included the non-submission of documentation for audit; the failure to ensure that the receipt of bids and record of bid opening was witnessed by a representative of the Contracts Committee as required by the PPDA Act and regulations; and the lack of a negotiation plan or one approved by the Contracts Committee. An overpayment to a contractor was also found; the failure to discover the error reflected weaknesses in the internal control procedures governing payment processing. The previous year’s audit had also revealed the use of inappropriate procurement methods in contravention of the PPDA regulations. These included the use of restrictive as opposed to open bidding and requesting for quotations instead of restricted tendering. Such use of inappropriate procurement methods was judged to have exposed the MWE to low quality and costly services and products. The PPDA 201 Compliance Study found that MWE compliance rating slightly declined from 78% in 2008 to 75% in 2010. However, the NWSC compliance rating increased from 71% in 2005 to 88% in 2010.<sup>11</sup>

3.29 Effective budget execution requires sound internal controls. Whilst sound commitment and other procedural controls do exist, they are not always complied with. In the WATSAN sector a number of shortcomings have recently been identified. Reference has already been made under procurement to the existence of weaknesses in the internal controls surrounding payment processing. The Auditor General has drawn attention to the absence of asset registers making it difficult to monitor the use of water project assets. In addition, there have been problems with revenue management controls. For the 2008/09 year, the Auditor General noted that large sums of

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<sup>11</sup> Public Procurement and Disposal of Assets Agency *Compliance Check 2010*

revenue due to various departments of the MWE remained uncollected and urged the Ministry to improve on its revenue collection procedures to ensure the prompt collection of revenue due. Instances have been cited of the absence of budgetary (variance) analysis of projects and the lack of vote books, resulting in weak budgetary control and execution.

3.30 There is an established internal audit function within the MWE which acts a safeguard on the probity and integrity of transactions occurring within the Ministry. Ministry staff has confidence in its value, but is not clear how far the unit acts as a part of internal control rather than an independent reviewer of management controls or how much impact its work actually has.

### **Accounting, Recording and Reporting**

#### **Overall Risk Level for Category: High (weaknesses in the management of advances, in-year reporting and the quality of financial statements)**

3.31 The last two annual reports of the Auditor General have highlighted deficiencies in the management of advances. The Public Finance and Accountability Act (2003) requires that all funds advanced to staff be promptly accounted for by the closure of the relevant fiscal year. It was noted that some activity implementers delayed accounting for funds advanced to them to carry out project activities. Advances had been outstanding for a period of more than one year; such delays carry the risk of falsification of documents and a possible loss of project funds. In addition, there have been failures on the part of management to carry out an age-analysis of the advances to determine the periods for which the advances have remained outstanding. This implies that monitoring of the advances has not been properly undertaken.

3.32 From a service delivery perspective, the amount of resources actually received and how these are deployed are of critical importance. The PFM system should facilitate the availability of such information. In the context of the WSS sector, an important piece of work that has shed light on this issue was the Cost Variation Study of November 2008. The objective of this study was to understand and explain why the reported Per Capita Investment Cost (PCIC) of water was increasing. The PCIC is an important indicator of the efficiency and effectiveness of investments in water. The study concluded that the annual percentage increase, at constant prices, in PCIC had been as follows: - 2003/04 26.6%; 2004/05 4.4%; 2005/06 8.4%; 2006/07 35.5% (an average increase of 13.1%). It attributed this increase to two main factors, namely i) Districts using proportionately more of the District Water and Sanitation Conditional Grant (DWSCG) on overheads expenditure instead of constructing new water facilities; and ii) Districts using proportionately more of the DWSCG on more expensive water facilities (such as deep boreholes) instead of the cheaper water facilities such as protected spring wells and shallow wells which are becoming increasingly difficult to access. The analysis demonstrated clearly that “districts that allocate proportionately more of their DWSCG on Increased Access to Safe Water and Sanitation Facilities” compared to other expenditure categories have a lower PCIC than those that allocate a larger proportion of their DWSCG on overhead costs.” The report suggested that the explanations for the increased level of overheads expenditure compared to new investments expenditure included the creation of new districts in the FYs 2005/2006 and 2006/2007 (a phenomenon that continues unabated) and misappropriation of funds by district officials. It stated categorically that “the creation of new districts by the government

diverts funds that would have been used on new water facilities to setting up district water offices". The study flagged up an important fiduciary risk for the WSS sector by pointing out that one expenditure category that drastically increased was "implementation monitoring", which a review of payment documents shows was regularly abused by district officials. Fuel charges for monitoring visits were found to be exaggerated and abused, with excess funds being misappropriated. Similarly, the calculation of allowances was mainly based on per diems instead of the lower safari day allowance. In addition, the number of officials involved in monitoring was often inflated and the per diems misappropriated. These practices had a clear adverse impact on the PCIC and, therefore, the number of people served by a given amount of public investment expenditure.

3.33 In-year release of funds from the MoFPED to districts is dependent upon receipt by MoFPED of quarterly financial (Form A) and performance (Form B) reports. This arrangement causes practical difficulties for districts as their number increases without commensurate capacity development. Releases are often delayed because of difficulties in completing these forms. Specifically, the extent of information required in Form B on outputs (output description, output indicator, timing of outputs, activities to deliver outputs, inputs) for each programme and project is excessive for quarterly reporting. Districts have reported that they require, on average, two weeks to complete the forms and that "it is difficult to incorporate the required information for activities that run across quarters or the outputs for which may not be realized within any relevant quarter of reporting". Late submission and approval of the forms results in late release of funds and this impacts adversely on the delivery of planned activities. The cost variation report pointed to a number of constraints related to WATSAN financing, including insufficient releases of funds from the MFPEP and difficulties associated with the end of year deadline whereby any monies not yet committed to the execution of a project by 30<sup>th</sup> June have to be returned to the treasury. This requirement forces the procuring entity to rush through implementation programmes, especially when releases are made in the last quarter of the fiscal year, leading to compromised quality of work. For example, it was reported to the team on a field visit to Mpigi District that MoFPED released fourth quarter funds to them on 1 June and they were unable to spend before the end of the financial year.

3.34 The quality and timeliness of the annual financial statements produced for the sector may be gauged by reference to the reports of the MWE, MoFPED and Auditor General. The MWE publishes a Water and Environment Annual Sector Performance Report. This provides a comprehensive description of activity throughout the sector and sets out results, against a wide range of indicators and targets, for delivery of WATSAN services. Financial information is provided in a number of areas, including a comparison of budgeted expenditure funds releases and actual expenditure by sub-sector (programme); a trend analysis of sector financing; a multi-year analysis of budget, releases and actuals for the DWSDCG (that is the main grant to districts); a summary of the financial performance of the NWSC; and finance made available to NGOs and CBOs.

3.35 The key indicator for the 'Accounting, Recording and Reporting' aspect of PFM is the nature of the audit opinion given by the Auditor General on the financial statements. For the most recent year, 2008/09 and two earlier years the results for WSS entities and Districts, Municipalities and Town Councils are shown in Table 4. The trend is one of sustained improvement over the period for Districts, Municipalities and Town Councils. The MWE trend is of concern because it has not obtained a clean audit in the last three years. The performance of NWSC is perhaps of more concern

because it obtained a clean audit in 2006/07, but for the last two years it has not been able to match that outcome.

**Table 6: OAG Opinions on WATSAN Financial Statements**

Entity	Financial Year					
	2008/09		2007/08		2006/07	
	Audit Opinion					
MWE	Qualified		Qualified		Qualified	
NWSC	Qualified		Qualified		Unqualified	
Districts, Municipalities Town Councils	Qualified	Unqualified	Qualified	Unqualified	Qualified	Unqualified
	25%	75%	10	79	5	81

*Source: Auditor General Annual Reports, 2007, 2008, 2009*

**External Scrutiny and Audit**

**Overall Risk Level for Category: Substantial (limited follow-up action on audit findings)**

3.36 The Auditor General 2009 Annual Report identified the following instances of weak financial management:

- understaffing that negatively impacts upon the performance of the MWE;
- inadequate evidence to support NSSF deductions;
- irregular salary payments;
- unremitted proceeds from the sale of assets;
- inefficient revenue collection procedures;
- a variety of deficiencies in procurement procedures;
- weak management of advances; and
- poor asset management.

3.37 The Report specifically mentioned that the NWSC has no title deeds for leased land. Consequently adequate assurance over the ownership of these properties and completeness of leasehold amortisation in the financial statements could not be obtained. In addition, the Auditor General noted that the Corporation is not able to bill all the water produced from pumping stations. As at June 2009, the non revenue water was estimated at 35.8%. At June 2008 it was estimated at 33.5%. Because of this limitation, reliance could not be placed on the system for the purposes of testing the accuracy and completeness of the Corporation’s water revenue. However, the Auditor

General found in 2009 that income from water supplied and billed was subject to adequate accounting and control procedures.

3.38 In 2008/09, as part of a Value for Money (VFM) audit of 8 donor-funded projects, the Auditor General reviewed the Small Towns Water and Sanitation project financed by the African Development Bank. The audit identified a number of problems including inadequate counterpart funding, delays in procurement, project delays, undisbursed funds and excess commitment fees.

3.39 It is of concern that Ministries and agencies generally have a poor record in acting on audit recommendations and this seems to be the case also in the WSS sector. This attitude towards audit recommendations is partly driven by the weak and ineffective arrangements for government (through the MoFPED) to officially respond to audit findings and recommendations. Thus many of the issues identified in the 2008/09 Auditor General's report had been raised a year earlier without appropriate remedial action being taken.

## 4 Identification of Key Fiduciary and Corruption Risks

The overall level of fiduciary risk is rated as SUBSTANTIAL. The WATSAN sector has benefited from continuing improvements in PFM systems but the PFM system still falls short of good international practice in a number of areas largely due to continuing weaknesses in complying with controls within the system (for example, in conducting procurement notwithstanding improvement of NWSC in procurement compliance) and in overseeing financial management and control at service delivery reflected in external qualified audit opinions of the Auditor General for MWE and NWSC. These issues are not unique to the sector, but are fiduciary risk issues found at national and across most government sectors.

4.1 The key fiduciary risks in the sector identified in this assessment are set out and explained below. They have been identified from an analysis of the standard of public financial management (detailed in Section Three) and from consideration of more generic cross-cutting issues that affect PFM performance (identified from examination of diagnostic reports and donor appraisal material).

<b>1</b>	<b>Lack of predictability in transfers to sub-national governments</b>
	In common with other parts of the public sector, the sector suffers from unpredictability of funding stemming in-year changes to allocations and a tendency to back-load releases to the final quarter – all have implications for efficient and effective utilisation of funds. In addition, quarterly cash releases of grants funding to districts are dependent on the timely receipt from district offices of reports providing financial and output information. The reporting requirement is onerous and a combination of factors, including weak capacity and difficulty in collating the information, results in late and incomplete submission of the reports. For example, in the 2007/08, the actual releases to the districts were made in May, and funds were deposited on the district accounts in June, right at the end of the Financial Year. Many districts implement up to 40% of their annual work plan in the last quarter of the financial year.

<b>2</b>	<b>Poor control of advances</b>
	The last two annual reports of the Auditor General have highlighted deficiencies in the management of advances. Contrary to GoU Regulations, evidence was found of delayed accounting for funds advanced to carry out project activities and of advances that had been outstanding for a period of more than one year.



<b>3</b>	<b>Poor control and management of procurement</b>
	Notwithstanding improvement in the NWSC PPDA Compliance Rating, procurement remains a problematic area that suffers from a variety of weaknesses including the use of inappropriate procurement methods; the non-submission of documentation for audit; the failure to ensure that the receipt of bids and record of bid opening are properly witnessed; the lack of a negotiation plan and overpayments to contractors.

<b>4</b>	<b>The proliferation of sub national government has increased the risk of poor financial management and the proportion of expenditure spent on administrative overhead</b>
	The continuing increase in the number of districts is having a negative impact on the quality of public financial management across all public services at district and local level as more positions are filled with less experienced or unsuitable staff. Additional districts have been administratively created from 56 in the FY 2000/01, to 80 in 2005/06 FY, to 87 in the 2008/09 FY, to 112 currently. When a new district is formed out of an existing one, staff in the district water office are divided to take care of the resultant district water offices whilst the process to complete the full staff establishment is ongoing. Even before the split, districts have staffing problems and frequently use funds from the DWSSCG to contract temporary staff, or to co-opt district staff such as community mobilisers at the district or sub-county level to carry out sector work. When the district is split into 2–4 others, many positions in the resultant water offices remain unfilled. There are two impacts of this. First; a significant proportion of the DWSSCG is spent on set up and equipping new water offices, including purchase of vehicles, computers, desks , and in many cases building offices, etc. Secondly, staff in new district is spread too thin and are at least initially frequently unable to comply with Ministry of Water and Environment planning, monitoring and reporting requirements. There is clear evidence in the sector of a net transfer of budget allocation from service delivery to public administration to reflect the increased layer of government

<b>5</b>	<b>Ineffective control over payroll</b>
	Payroll remains a risky area due to ineffectual controls. The Auditor General has noted that “a review of the personnel records and payroll revealed that some members of staff who had left the Ministry (MWE) due to abscondment/resignation and death remained on the payroll.”



<b>6</b>	<b>Lack of clean audits and Inadequate follow up action of audit recommendations</b>
	Both MWE and NSWC have failed to obtain unqualified audit opinions in the last two years and audit findings are repeated from year to year with little remedial action apparently being taken, which means that measures to reduce fiduciary risk are unlikely to be implemented.

<b>7</b>	<b>Rising per capita investment cost of WATSAN projects</b>
	Studies have shown that the Per Capita Investment Cost (PCIC) of WATSAN projects has been rising due to greater proportions of expenditure on monitoring, supervision and other management activities, partly attributable to corruption and misuse of public funds.

<b>8</b>	<b>Poor Technical Quality</b>
	There is fiduciary risk associated with poor technical quality: Because of poorly constructed facilities, services are provided for a very short time before facilities breakdown. So a system that should normally last 15 years breaks down within the first 5 years of operation. This results in expenditure on maintenance being factored in quite early on, potentially raising the tariff or encroaching on any investment budget. In many cases there is considerable downtime of the system and even complete breakdown before rehabilitation or repair. The problem is compounded by a lack of maintenance and replacement investment budget.

**Assessment of the risk of corruption**

**The overall level of corruption risk is rated as HIGH. Although a satisfactory framework for fighting corruption is now in place, the commitment of the government to actively pursue an anti-corruption agenda is missing. Enforcement remains weak and selective.**

4.2 The FRA requires an analysis of the risk of corruption, not just in relation to funds passing through the PFM systems, but also in relation to the wider political economy. This section provides this analysis by considering the wider governance context in Uganda and then assessing the extent to which this impacts on corruption, defined as the use of public office for private gain. In so doing it follows the framework provided by DFID in its How to Note of December 2009.

## Governance and accountability in the sector

4.3 A number of assessments and studies have identified issues related to governance and accountability issues within the WATSAN sector. Structures have been developed in an attempt to address these and improve overall governance. In this section the findings of several key studies are identified and explored and structures to improve governance and accountability are outlined.

4.4 A Fiduciary Risk Assessment for Water and Sanitation was commissioned by the MWE in 2007 with the objective of identifying and documenting the risks faced at both central and district level. It was intended to inform the design of the Joint Water and Sanitation Sector Program Support instrument. The assessments key findings were as follows:

- a) Corruption and inefficiencies in procurement processes: were identified as key factors in cost escalation. Corruption included examples of where managers submitted names of their preferred bidders with bribes built into bills of quantities by the bidder to ensure that they won the contract or tender. It was also found that the Procurement and Disposals Unit relied on user departments for information with adverse implications for the independence of the Unit.
- b) Contract price variation: a number of examples were found where inaccurate bills of quantities had been prepared, in some cases exceeding acceptable variations. The report concluded that either there was intentional collusion to increase contract costs or that personnel lacked the skills and knowledge to make proper judgments on the estimates. It was also found that project managers had poor recognition of and weak adherence to procurement regulations and procedures, and that there was no system of sanction for those who breached regulations. The study did however note that there was work underway to address these issues.
- c) Fiduciary risks in NWSC and Local Governments: The assessment identified a number of specific risks in NWSC and Local Governments. These included; (a) billing systems that were sometimes manipulated or otherwise tampered with, (b) lack of adherence to procurement processes, (c) management of central and other stores, (d) collusion in the award of tenders and contracts – with the repeated selection of a few favoured contractors.

## Value for money, integrity and tracking studies

4.5 A number of audits and tracking studies carried out over the last few years have suggested that the sector needed to improve its performance in a number of areas related to value for money and cost effectiveness. Key studies and their main findings are summarized below.

### Tracking study for the Water and Sanitation Sector Cost variation

4.6 In 2008 the Ministry of Water and Environment commissioned this study which was carried out by a team of independent consultants. Its specific objective was to try and ascertain the reasons why reported per capita investments were increasing. The study identified a number of potential factors that were thought to be contributing to this.

- a) Expenditure abuse by district officials: Reviews of payment documents revealed that allocations intended for implementation monitoring were regularly abused by district officials. It also found that the fuel logging system was not working effectively.
- b) Procurement and contract management: The findings suggested a number of abuses were occurring related to the issuance of lump sum contracts and that in some districts the district engineer was given sole discretion in setting the contract price. This practice was thought to be leading to connivance with the contractors. It was also found that many contracts had no stipulated contract periods.
- c) Poor record keeping: It was found that record keeping at district level was very poor and that in some cases records were missing. This made the tracking and audit of specific projects very difficult.

### Baseline survey in integrity in WSS

4.7 MWE in partnership with WSP-Uganda and WIN commissioned this study in 2009. Its objective was to help inform the planned update of the anti-corruption and good governance action plan formulated to improve transparency and accountability in the sector. The study identified a number of critical integrity areas that needed to be addressed. These included:

- a) Human resource and internal management issues: It was found that whilst HR and internal management systems were generally handled well by NWSC and private operators, at district level there was considerable political interference in HR processes which was allowing corruption to thrive.
- b) Internal mechanisms for integrity promotion: The study suggested that the payment of bribes, in addition to fees, for public services was endemic including within the WSS. However it felt that the use of robust contracts for staff with built in codes of ethics and the existence of an Association of Private Water Operators offered an opportunity to address these issues. In rural areas the fact that local councils and water users committees meet very infrequently was identified as a constraint to build community participation and accountability.
- c) Access to water: The study found that in rural water supply most corruption occurred during the stages of procurement and contract management. Water users, it was noted, have very little insight into or control over these issues.

- d) Consumer satisfaction: It was suggested that in rural areas consumers lacked awareness that water provision was a right and that this limited their capacity to demand better service delivery. The study felt that communication flows and channels could be improved, particularly on issues related to financial releases and the costs of the development of water points, Related to this the authors felt that arrangements that enabled water consumers to provide feedback or make complaints should be promoted.
- e) Procurement and contract management: Political interference in procurement processes was identified as both a cause of corruption and a factor behind a lack of political will to fight it.

### **Risk/Opportunity mapping on integrity and accountability**

4.8 Alongside the baseline work a risk/opportunity mapping was undertaken. This developed a corruption risk map for the sector identifying overarching national issues and their status as well as sector specific issues and particular corruption risks in areas that included; (a) Sector Governance, (b) institutional governance, and (c) project/sector financing. A number of specific recommendations were made. These included:

- The need to establish an independent regulator
- Better enforcement of sector guidelines
- Improved procurement and project implementation within MWE
- The introduction of Integrity Pacts and Codes of Conduct
- Further procurement training at local government level
- Strengthening the capacity of civil society to enable it to more effectively hold the sector and LG to account
- Improved information to clients to encourage demand and responsiveness
- Strengthening of NSWC corporate governance structures
- Introduction of more effective sanctions by development partners for non-compliance to anti-corruption undertakings

4.9 Both the Baseline Survey and Risk Mapping studies informed the update of Action Plan developed by the Good Governance Working Group. The Action Plan was formally approved during the Joint Sector Review in October 2009.

**Good Governance Working Group and Action Plan**

4.10 In November 2006 in an effort to improve governance in the sector and to address specific fiduciary risk issues the WSSG approved the formation of a Good Governance sub sector Working Group (GG WG). The GG WG is chaired by the MWE and includes representatives from other Government ministries and agencies (e.g. DEI, PPDA, and MFPED) as well as non-governmental partners and private sector members.

4.11 The GG WG developed an Action Plan to steer its work and this was recently updated based on the results of two water integrity studies that were organized by MWE and supported by the WSP and the Water Integrity Network (WIN). The current action plan covers the period 2009-2012. The objectives and key elements of the plan are highlighted in Table 5 below.

**Table 7: Good Governance Action Plan**

	Key elements of updated work plan
Sector performance and governance oversight strengthened	<ul style="list-style-type: none"> <li>• Increased political will and commitment to reform processes</li> <li>• Link water sector with anti-corruption institutions, policies/laws</li> <li>• Enforce sector guidelines</li> <li>• Finalize a framework for regulation, set up an independent regulator for the urban sub sector</li> </ul>
Corporate governance of urban and small town water service providers enhanced	<ul style="list-style-type: none"> <li>• Enhance corporate governance</li> <li>• Increase transparency in selection and management of private operators</li> <li>• Enhanced stakeholder involvement</li> </ul>
Rural water supply guidelines enforced	<ul style="list-style-type: none"> <li>• Improve record keeping at District level</li> <li>• Strengthen certification of rural water service processes</li> <li>• Improve planning and management of rural water supplies</li> </ul>
Procurement and contract management in the sector strengthened	<ul style="list-style-type: none"> <li>• Improve procurement processes and project implementation within MWE</li> <li>• Implement integrity pacts and codes of conduct in public procurement</li> <li>• Build capacity in procurement at local government level</li> <li>• Review of prequalification and evaluation procedures with emphasis on selection of private operators</li> <li>• Design procedures and set benchmarks for honouring invoices</li> </ul>
Water sector held to account	<ul style="list-style-type: none"> <li>• Ensure that CSOs capacity is built to have a respected position and their voice taken seriously by all stakeholders</li> <li>• Implementing NGOs become transparent and accountable using quality assurance in operations</li> <li>• Local government and CSOs have access to reliable information on flow of funds</li> </ul>

	Key elements of updated work plan
	<ul style="list-style-type: none"> <li>• Adequate and timely administrative actions and follow up against corrupt civil servants</li> <li>• Increase constructive involvement by the media</li> </ul>

*Source: DWD, FRA Consultations*

**Recurrence of issues**

4.12 Development partners and civil society have seen both the formation of the GG WG and the update of the Action Plan as a positive development in terms of the identification and discussion of issues and the formulation practical plans to systematically address them. However some have noted that implementation remains a major challenge. Studies reveal the same recurring governance and accountability issues within the sector. In the context of this FRA, it is also worth noting that at the sector level there is little knowledge and interaction with the wider FINMAP programme.

## 5 Credible Programme to Improve

5.1 Across the water and sanitation sector, there is broad recognition of factors that have recently emerged that necessitated the review and re-design of sector strategies. These include: a) rapid national population growth, b) population movements especially across parts of the north, c) the large additional number of districts and lower level administrative units recently created, d) the redefinition of the National Water and Sewerage service areas in relation to the administrative boundaries of urban centres served, e) the increased concern over climate variability, f) the impact of water resources management on the national economy, g) the increased importance of water for production in agriculture and h) the need for effective catchment-based water resources management

5.2 These issues pose new challenges to the sector. A review of the National Sector Framework among other issues pointed out that although sector reforms were well formulated, were innovative and recorded a number of important successes overtime, in practice there were a number of gaps that undermine their current value. A major concern across the sector is the alarmingly decreasing share of the national budget allocated to the water and sanitation. Despite the growing demand and unmet water and sanitation needs, funding to the sector as a proportion of the national budget has reduced from 4.9% in 2004/05 to just 1.8% in 2008/09.

5.3 The GoU in 2007 led a process agreed with Development Partners to further improve sector efficiency and effectiveness, especially in relation to sector coordination and resource provision and in terms of reducing fiduciary risk from duplication and waste. GoU argued that by institutionalizing approaches within existing government frameworks, coordination could be strengthened further and benefits from investments in terms of impact on poverty reduction would be more visible and sustainable. This process resulted in the design of a shared sector programme—the Joint Water Supply and Sanitation Sector Programme Support and the Strategic Investment Plan.

### The Joint Water Supply and Sanitation Programme Support 2008-2012

5.4 The credibility of the JWSSPS is assessed using HTN09 criteria of<sup>12</sup>:

**Be government led: enabling full political ownership and leading to effective harmonization of donor intervention.(HTN09)**

5.5 The objective of the Joint Water Supply and Sanitation Sector Programme Support (JWSSPS) program is to:

*“Support the water and sanitation sector to improve its fiscal and physical effectiveness so as to efficiently achieve its targets and contribute to poverty eradication and better health for Ugandans”*

5.6 In this framework, support from different donors has been aggregated and earmarked for different component activities within the sector. Resources are being programmed through

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<sup>12</sup> HTN09 provides guidance on the use of 7 criteria to assess the credibility of a programme to improve. This was done in assessing FINMAP in the national FRA. In this section only 3 of these criteria are used because they best highlight the strengths and weaknesses of the programmes.

government's financial architecture for Rural Water Supply and Sanitation. Expenditure for Urban Water Supply and Sanitation was initially through the JPF mechanism, pending the establishment of Water Supply Development Funds (WSDF) that would allow for more efficient execution of multiple year investments projects within set sector ceilings. Water Resources Management (WRM) programmes were provisionally resourced through the Joint Partnership Fund but this is now set for review with the view of channelling resources for WRM through Sector Budget Support. Sanitation promotion that has arguably long been neglected compared to water supply will also receive focused support. The arrangements to support sanitation more effectively through a dedicated grant to the districts have now been developed, but are not yet operational.

5.7 The JWSSPS reform objectives are appropriate in terms of the sector efforts towards more coordinated support to the water and sanitation development, and increased efficiency and impact of programmes in light of an increasingly constrained resourcing environment. However, the JWSSPS does not explicitly address the main fiduciary risks that the sector faces. In addition, there is evidence of continued and in some cases increasing allocation of resources through funding mechanisms, which are transitional in nature, but offer significant safeguards to fiduciary risks. This in effect is a measure of inadequacy of the JWSSPS in terms of stakeholder perceptions of its impact on fiduciary risk and corruption.

5.8 The JWSSPS 2008-2012 reflects increasingly aligned and harmonized modalities of cooperation between government and DPs. It makes use of government systems as well as undertaking activities to strengthen them from within. Greater alignment to Government systems with the aim of improving them has encouraged increasing harmonization between DPs. The preparation of the JWSSPS was led by the Government and combines assistance from a number of donors willing to pool their resources together. These include: Austria, Denmark, European Union, Germany, Sweden, AfDB and the UK.

#### **Strategic Investment Plan for the Water and Sanitation sub-sector 2009-2015 (SSIP)**

**Be government led: enabling full political ownership and leading to effective harmonization of donor intervention.(HTN09)**

5.9 The current SSSIP was prepared in a consultative way with development partners and other stakeholders to support priorities identified in a more coordinated way. The SSIP sets out sector priorities and the respective investment requirements for achievement of water and sanitation targets. It is based on the NDP and links to the national planning framework. The SSIP is a result of comprehensive review and consolidation of the different sub-sector investment plans, and it is linked to a mapping tool (Sector Investment Model) that monitors progress at the national and sub-sector level.

#### **JWSSP and SSIP**

**Include specific programme indicators-with effective monitoring and evaluation against relevant targets and milestones (HTN09)**



5.10 The principal means of monitoring both JWSSPS and the SSIP is the Annual Sector Performance Report, which contains an annual assessment of 10 Golden Indicators, financial and physical information that identifies progress, trends and key issues. The Sector Performance Report is sourced from a number of regular GoU monitoring and reporting mechanisms, for example, annual and quarterly work plans, reports and budgets and from the Uganda Water and Sanitation Sector Non-Government Organisation Network (UWANET). In addition, the JWSSPS contains benchmarks and milestones that aim to (a) measure how well the JWSSPS is supporting the sector and (b) determine if the sector is performing in a way that can make best use of external assistance. Within the SSIP there are clearly established sector objectives, outputs and indicators against which progress is routinely monitored. The WSS sector is a recipient of joint budget support and is also monitored through the Joint Assessment Framework (JAF). These systems provide sufficient monitoring and reporting although in practice their consistency can be improved.

**Be relevant and sustainable; adapted to the specific country context, targeted to meet key fiduciary risk and avoiding over reliance on external technical assistance (HTN09)**

5.11 Both the JWSSPS and SIIP appear to be relevant and sustainable based on the extensive diagnostics and consultation that produced these documents as well as continuing donors support for their implementation. Essentially the JWSSPS is concerned with donor harmonization behind government leadership and improved implementation of policies, strategies, plans and systems. The SSIP shares a similar objective in that it essentially aims to provide a reference document for mobilization of increased sector funding to guide all future investments in the sector. Both the JWSSPS and the SSIP are not aimed specifically at fiduciary risk.

### **Conclusion**

5.12 The JWSSPS and SIIP appear to be relevant and sustainable and government led supported by harmonized development partners funding arrangements. Neither is targeted at reducing fiduciary risk because their main objectives are to improve ownership and coordination and provide reference for mobilization of funding for the sector. The annual sector performance report provide a good mechanism for monitoring and reporting on progress of financial and physical implementation, but the plethora of monitoring and reporting systems that exist lack consistency.

## 6 Assessment of the Financial Impact of PFM Weaknesses

6.1 The potential financial impact of weaknesses in the PFM system in the WSS sector has been estimated by reference to DFID guidance (paragraphs 51 -54 and Annex 17 of the How to Note). The analysis covers those PFM weaknesses for which there is a specific related flow of funds and focused on:

- understanding the likelihood and impact of risks – this was a major factor in identifying those PFM weaknesses that are considered to be key fiduciary risks (set out in Section 4);
- identifying the ‘flow of funds’ through high risk PFM systems;
- quantifying the potential financial impact of the risks identified.

6.2 The results of this analysis, for key PFM systems, are set out in Table 6 below and are based on the format presented in Annex 17 to HTN09.. The estimated flow of funds and estimated financial impact relate to a fiscal year. The identification of additional safeguards, to manage these risks, is considered in Section 7.

**Table 8: Summary of estimated financial impact of PFM weaknesses**

PFM System	Nature of risk	Estimated flow of funds	Estimated financial impact	Basis of calculation
Allocation of spending at district level	Failure to comply with grant spending guidelines resulting in insufficient expenditure on basic WSS services	Total grant expenditure 2009/10 Ushs. 42.72 bn.	Ushs. 3.41bn.	<i>Excess spending on administration (8%)</i>
Payroll	Poor control can result in “ghost workers” or “double-dippers” on the payroll or wasteful expenditure through absenteeism	Estimated recurrent wage expenditure for 2009/10 Ushs. 3.73bn.	Ushs. 186.5m – 373m	<i>Assumed 5-10% absenteeism and “ghosts/” “double-dippers”</i>
Procurement	Poor value for money and irregular procurement	Estimated value of goods and services procured Ushs. 46bn. 2009/10	Ushs. 46bn.	<i>No percentage assumed; simply funds at risk</i>

## 7 Safeguards and Residual Risks

7.1 Having identified fiduciary risk, the usual approach is to incorporate short-term safeguards into the design of aid instruments and programmes. These safeguards should be focused on control over the use of resources by MDAS and local government. In designing short-term safeguards, care should be taken to avoid those that may have negative impact on national systems. The aim should be to continue to encourage the development of PFM best practise systems and in Uganda this means further developing technical capacity and consolidating and broadening the ongoing FINMAP implementation process.

7.2 This is already occurring with the ongoing harmonised DPs support behind a strengthened approach to PFM that through a process of broad consultation is supporting the current FINMAP and developing an improved sequencing and prioritisation of PFM reform measures to be implemented under the next phase of PFM reform. Ongoing support to the FINMAP meets the three DFID key criteria of: (a) country led PFM reform strategy and action plan; b) co-ordinated multi-year programme of work that supports and is aligned with the Government's PFM reform strategy and c) shared information pool.

7.3 As such any safeguards should not undermine ongoing support to the implementation of the FINMAP and the ongoing design of the next phase of PFM reform. The safeguards recommendations made here are designed to contribute to that objective. Well designed safeguards should contribute to managing fiduciary risk in both the short term, by reducing the risk of leakage and inefficiency in the use of funds, and in the long term, by strengthening PFM systems. Each safeguard should have a clear rationale, linked to a clearly defined risk. The safeguards proposed have been designed with these factors in mind and also the wider governance situation.

7.4 The residual risk is an assessment of that risk which is likely to remain, after the application of the safeguard and any reform programme. In most programmes and activities, there will normally be an element of residual risk that cannot be eliminated.

7.5 The fiduciary risks in Section 4 have been mapped to the planned reforms in order to identify residual risks i.e. those not covered by existing reform programmes or only addressed in the long-term. The fiduciary risks are addressed by FINMAP and other initiatives and therefore are not appropriate for short-term safeguards, as they would risk undermining the coherence of longer term reforms. However, it should be noted that timescales for these reforms to take place are medium or long term in many cases, so that fiduciary risks will remain for some time.

7.6 Most risks are caused, at least in part, by weak procurement capacity and insufficient procurement audits and enforcement. Neither of these risks will be substantially reduced in the short-term, although both are included in FINMAP reforms. While areas for short-term safeguards are limited, a separate DFID consultancy has recommended short term safeguards for procurement

focusing on developing civil society organisations capacity in getting organised to undertake a monitoring role.<sup>13</sup>

7.7 CSOs in the form of non-governmental organisation and community based organisations are already involved in the WSS sector and have over the years made significant contributions to increased access to water and better sanitation through the mobilisation and capacity building of communities to demand better, use and sustain efficient water and sanitation services, as well as investing in physical infrastructure. In FY2009/10 NGO/CBO in WSS investment amounted to Ushs. 18.5 billion.<sup>14</sup>

Risk description	Short term Safeguards	Residual Risk	Monitoring
<p>1. Non-compliance with procurement rules; weak procurement capacity; insufficient procurement audits and enforcement</p>	<p>Assistance to CSOs in getting organised to undertake this role, in terms of management, identifying suitable resources and addressing internal issues of ensuring confidentiality, no conflicts of interest etc.</p> <p>Training to all CSOs on procurement issues and what to monitor.</p> <p>Assistance in sensitising local communities on procurement monitoring issues and their constitutional rights – this would include such things as providing simplified guides to the procurement rules and related laws to district CSOs to enable them to educate local communities . Such sensitisation could also be conducted by CSOs for the private sector.</p> <p>Assistance to district CSOs in understanding how to prepare integrity pacts.</p> <p>Ongoing mentoring by external experts (particularly with sector specific skills) to undertake monitoring alongside civil society in the short term. This will be necessary both for capacity building purposes and to give credibility to CSOs in the short term.</p>	<p>M</p>	<p>Joint Assessment Framework</p> <p>Annual Sector Performance Report</p> <p>FINMAP Progress Reports</p> <p>PPDA procurement audits</p> <p>PPDA Compliance Checks</p> <p>CSOs reports</p>

<sup>13</sup> Department for International Development, *Additional Safeguards for Procurement*, email from Crown Agents consultants November 2010

<sup>14</sup> Ministry of Water and Environment, *Water Supply and Sanitation Sector Performance Report 2010*, p:xi

## 8 Monitoring Fiduciary Risk

8.1 Fiduciary risk can be monitored by using a small number of key performance indicators. The sector already has a well-developed set of 11 “Golden Indicators” which are focused principally on important service delivery issues including: access to water, access to sanitation; functionality of service points; Per Capita Investment Cost, which is affected by, or reflects a number of important PFM issues, including procurement; aggregate expenditure budget variance and expenditure composition variance; and the effectiveness of internal controls. The JAF also monitors and reports on many of the same key indicators and includes a focus on staffing and absenteeism.

8.2 Against this background, the intention is not to simply recommend additional indicators. Rather to suggest two key indicators that is not monitored at present. Given the increase in the number of new districts and the risk that less funds will be spent on service delivery due to the additional layer of government it would be useful to monitor and report on the percent of DWSDCG that is spent on new district facilities. In addition, late release disrupts spending plans with the risk of poor value for money. The Public Financial and Accountability Act provides for carry over of funds to the first quarter of the next financial year. It would be useful to monitor through the JAF the percentage of committed funds beyond the financial year to provide an indication of the extent of this carry over particularly as Auditor General Reports year on year identify failure to return unutilised balances to the Consolidated Fund as a major issue.

8.3 The following table summarises these recommendations.

**Table 9: Key Indicators for assessing risk and monitoring performance**

Issue	Fiduciary Risk	Proposed Indicator
Reporting by Districts	Service delivery impaired by late transfer of funds to Districts; poor VFM due to badly planned spending	% of Districts with % of committed funds beyond financial year
Use of DWSDCG	Increase in number of new districts resulting in insufficient spending on frontline services	% of grant spent on new facilities

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