The objective of the WASH budget issues paper is to provide a platform to help articulate focused dialogue to address issues in the WASH sector as part of the FY2019/20 Budget Framework Paper process. It does not attempt to identify a definitive list of 'what' key sector issues are – as this would undermine ownership and existing processes\(^1\) – but instead aims to use data and analysis as a basis for sector discussions and support the development of the FY2019/20 Budget Framework Paper (BFP), which is due mid-November 2018.

Sector Outcomes and Service Delivery Challenges

Uganda has achieved strong results in expanding safe water coverage, but performance in the functionality of water points and access to basic sanitation has been mixed. Expansion of safe water coverage in rural areas has climbed from 40 to 70 per cent in rural areas over the course of 20 years and 50 to 70 per cent in urban areas over 10 years (Figure 1). Maintaining the increased capital stock from the expansion of these water points has proved challenging, with functionality staying broadly constant in urban areas and registering slight improvements in rural areas over the past 10 years – with substantial volatility (Figure 2). Uganda’s sanitation record has not, however, kept pace with regional peers. The percentage of the population using at least basic sanitation services has risen only 4 per cent since 2000, whereas the East Africa Community (EAC) average increased by 10 percentage points and started at a higher base (Figure 3).

\(^1\) Examples include the 2016 joint sector review undertakings
Figure 3: Percentage of population using at least basic sanitation services

Source: Water Sector Performance Reports and WHO Global health Observatory Data Repository

Issue 1: No targeted policy or financing strategy for sanitation

The slow rate of improvement in sanitation outcomes over the past 15 years stems from reduced funding and the absence of a clear policy stance to tackle the issue effectively across sectors. The establishment of the District Water and Sanitation Conditional Grant (DWSCG) in 2000 had several components, one of which involved the implementation of sanitation-related activities. From the mid-2000s, resources in the sector have moved away from the use of this financing modality to more centralised capital-intensive projects, with the share of decentralised support more than halving as a share of total sector spending from 40 per cent in 2006 to 15 per cent in 2016 (Figure 4). The introduction of the sanitation grant for local governments (and supporting MOU between the Water, Health and Education sectors) was intended to earmark dedicated spending to sanitation activities but was not equitably distributed – and omitted the Education sector altogether (Figure 5).

Figure 4: Central vs. local spending (% of total sector spending)

Figure 5: Sanitation grant for local governments (Ush. billion)

Source: MTEFs and Annual Budget Performance Reports (various years)

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2 An implicit assumption behind the omission was that sanitation in schools is a discretionary (but often neglected) component of the Schools Facilitation Grant (SFG).
Issue 2: A shift in resource allocation from ‘soft’ to ‘hard’ investments

Donor involvement in the sector from the early 2000s ensured a balanced approach between soft and hard components of water infrastructure provision. The establishment of the golden indicators in the sector illustrate the importance placed on maintenance, functionality and water user committees as a sustainable means of improving safe water coverage. Core activities were embedded in the DWSCG – funded through sector budget support – to dedicate earmarked funds in these areas. Budget support donors, including DANIDA and Austria, placed heavy investments in regional technical centres to ensure that local governments could access technical expertise to maintain the expansion in capital stock, while simultaneously investing in local communities to take ownership and provide a small contribution for upkeep of the infrastructure.

**Figure 6:** Per capita spending on the urban operations and maintenance grant (Ush., 2015 prices)

![Figure 6: Per capita spending on the urban operations and maintenance grant (Ush., 2015 prices)](image)

**Figure 7:** Per capita spending on the District Water and Sanitation Grant (Ush., 2015 prices)

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**Figure 8:** Donor support to WASH (US$ millions)

![Figure 8: Donor support to WASH (US$ millions)](image)

**Figure 9:** Channels of project aid in the WASH sector (Disbursed US$ millions, 2016 prices)

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Sources: Annual Budget Performance reports, OECD Creditor Reporting System and Uganda Aid Management Platform accessed October 2018

There are signs that this is now changing and that softer components are being neglected. First, the focus on centralisation has meant that district grant allocations have not kept pace with inflation and population growth (Figures 6 and 7). Second, the traditional budget support donors have a far smaller presence in the sector, with the emphasis shifting to large infrastructure investment (dam construction and piped water schemes) delivered by multilaterals such as IDA, ADB and EIB (Figure 8). Many of the ‘softer’ activities are reliant on NGOs delivering these services, which is reflected in the spike in Figure 9. While the shift in focus towards ‘hard’ investment plays a critical role in enhancing economic growth – and features prominently in the NDP – the debate is whether the balance has been overly skewed in this direction.
Recommendations

1. **Financing for sanitation.** The Ministry of Water and Environment to develop a clear policy and financing stance on sanitation and articulate this in the FY2019/20 BFP. This should underline: (i) the existence of the MOU between the three leading sectors and (ii) the role that the sanitation grant/fund will play in the medium-term budget forecast.

2. **Investments in ‘soft’ infrastructure provision.** The Ministry of Water and Environment to provide direction on how ‘soft’ investments will be funded in the FY2019/20 BFP. A clear road map of interventions and funding sources (including off-budget channels, the use of tariffs and user fees for more efficient cost recovery) should be articulated.

3. **Shortfalls in operational funding for districts.** The Ministry of Water and Environment to develop a needs-based assessment (baseline) for the cost of maintaining existing water points vs. current MTEF projections and include this in the FY2019/20 BFP. The BFP discussions could provide a basis for initiatives in the Health and Education sectors to be rolled out to WASH.