

**JOINT GOU/DONOR TECHNICAL REVIEW OF THE WATER AND SANITATION
SECTOR: LAKE VIEW REGENCY HOTEL MUKONO 24 – 25 MARCH 2004**

**SECTORAL CONCERNS ON INTEGRATED BUDGET CEILINGS
by Commissioner (WSD)**

1. Introduction

- Ministry of Finance, Planning and Economic Development has announced intention to introduce “hard” or integrated sector ceilings.
- Presently, ceilings have only been for GOU financing.
- W.e.f. 2004/05 donor financing will be part of the integrated pre-determined expenditure ceilings.
- No clear understanding by SWG as to what this means in practice.
- What are the implications to sector financing for the sector?
- Does increase in donor (project aid) automatically imply a reduction on the GOU part?
- Conversely, does a reduction or failure of donor funded project to materialize automatically mean that the shortfall will be met by GOU?
- What will be the mechanism of adjusting ceilings?

2. IMPLICATIONS FOR MTEF 2004/05 – 2006/07

- Examination of MTEF figures reveals that they exceed Ministry of Finance ceilings (Simon Kenny).
- Is Ministry of Finance going to withdraw part of GOU funding to match integrated ceiling?
- In the unlikely event of doing so, what will happen to specific donor/GOU commitments/agreements?
- Given the current position, does this imply that the Sector has no more space to take on additional projects in the immediate future?
- GOU releases for PAF are unpredictable e.g. end of 3rd quarter, only 51% was availed instead of 75%. How can the sector make rational plans as called for in the budget call circular?

LIBRARY IRC
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On close of RUWASA and WES, it had been agreed that part of the funding I the new Financing Agreements with DANIDA and SIDA would be provided as earmarked budget support i.e. additional to the RWSS. This has not happened.

3. **RE-ALLOCATION BETWEEN MTEF**

(Only 03/04 and 04/05 considered in view of many unknowns for 05/06 and 06/07).

- Allocation principles between sub-sectors (Rural, Small Towns, NWSC towns, WfP, WRMD, capacity building) are being developed.
- Major concern is the imbalance between Urban and Rural which is not in line with PEAP. Rural 37% of total resource envelope and 57% of GOU financing, 27% is decentralized.
- Second concern is Capacity Development vs Investment. Capacity Development takes more than 25% of which >15% is TA.
- Major constraint is individual project agreements between donors and GOU which limit use of funds to specific areas for example, leading to heavy funding for capacity development.
- Second, counterpart financing is also specified which includes tax. This does not favour re-allocation between sub-sectors and between Donor and GOU.

4. **FUNDING FOR PARASTATALS**

- To date SWG has assumed that investments in NWSC towns form part of the MTEF.
- MFPED has clarified that donor funding for parastatals does not form part of the sector expenditure framework as parastatals are set up to operate on a commercial basis.
- How about the GOU counterpart funding including tax for some of the donor projects?
- How about NWSC budget for towns without donor funding?
- How about the loans taken by Government on behalf of NWSC?

5. CONCLUSION

- Issues raised above need to be fully addressed before the 2004/05 budget is presented to Parliament in June.
- Need to wait for MFPED to submit LTEF which should be guided by sectoral Investment Plans (MDGs etc).
- The JSR of Sept 2004 should agree on sub-sector ceilings for 2005/06.
- Urgent need to allow for re-allocation within current investment envelope to address imbalance particularly between capacity building and investment.
- Need to improve accuracy of information in the MTBF particularly on donor financing.