

MAGARA &amp; WATSISI

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**39<sup>th</sup> WEDC International Conference, Kumasi, Ghana, 2016****ENSURING AVAILABILITY AND SUSTAINABLE MANAGEMENT  
OF WATER AND SANITATION FOR ALL****Tracking district budgeting and expenditure  
on rural water services in Uganda***P. Magara & M. Watsisi (Uganda)***BRIEFING PAPER 2361**

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*This paper presents findings from a budget and expenditure tracking study conducted by IRC International Water and Sanitation Centre on rural water services in Uganda. The purpose of the study was to get a better understanding of the financial flows, the district budget and expenditure on different rural water activities. Data was collected on allocations and expenditures of districts and NGOs on rural water supply activities over a period of 4 years. The study shows that there is a big imbalance in allocation of budgets and expenditure on different WASH cost categories with investment in new water supply systems taking up to 90% of the annual budgets while the recurrent costs; direct support and capital maintenance expenditure share only 10% or less. There is evidence that this imbalance hinders maintenance of rural water services and compromises the level of service received by users.*

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**Background and rationale for district budget and expenditure tracking**

Financing for the water and environment sector in Uganda has shown a declining trend over the years. The proportion of the budget allocation to the sector declined from 5.6% to 2.8% over the period 2008 - 2013 years (MWE 2013) although the allocation in absolute terms increased from 193 billion shillings (US\$ 64 million) to 308 billion shillings (US\$ 103 million). Despite the increasing volume of financing to the sector, there is concern among sector stakeholders that the financing is not in sync with the population growth estimated at 3% per annum and the National development targets for delivering safe water. Access to safe water in Uganda has stagnated at 64% of the population over the last five years (MWE 2013). Also financing does not seem to follow any specific cost needs for sustainable delivery of rural water services.

There is contention over the allocation of funds between investment in new water supply facilities and post construction support. Uganda has a formula for allocation of financial resources to District Local Governments under the District Water and Sanitation Conditional Grants (DWSCGs), where Local Governments are advised to allocate as follows:

- a) Rural Water Supply Facilities not less than 70%.
- b) Software activities for rural water supply and sanitation up to 8%.
- c) Rehabilitation of boreholes and Piped water schemes up to 13%.
- d) Construction of sanitation facilities up to 3%
- e) Supervision, monitoring and DWO operational costs up to 6%

Operation and Minor maintenance is a responsibility of water users and is covered through tariffs and contributions from water users.

This relatively low allocation of the financial resources towards recurrent costs to support maintenance of water supply facilities is thought to limit the ability to provide adequate levels of service. And indeed functionality of rural water supplies has been stagnant at about 84%. A study conducted by the IRC Triple-S initiative in eight districts in Uganda in 2013 showed that 88% of the households surveyed receive a sub standard level of service that doesn't meet the basic norms for at least one of the four water parameters

namely; quality, quantity, accessibility and reliability (Bey et al, 2014). The low level of performance is partly attributed to the resource constraints at district level and the imbalances in budget allocation towards investment in new water facilities versus post construction support activities.

### Objective of the Study

The objective of the study was to understand the financial flows, the district budget and expenditure on different rural water activities, and analyze changes in the size of budgets.

The findings of the study were meant to enable the District Water Office collect and analyze data to establish trends in financial flow in the rural water sector and whether there has been a shift in the amounts of funds allocated for the different cost categories; IRC intends to use the findings to influence the resource allocation process in the districts and generate evidence to inform the sector on balancing investment and recurrent costs. To advocate for adequate financing of all activities that affect service level in rural water.

### Conceptual framework and methodology

The costs of a water services consists of several components highlighted in Table 1 below;

Capital expenditure – hardware and software (CapEx)	Expenditure on fixed assets such as physical infrastructure (for initial construction or system extension), and the accompanying 'software' such as capacity-building.
Operating and minor maintenance expenditure (OpEx)	Expenditure on labour and materials needed for routine maintenance which is needed to keep systems running, but does not include major repairs.
Capital maintenance expenditure (CapManEx)	Renewal, replacement and rehabilitation costs which go beyond routine maintenance.
Expenditure on direct support (ExpDS)	Costs of ongoing support to users and local stakeholders, for example on local government or district support staff.
Expenditure on indirect support (ExpIDS)	Costs of higher-level support, such as government planning, policymaking and regulation.
Cost of capital (CoC)	Costs of servicing capital such as repayment of loans

### Methodology

The districts' budget tracking exercise was conducted in four main phases covering a period of about four months

- Phase 1: Preparatory activities including conducting a workshop to understand the methodology for data collection; identification of the NGOs to be contacted; allocation of roles to the team members.
- Phase 2: Data collection which involved actual collection of data from the District Water Office (DWO) and from the targeted NGOs in the two districts.
- Phase 3: Data entry and analysis which involved collation and aggregation of the different cost categories by each financial year and presenting these in appropriate tables and graphs to enhance visual appeal and for easy comparison purposes.
- Phase 4: Report writing and publishing which involved actual writing of an analytical report from the budget tracking exercise and sharing it with the relevant stakeholders.

### Data collection, processing and analysis

Financial data was collected on what was budgeted, disbursed and spent by the 2 districts of Lira and Kabarole over a period of four financial years (2009/2010 to 2012/2013) on rural water services. This included all data on CapEx, CapManEx and the direct support provided by the district. The same data was

also collected from NGOs implementing WASH activities in the districts. was directly entered into a specifically set-up data base which had been configured to automatically compute the estimated cost categories for each financial year as reflected in the districts budgets and plans. All collected expenditures were converted into Uganda Shillings, using the WASHCost share currency converted (downloadable under <http://www.ircwash.org/news/washcost-share-put-cost-data-advanced-reports>) and were corrected to accommodate inflation.

## Results and discussions

### Overall district budgets and expenditure

Table 2 shows the conditional grant budgets and expenditure for Kabarole and Lira districts for the financial year 2009/10 to 2012/13. The budget allocation and expenditure fluctuated a lot from one year to another. Expenditure for Kabarole increased from 81% in 2010 to 101% in 2012 while for Lira there was an increase from 51% to 88% in the same period. The gradual increase in expenditure for both Lira and Kabarole districts was attributed to deliberate efforts made by Technical Support Units to follow up and fast track the procurement process in the districts. However, there was a decline in the expenditure in the financial year 2012/13 from 101 to 47% in Kabarole and from 88 to 66% for Lira. According to MWE Sector performance report 2012, the delay of procurement of service providers is the main cause for under expenditure in the districts. Absorptive Capacity of the district water office is also another issue just like the staffing levels at the district water offices; Lira district had 2 out of the 5 staff as recommended by District Implementation Manual while Kabarole had 4 staff. This partly explains why expenditure rates of funds in Kabarole are higher than that of Lira.

FY	Kabarole					Lira				
	Budgeted (Million UGX)	Budget (000 US\$)	Spent (Million UGX)	Spent (000 US\$)	% Spent	Budgeted (Million UGX)	Budget (000 US\$)	Spent (Million UGX)	Spent (000 US\$)	% Spent
2009/10	605	202	489	163	81	810	270,000	411	137	51
2010/11	522	174	522	174	100	963	320,833	623	208	65
2011/12	394	131	397	132	101	560	186,767	493	164	88
2012/13	442	147	210	70	47	789	263,067	517	172	66

### District and NGO expenditure

In addition to the conditional grants for water and sanitation, a number of NGO's also invest in the Water and Sanitation activities in the districts. However, for the financial year 2009/10 no NGO data was available in Lira.

The average NGO contribution in Kabarole was 60% of the overall expenditure whereas in Lira the expenditure varied from 20% to 38% in 2012/13. At the National level, the overall contribution of NGOs to Water Supply and Sanitation (WSS) in 2012/13 was 12% of the budget. Though the contribution appears to be small, it is a significant part of the overall expenditure at district level.

### Break-down of district water and sanitation conditional grant budgets over cost categories

Analysis of the actual district budgets for Kabarole and Lira over the period 2009/10 – 2012/13 shows that capital expenditure is allocated up to 90% of the grant which is 20% more than the recommended allocation

whereas less than 5% of the grant is allocated towards direct support. The actual allocations for direct support are less than half of the recommended allocation. The Lira budgets had some anomalies, no allocation was made for Direct Support in two consecutive financial years (2010/11 and 2011/12) yet all the costs incurred by the DWO in monitoring and for post construction software activities after construction are categorized under direct support. The anomalies make it difficult to accurately interpret the budgets. However, it is clear that the vast majority – and probably much more than the recommended 70%, go into CapEx.

#### **Breakdown of district water and sanitation conditional grant expenditure over cost categories**

The Kabarole DWSCG expenditure was in line with the budget over the four financial years analyzed with no outstanding variations. However, there was a sharp increase in allocation of capital maintenance expenditure from 4% in 2009/10 to 11% in 2010/11 then increased further to 12% before declining to 7% in 2012/13. The allocation for direct support also doubled from 2% in 2011/12 to 5% in 2012/13.

The Lira DWSCG expenditure was consistent with the budget for two financial years 2011/12 and 2012/13. The financial years 2009/10 and 2010/11 showed variations mainly on capital maintenance expenditure that was twice the budgeted allocation and as a result capital expenditure declined by 4-8%. However, the overall analysis of the expenditure shows a relatively flat trend slight variations over the years.

#### **Breakdown of NGO expenditure by lifecycle categories**

The NGO expenditure was analyzed and categorized according to different life cycle cost categories; Capital expenditure (CapEX), Capital maintenance expenditure (Cap ManEx), and Direct Support (ExpDs). CapEx dropped from 80% in 2009/10 to 49% in 2012/13 while expenditure on direct support increased from 20% to 49%. Cap ManEx varied from 2 to 9% with no clear trend.

#### **Allocation of district staff time**

The salaries of Local Government staff are sent directly from Ministry of Public Service to the Local Governments. The conditional grants sent by Ministry of Water and Environment do not include staff salaries. For this study, the costs of stafftime were not included in the calculation of direct support costs to make it easy to compare actual DWSCG allocations, and expenditure, with the recommended allocation formula. The stafftime allocation was therefore analyzed separately.

The allocation of stafftime to different Water and Sanitation activities was analyzed based on the budgets for the financial year 2013/14. The following steps were followed;

- Clustering of the budgeted activities in the different lifecycle cost categories
- Estimating the number of days for implementing the different activities
- Calculation of the cost of stafftime for the different activities based on the monthly salaries

Though the allocation of the DWSCG on Direct Support expenditure is low (2-5%) as shown in the previous section, upto 30% of the staff time of the DWO is spent on direct support activities in both Lira and Kabarole while 40 – 50% of the time is spent on Capital expenditure activities. Stafftime on activities related to Capital maintenance expenditure remains low at less than 2%.

#### **Breakdown of overall district and NGO expenditure over cost categories**

Analysis of the overall expenditure for the Districts and NGOs over the cost categories showed that direct support costs ranged from 18% - 49% for Kabarole and 8% - 41% for Lira compared to the district conditional grant expenditure of 2-5%. This implies that NGOs allocate more resources to direct support.

The ideal per capita cost for direct support according to the WASHCOST is estimated at US\$ 1 per year (Burr and Fonseca, 2011). However, the average per capita costs for direct support in Kabarole and Lira were US\$ 0.3 and 0.2 per capita per year which is 5 times less than the ideal cost.

On the other hand the overall expenditure on capital maintenance in the districts remained low 2 – 12% even after computing the combined district and NGO expenditure. Capital maintenance expenditure was still below the 13% benchmark of the District conditional grant guidelines.

## Conclusion

This study found that there is a clear process and guidelines for planning and budgeting for Water activities with an explicit formula for allocation of resources for different cost categories; Capital Expenditure, Operation and maintenance, Capital maintenance expenditure and Direct Support. However, there was no strict adherence to the guidelines in the two districts. There is a big imbalance in allocation of budgets and expenditure on different cost categories with investment in new water supply systems taking up to 90% of the grant while the recurrent costs (direct support and Capital Maintenance Expenditure) share only 10% or less. Expenditure on direct support is the most marginalized at less than 5%. The actual allocations are less than half of the recommended allocation. Capital Maintenance Expenditure is also much lower than the recommended allocation.

NGOs make a big contribution to Water Supply and Sanitation. At National level they contribute 13% of sub sector budget whereas the contribution at district level varies from 20% - 70% of the overall expenditure. NGO expenditure is mainly allocated towards Capital investment and Direct Support. Expenditure on Capital Maintenance was still lower than the benchmark recommended by the conditional grant guidelines. This showed that neither the districts nor the NGOs are paying adequate attention to Capital maintenance.

The low district expenditure on direct support is partly countered by NGO interventions. The NGOs spend up to 40% of their resources on direct support and partly fill the gap. However, the combined expenditure of districts and NGOs is still less than the WASHCOST benchmark for direct support. The WASHCOST benchmark is 5 times more than the current level of spending.

## Recommendations

Allocation formula for the DWSCG should be turned into a policy guideline to ensure adherence to its provisions by the districts.

Developing capacity of district water offices in using lifecycle costing in planning and financing rural water service provision.

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