



**AFRICAN DEVELOPMENT
BANK GROUP**

UGANDA: Water Supply and Sanitation Programme (WSSP)

PROGRAMME APPRAISAL REPORT

Date: June 2011

Appraisal Team	<p>Team Leader: Amel Hamza, Senior Gender Expert, OWAS.2 Co – Team Leader: Mecuria Assefaw, Principal Financial Analyst, OWAS.2 Team Members: Andrew Mbiro, Water and Sanitation Expert, UGFO Indira Campos, Development Economist (YP), OWAS.0 Egbert H. J. Schrotten, Water and Sanitation Consultant, OWAS.2 Frank Mvula, Procurement Specialist, KEFO Francis Kanyerere, Financial Management Specialist, KEFO Kelello Ntoampe, Principal Environmentalist, ONEC.3</p>
	<p>Sector Manager: Sering B. Jallow, OWAS.2 Sector Director: Sering B. Jallow, OIC - OWAS/AWF Regional Director: Gabriel Negatu, OREA</p>
Peer Reviewers	<p>Paul Dzimiri, Financial Analyst, OWAS.2 Rees Mwasambili, Water and Sanitation Engineer, OWAS.1 Noel Kulemeka, Chief Socio-Economist, ONEC.3 Shirley Chinien, Principal Economist, OSGE.1</p>

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Currency Equivalents

June 2011

1 UA	=	Ugandan Shillings (UGX)	3,800.90
1 USD	=	UGX	2,374.42
1 UA	=	USD	1.60077
1 UA	=	EURO	1.11280
1 Euro	=	UGX	3,415.6

FISCAL YEAR

1st July- 30th June

Weights and Measures

1 metric tonne	=	2204 Pounds (lbs)
1 kilogram (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

Acronyms and Abbreviations

10YISH	10 Years Improved Sanitation and Hygiene Strategy
ADB	African Development Bank
ADF	African Development Fund
AfDB	African Development Bank
DPs	Development Partners
DWD	Directorate of water Development
DWSDCG	District Water and Sanitation Development Conditional Grant
EA	Executing Agency
ENRSWG	Environmental and Natural Resources sub-sector Working Group
FM	Financial Management
GoU	Government of Uganda
ICB	International Competitive Bidding
IFMS	Integrated Financial Management System
IWRM	Integrated Water Resources Management
JFA	Joint Financing Agreement
JPF	Joint Partnership Fund
JSR	Joint Sector Review
JWSSPS	Joint Water Supply and Sanitation Programme Support
LDPG	Local Development Partners Group
LGFS	Large Gravity Flow Schemes
M&E	Monitoring & Evaluation
MDGs	Millennium Development Goals
MTS	Medium Term Strategy
MVSPS	Multi-village Solar Power Water Schemes
MWE	Ministry of Water and Environment
NCB	National Competitive Bidding
NDP	National Development Plan
NEMA	National Environmental Management Authority
NGOs	Non-Governmental Organizations
O&M	Operation & Maintenance
PDU	Procurement Disposal Unit
RBCSP	Result Based Country Strategy Paper
RGCs	Rural Growth Centres
RWSS	Rural Water Supply and Sanitation
RWSSI	Rural Water Supply and Sanitation Initiative
RWSSI - TF	Rural Water Supply and Sanitation Initiative Trust Fund
SBL	Sanitation Budget Line
SESA	Strategic Environmental And Social Assessment
SPS	Sector Programme Support
STWSS	Small Towns Water Supply and Sanitation
SWAp	Sector Wide Approach to Planning
UOs	Umbrella Organizations
USD	United States Dollars
WESWG	Water and Environment Sector Working Group
WSDF	Water and Sanitation Development Facility
WSDF - C	Water and Sanitation Development Facility – Central Region
WSP	Water Service Provider
WSPOs	Water and Sanitation Private Operators
WSSB	Water and Sanitation Service Board
WSSWG	Water and Sanitation sub-sector Working Group
WUAs	Water User Associations

Loan Information

Client's Information

BORROWER:	Republic of Uganda
EXECUTING AGENCY:	Ministry of Water and Environment P.O. Box 20026. Kampala - Uganda Tel: +256 414 505942 Email: mwe@mwe.go.ug

Financing plan

Source	Amount (UA M)	Instrument
ADF	40.00	Loan
RWSSI Trust Fund	3.59	Grant
Development Partners	58.3	Contribution
NGOs	28.60	Contribution
Beneficiaries	14.00	
Government of Uganda	71.05	
Additional Funds to be mobilised *	70.00	
Total Programme COST	285.53	

* Includes funds being mobilized by the Government and DPs, including the WB, EU

ADB's key financing information

	UA / US\$
Loan currency	
Interest type	N/A
Interest rate spread	N/A
Commitment fee	0.5% per annum
Other fees	0.75% per annum service charge
Tenor	600 Months
Grace period	120 Months
EIRR, NPV (base case)	(EIRR 20.2% and NPV UGX 41.53 billion)

Timeframe - Main Milestones (expected)

Concept Note approval	April 2011
Programme approval	October 2011
Effectiveness	January 2012
First Disbursement	April 2012
Completion	June 2016
Last repayment	December 2061

Programme Summary

1. Programme Overview: The national goal of Uganda's water supply and sanitation sector is to increase access to water supply and sanitation services from 65% and 70% respectively in 2010 to 100% by 2035. The objective of the proposed Water Supply and Sanitation Programme (WSSP) is to support the Government of Uganda's (GoU) efforts to achieve sustainable provision of safe water and hygienic sanitation, based on management responsibility and ownership by the users, to 77% of the population in rural areas and 90% of the small towns population by the year 2015.

1.1 The proposed WSSP is in line with the Joint Water Supply and Sanitation Programme Support (JWSSPS) established in 2007 by the GoU and the Development Partners (DPs). The WSSP will support three of the seven components of the JWSSPS: rural water supply and sanitation (RWSS), small town water supply and sanitation (STWSS) and sector programme support (SPS).

1.2 The estimated financing needed to achieve the sector target objectives by 2015 amounts to UA 285.53 million. The GoU's contribution is estimated at UA 71.1 million. The DPs are pooling about UA 58.30 million and the beneficiaries and Non-Governmental Organizations (NGOs) are also contributing UA 14.00 and 28.60 million respectively. The indicative ADB Group contribution to the Programme will be a loan of UA 40 million combined with a RWSSI Trust Fund grant of UA 3.59 million representing 15.3% of the total required financing.

1.3 The WSSP will be implemented over a period of four years (2012/2013-2015/2016) and will contribute to serving an additional 2.4 million people in rural areas and small towns across Uganda.

2. Needs Assessment: The Programme will bring general improvements to the quality of life of the population served, contribute towards poverty eradication and meeting the Millennium Development Goals (MDGs) related to water supply and sanitation. The support will also have tremendous benefits in terms of reduction in water-borne diseases, improved school retention (particularly for the girl child) and increased productive time due to water collection time saved, thereby contributing to the attainment of health, poverty reduction, gender and education related MDGs and the country's National Development Plan.

3. Bank's Added Value: The Bank has an extensive experience in the water and sanitation sector development in Uganda. Indeed, the lessons learnt from the recently completed Rural Water Supply and Sanitation Programme and Small Towns Water Supply and Sanitation Project have been taken into account in the development of the WSSP. By supporting the Programme, the Bank demonstrates its commitment to support GoU in addressing the water supply and sanitation challenges.

4. Knowledge Management: Knowledge management will be facilitated through information sharing in the joint annual sector reviews. As part of its support to the sector, the Bank will also undertake in-depth analytical work to draw out experience and knowledge gained from the implementation of the programme, e.g. a comprehensive analytical report on the Private Operators in the Small Towns. The knowledge gained will enrich Bank's continued learning process, and its support to the regional member countries.

Investment Programme Results Framework

Country and project name: Uganda – Water Supply and Sanitation Programme

Purpose of the Programme: To contribute to poverty eradication and better health for Ugandans.

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicators ¹	Baseline	Target		
IMPACT	Contribute to improved health and productivity and reduction of epidemic diseases through use of safe water and sanitation services	% of people with access to safe drinking water and sanitation services	65 % in 2010 (water) 70 % in 2010 (sanitation)	100 % in 2035 (water and sanitation)	Annual Water & Environment Health sector performance Report	Assumptions 1. Institutional WSS reforms continue and address underlying problems 2. A collaborative framework for effective sanitation management is established
		% of incidence of water borne diseases among children under five reduced	68% in 2005	30 % in 2015		
RESULTS CHAIN		Indicators	Baseline 2010	Target 2015/2016	MEANS OF VERIFICATION	
OUTCOMES	Improved access sustainable safe water supply and sanitation facilities.	% population with access to safe drinking water (CSI)	65% (rural) 67 % (small towns)	77% (rural) 90% (Small Towns)	Annual Water & Environment Performance Report	3. Improved and sustainable O&M 4. Transparent and effective Financial Management end procurement processes Risk 1. Failure to operationalize WSS sector reforms 2. Fragmented implementation of the sanitation management framework 3. Inefficient operation and maintenance of water supplies and sanitation facilities 4. Weak, not-disciplined corruption prone financial management and procurement processes
		% of people with access to improved sanitation (household) (CSI)	70 % (rural) 77% (small towns)	77% (rural) 88% (small towns)		
	Improved hygienic practices and awareness	% of people with access to (and using) hand washing facilities (households)	21%	50%	Performance annual audit report of rural water supply and sanitation by the office of the Auditor General	
		% of students with access (and using) hand washing facilities (Schools)	33%	50%		
	Improved management and functionality of water supply and sanitation services	Functionality rate of water supplies systems (%)	81% (rural) 88% (small towns)	90% (rural) 95% (small towns)	Technical and financial audits Signed minutes of Joint Sector Review Quarterly progress reports	
		% of water boards with women holding key positions (CSI)	85 % (rural) 77% (small towns)	95 %		
% of Water points with actively functioning water and sanitation committees (CSI)		70% (rural) 89% (small town)	95%			
Component (1) Rural Water Supply and Sanitation²						
OUTPUTS	1.1 Water points installed	No. of new water points installed	99,090	+ 1,200	JPF quarterly progress report Quarterly and annual component progress reporting	
	1.2 Solar Powered Systems motorized deep boreholes	No. of new Solar Powered Systems constructed and functioning	13	60		
	Gravity flow schemes constructed	No. of gravity flow schemes constructed	368	+ 3		
	1.3 Rain water harvesting systems constructed	No. of rain water harvesting systems constructed	15,123	+ 1200		
		No. of gender-segregated & disabled-friendly public and school sanitation facilities constructed	171	+ 176		
	1.4 Sanitation facilities constructed in public places	No. of artisan trained (30% women)	181	+ 1000		
		No. of people trained in hygiene promotion conducted (50 % women) (CSI)	128	+ 8000		
	1.5 Improved sanitation services and hygiene promotion	No. of Community Led Total Sanitation (CLTS) campaign conducted	7	+ 10		
		1.6 Water and Sanitation Committees formed / trained with at least one woman on the executive body	No. of members of water and sanitation committees formed & trained with at least one women on the executive body (CSI)	37,787		+ 2500
	Component (2): Small Towns Water Supply and Sanitation					
2.1 Water schemes completed / rehabilitated	No of water schemes completed	254	+ 147			
	No of water schemes rehabilitated	20	+ 36			

¹ Indicators are drawn from the GoU's Golden indicators established for the sector and include the Bank's Core Sector Indicators (CSI)

² Indicators, baseline and targets are for the overall National Programme

KEY ACTIVITIES	2.2 Back up support for O&M	No. of new connections	34,698	+ 17640	Mitigation measures 1. Continuous policy dialogue between the GoU and the DPs 2. Technical support for the implement of sanitation MoU 4. Involvement of water management committees to raise water tariffs to meet user charges 5. Strengthening and Financial Management procurement processes
		No. of Water Service Boards established (with one women at the executive level)	173	+ 147	
		No. of Water Authorities assisted to procure Private Water Operators	84	+ 147	
	2.3 Sanitation facilities constructed	No. of sewerage systems constructed	1	+ 8	
		No. of gender-segregated & disabled-friendly public sanitation facilities constructed including schools / institutions	175	+ 222	
		No. of demonstration household sanitation facilities constructed	702	+ 474	
		No. of artisans / masons trained (30% women)	662	+ 948	
	2.4 Improved sanitation services and hygiene promotion	No. of training on hygiene promotion conducted (50 % women)	276	+540	
		No. of Community Led Total Sanitation (CLTS) campaign conducted	0	+ 8	
		No. of mothers and caregivers attended hygiene promotion and hand washing campaigns	24%	+ 16%	
		No. of gender sensitive sanitation surveys conducted (baseline and post)	125	+ 302	
	Component (3) Sector Programme Support				
4.1 Institutional support to water authorities & water boards & water operators	No. of technical monitoring and support activities conducted	NA	+ 136		
4.2 Institutional support to MWE, WSDF-C and TSU	No. of functional TSUs	8	8		
	No. of procurement trainings organized	NA	+ 4		
4.3 Efficient & effective programme management system	No. of annual financial and technical audit reports conducted	NA	+ 4		
	No. of programme evaluation reports conducted	8	+ 2		
	Analytical report on the Private Operators in the Small Towns	0	1		
COMPONENTS				INPUTS³	
<p>Component (1) (i) implementation of rural water supply infrastructure, including Large Gravity Flow Schemes (LGFS) (ii) promotion and implementation of sanitation and hygiene development. Activities include software, construction and installation, baseline surveys, mobilization, community-based planning and monitoring, hygiene and sanitation education, Community Lead Total Sanitation (CLTS), gender awareness and, capacity building at user level for effective use and sustainable operation.</p> <p>Component (2) implementation of water supply and sanitation infrastructure for small towns and rural growth centres, awareness creation of improved water resources management and catchment protection, capacity building activities and regional sanitation promotional campaigns. Activities will include the construction of public sanitation facilities and household demonstration toilets, training of masons in construction and management, and beneficiaries' training in implementation and use of toilets. WSDF-C will also conduct regional sanitation campaigns in line with the Improved Sanitation and Hygiene (ISH) strategy, targeting the overall population of the Central Region.</p> <p>Component (3) capacity building activities for all relevant stakeholders including the MWE, WSDF-C, Water Authorities and Water Boards, and the Districts' Water Engineer and Health Officer and Water and Sanitation Committees. Capacity building for Local Government by the TSUs, supporting management structures for rural piped water supply systems, supporting private sector involved in water and sanitation, stakeholder mobilization and training during and after construction of the water supply and sanitation systems, and raising awareness of the different types of ecological sanitation. The proposed programme will also support annual technical and financial audits as well as support sensitization and training on procurement for districts' officers in line in line with PPDA capacity building strategy. The programme will treat water resources management as a cross-cutting issue and environmental and social issues in all districts. It will also provide support to the sector studies, including tracking and value for money studies.</p>				Component 1	UA 182.315 million (UA 20.000 million)
				Component 2	UA 79.041 million (UA 20.000 million)
				Component 3	UA 24.178 million (UA 3.590 million)
				Total Cost (Bank)	UA 285.533 million UA 43.590 million

³ Figures in (..) represents the Bank Contribution

REPORT AND RECOMMENDATION OF THE MANAGEMENT OF THE ADB GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN/GRANT TO UGANDA FOR THE WATER SUPPLY AND SANITATION PROGRAMME (WSSP)

Management hereby submits the following Report and Recommendation for a proposed ADF loan of UA 40 million and RWSSI-TF grant of Euro 4 million (equivalent to UA 3.59 million) to the Government of Uganda to finance the Water Supply and Sanitation Programme (WSSP). The proposed Bank group financing to the WSSP is the Bank's response to a formal request by the GoU dated 13 April 2011 to support its efforts aimed at achieving sustainable provision of safe water and hygienic sanitation facilities within easy reach to all Ugandans. This programme is also a continuation of Bank's support to the sector, and was prepared in March 2011 and appraised in May 2011.

I. STRATEGIC THRUST & RATIONAL

1.1. Programme Linkages with Country Strategy and Objectives

1.1.1. The National Development Plan (NDP) (2010-2015) is GoU's key framework for ensuring poverty eradication and financial investment in infrastructure, replacing the second Poverty Eradication Action Plan (PEAP) of 2004. The core priorities of the NDP are: (i) agricultural growth; (ii) industrialization; (iii) infrastructure; (iv) human resource development; and (v) private sector development. The NDP identifies the provision of adequate water supply and improved sanitation as one of the key priority areas for promoting economic growth and reducing poverty.

1.1.2. In conformity with the thrust of the NDP, the Bank's Results Based Country Strategy Paper (RBCSP) for Uganda for 2011-2015 focuses on two pillars: (i) infrastructure development and (ii) improving capacity and skills development for poverty reduction. Under the first pillar, the Bank proposes to contribute to the development and rehabilitation of critical economic and social infrastructure, including water supply and sanitation. To this end, this programme is geared towards improving access to water and sanitation, and is thus anchored to the first pillar of the RBCSP.

1.1.3. The proposed Programme is also in line with the Bank Group's Vision and the Bank's Medium Term Strategy (MTS) 2008-2012. It also conforms to the Bank's Integrated Water Resources Management (IWRM) Policy and Rural Water Supply and Sanitation Initiative (RWSSI), whose aim is to ensure access to safe drinking water supply and sanitation services in rural Africa of 80%, is reached by 2015.

1.2. The Sector National Development Programme

1.2.1. The GoU has made substantial reforms and investments to address the challenges in the water and sanitation services. In collaboration with the DPs, the GoU embarked since 1998 on a series of sector reforms which involved participatory consultations of all stakeholders and comprehensive assessments of the sector and sub-sectors. The key recommendations that emerged from these assessments included the need for a more decentralized delivery of services, private-sector participation, and a programmatic, sector-wide approach. The GoU responded to the recommendations by establishing a policy and legal environment to promote and regulate the participation of the respective stakeholders.

The first step in the reform process involved the introduction in 1999 of National Water Policy (NWP) for the management and development of water resources. The NWP promotes an integrated approach to the management of the water resources in ways that are sustainable and most beneficial to the country. In addition, it recognizes the economic value of water, promotes the participation of all stakeholders, including women and the poor, in all stages of water supply and sanitation, and confirms the right of all Ugandans to safe water. Based on sub-sector assessments, the GoU developed a comprehensive sector strategy and sector investment plan (SIP) covering the following areas: (i) Rural Water Supply and Sanitation, (ii) Urban Water Supply and Sanitation, (iii) Water for Production and (iv) Water Resources Management.

1.2.2. Following these developments, in 2002, a Water and Sanitation Sector Wide Approach to planning (SWAp) was adopted by both GoU and DPs. This approach has garnered the full participation of all stakeholders in the planning and implementation of water sector activities and has resulted in a move to water sector programmes through the regular government budget and basket funding. In order to further harmonize and align DPs assistance to the sector, the GoU and DPs established in 2007 the Joint Water Supply and Sanitation Programme Support (JWSSPS), with the objective of supporting the GoU's effort to improve the fiscal and physical effectiveness of the water and sanitation sector. DPs pool their resources together through the JWSSPS at varying levels of financial commitment and modalities. These include the Bank, Austria, Denmark, the European Union, Germany, Sweden, and Japan. The JWSSPS is financed through three financing modalities, namely, Sector Budget Support (SBS), in-kind technical assistance support, and Joint Partnership Fund (JPF), which is administered by the Ministry of water and Environment (MWE).

1.3. Rationale for Bank's Involvement

1.3.1. Uganda has recognized the cross-benefiting of access to safe drinking water and improved sanitation on other MDGs, and has in the last decade made substantial progress in terms of increasing coverage. Significant progress was achieved raising coverage to safe drinking water from 42% in 1991 to 65 % in 2010 and access to adequate sanitation from 51% in 2001 to 70% in 2010. In spite of this progress, there are still great disparities in the national coverage of potable water and improved sanitation across and within districts and region, affecting some of most marginalized and poor in the country.

1.3.2. Several rural sub counties located in areas classified as water stressed, have coverage rates of less than 50%. Likewise, the current coverage of water supply and sanitation in Uganda's Central Region remains low and is constrained by the rapid population growth and increased urbanization. Of the total of 208 small towns and Rural Growth Centres (RGCs) in the region, currently only 20 have piped water supply systems. In addition, a total of 53 town councils/town boards exist in the region, 23 of which do not have piped water supply systems. Limited funding has been highlighted as the major obstacle to improving service delivery.

1.3.3. In addition, according to Uganda's Ministry of Health (MOH), 75% of the country's disease burden is considered preventable through improved hygiene and sanitation, vaccination, good nutrition and other preventive measures. Furthermore, the availability of safe water, safe human excreta, solid and liquid waste disposal facilities, health care, waste management and good personal hygiene are also considered as major determinants of environmental health outcomes in Uganda. To support Uganda in achieving its MDGs

particularly those related to health and education, strategic interventions are thus required in the water and sanitation sector.

1.3.4. The rationale for the Bank’s involvement in the Water and Sanitation Sector (WSS) in Uganda is also built on the extensive experience the Bank has acquired in the sector in Uganda and in the Region. The Bank is among the largest DPs involved in the sector and the proposed WSSP will further strengthen and consolidate gains achieved from similar previous and on-going supports in the sector. The additional investment by the Bank Group comes at a critical time to assist the country meet its development goals and water and sanitation related MDGs.

1.4. Donors Coordination

1.4.1. Uganda’s donor coordination mechanism is composed at the high level by the Local Development Partner Group (LDGP), which brings on board all heads of development agencies and over 25 diverse macro and thematic sector working groups that meet regularly on a broad spectrum of national issues. The Water and Environment Sector Working Group (WESWG) is the formal decision-making body on water supply, sanitation and environment related issues. The working group meets at least twice a year and is supported by two sub sector working groups: (i) the Water and Sanitation Sub-Sector Working Group (WSSWG) and (ii) the Environment and Natural Resources Sub-Sector Working Group (ENRSWG). The sub sector working groups meet quarterly. Each Subsector working group has a supporting Development Partner Working Group which meets on monthly basis (WSSDPG). The Bank led the WSSDPG during 2008/9 and is scheduled to chair again from October 2011. As demonstrated in table 1 below, the Bank is among the most active donors in the sector. Appendix IV presents a breakdown of the total contributions of these DPs.

Table 1: WSS Donor Coordination

Players - Public Annual Expenditure (average)**			
Government	Donors		
UA 42 m	UA 28 m	<i>Germany</i>	24.41%
60%	40%	<i>AFDB</i>	24.06%
		<i>Danida</i>	17.00%
		<i>Sida</i>	14.17%
		<i>EU</i>	7.03%
		<i>Austria</i>	5.09%
		<i>UNICEF</i>	4.41%
		<i>Others</i>	3.83%
Level of Donor Coordination			
Existence of Thematic Working Groups		Y	
Existence of SWAPs or Integrated Sector Approaches		Y	
ADB's Involvement in donors coordination		Chair (Sept 2011- Sept 2012)	

II. PROGRAMME DESCRIPTION

2.1. Programme Goal

2.1.1. The national goal of Uganda's water supply and sanitation sector is to increase access to water supply and sanitation services from 65% and 70% respectively in 2010 to 100% by 2035. The objective of the proposed WSSP is to support the GoU's efforts to achieve sustainable provision of safe water and hygienic sanitation, based on management responsibility and ownership by the users, to 77% of the population in rural areas and 90% of the small towns' population by the year 2015.

2.2. Programme Components

2.2.1. The WSSP will support three out of seven components of the on-going JWSS activities described in Table 2 below. (Details are provided in *Annex B2*).

Table 2: WSSP Components

Nr.	Component name	Est. cost (UA)	Component description
1	Rural Water Supply and Sanitation (RWSS)	182.315	This component will provide support to: (i) the decentralized implementation of: rural water supply and sanitation facilities by Local Authorities (Districts) and (ii) implementation of Large Gravity Flow Schemes (LGFS) and Multi-villages Solar Powered Systems (MVSPS). The programme will apply a demand responsive approach and support a comprehensive package of activities including construction and installation infrastructure, software activities including: training of masons, community mobilization, planning and monitoring, hygiene and sanitation education, Community Lead Total Sanitation (CLTS), gender awareness, and capacity building at user level required for effective use and sustainable operation. Special attention will be given to the districts and sub-counties where water and sanitation coverage is below 50%. (Bank Contribution Loan and Grant UA 20.00 million,)
2	Small Towns Water Supply and Sanitation (STWSS)	79.041	This component will support the Water and Sanitation Development Facility – Central Region (WSDF-C) in the implementation of water supply and sanitation infrastructure, awareness creation of improved water resources management and source protection, capacity building activities, gender sensitive sanitation baseline surveys and regional sanitation promotional campaigns in selected small towns. It will also include construction of public sanitation facilities and household demonstration toilets, TV/radio promotional material, training of masons in construction and management, and beneficiaries' training in implementation and use of toilets. (Bank Contribution, Loan UA 20 million)
3	Sector Programme Support (SPS)	24.178	This component will support capacity building activities for all relevant stakeholders including the Ministry of Water and Environment (MWE), the 4 WSDFs and in particular WSDF-C, Local Government and Technical Support Units (TSUs), Water Authorities, Water Boards and private sector operators, and hand-pump mechanics. Activities will comprise of: support sensitization and training on procurement for districts' officers in line with PPDA, stakeholder mobilization and training during and after construction of the water supply & sanitation systems, raising community's awareness of the ecological sanitation, support to the annual technical and financial audits, implementation of each selected site Environmental and Social Management Plan (ESMP) and cross-cutting social issues including implementation of WSS Gender Plan of Action, and knowledge products including, tracking and value for money studies. (Bank Contribution Loan UA 3.59 million)
	Total	285.533	Total Bank Contribution UA 43.59 million

2.3. Technical Solutions Retained

2.3.1. Technical solutions retained are based on existing options for water sources (boreholes, gravity fed schemes, etc), transmission, storage, distribution and water kiosks that

have been adopted on similar schemes across Uganda. The provision of simple rural water supply is not feasible in some parts of the country because of the depth of the ground water, the large ground water level fluctuations in many wells and the occurrence of high level of fluorine and/or saline groundwater in a number of places. Therefore, a menu of technical options will be promoted including renewable energy (solar/wind) and extensive LGFS among other low maintenance solutions.

2.3.2. The sanitation component will focus on Community Led Total Sanitation (CLTS), Sanitation Marketing (SM), Hand Washing (HW) and Impact Evaluation (IE) complemented by provision of sanitation facilities in market, schools and health facilities. The CLTS focuses on the community-based approach like (stopping of open defecation; use of peer pressure; collective action to assist destitute people and support public facilities). The SM focuses on the household-centered change. The IE will conduct a gender baseline survey to estimate the causal impact of the CLTS/SM and closely monitor the outcome.

2.4. Programme Type

2.4.1. The proposed programme (WSSP) is not a stand-alone project; it is a programme which is part of the JWSSP under the SWAp framework. It will use the existing GoU and DPs agreed funding modalities of the sector, combining both the JPF and sector earmarked budget support. The assessments of the overall governance of the water and sanitation sector and the country's fiduciary and financial management environment concluded that country conditions are conducive for the use of national rules and regulations, hence justifying a programme approach instead of a stand alone project.

2.5. Programme Cost and Financing Arrangements

2.5.1. In order to be able to achieve the target of 77% coverage of water supply and sanitation services by the year 2015, the sector requires an estimated UGX 2517 billion (UA 662 million) investment, i.e. on average UGX 420 billion (UA 110 million) per annum. Table 3 below presents the financing gap per year.

Table 3: WSS Sector Financing Requirements to reach NDP targets by 2015 (mUGX)

Funding Needs	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
WSS Total Funding Needs	273,332	333,009	415,089	486,804	527,233	509,963
GoU and DPs Financing	195,400	216,980	234,700	322,920	366,560	366,560
Additional Funding required	77,932	116,029	180,389	163,884	160,673	143,403

Source: Strategic Investment Plan for Water and Sanitation Sub Sector (November 2010).

2.5.2. For the rural and small towns water supply and sanitation sub-sectors, approximately UGX 248 billion (UA 65 million) is required a year. Table 4, below provides a summary of sub-sector financing needs identified under the JWSSPS (detailed estimates are presented in *Annex B2*). These budgetary estimates are based on the set of technology choices available, number of population to be served and unit rates obtained from suppliers and contractors, as well as from experience of the on-going JWSSPS.

Table 4: JWSSPS sub-sector costs 2012/13 to 2015/16 (UA million)

	2012/3	2013/4	2014/5	2015/6	Total	%
RWSS	42,469	46,265	50,120	43,461	182,315	63.8
STWSS	18,204	20,021	21,880	18,935	79,041	27.7
SPS	5,622	6,758	6,095	5,703	24,178	8.5

	2012/3	2013/4	2014/5	2015/6	Total	%
Total financing required	66,295	73,044	78,095	68,099	285,533	100

Source: Strategic Investment Plan for Water and Sanitation Sub Sector (November 2010)

2.5.3. The cost of the programme will be financed by GoU and its DPs, including the Bank. Table 5 below presents the sources of funding for the programme for 2012/13 to 2015/16.

Table 5: Financing of Sub-Programme 2012/13 to 2015/16 (UA million)

	Amount	%
Communities	14.00	4.90
NGOs	28.60	10.00
Development Partners	58.30	20.40
ADF	43.59	15.30
GoU	71.04	24.90
Additional Funds to be mobilised ⁴	70.00	24.50
Total Financing required	285.53	100

Includes funds being mobilized by the Government and DPs including the WB and EU

Source: MWE, May 2011

2.5.4. The ADB group contribution to the sub-programme for the period 2012/13 to 2015/16 is UA 43.59 million, comprising of an ADF loan UA 40 million and a grant of Euro 4 million (equivalent to UA 3.59 million) from the RWSSI Trust Fund. The ADB Group financing contributes 15% of the total sub-programme costs. The mission discussed and agreed with the relevant Ministries on the above financing and the proposed conditions stated in section V of this document. Adequate resources are available under ADF XII country allocation.

2.5.5. The GoU is committed to mobilise additional funds in order to reach the MDGs of 77% access to clean drinking water and improved sanitation. With the current committed funding by the GoU and the DPs, Uganda will be able to achieve 74% access to clean drinking water and improved sanitation. The JWSSPS is an on-going programme revised periodically and its undertakings are followed closely by the GoU and the DPs including the Bank. There is an on-going effort by GoU and DPs to ensure that the 77% target is achieved by 2015/6. The breakdown of the proposed financing by sub-programme for the period 2012/13 to 2015/16 is presented in table 6 below:

Table 6: Cost estimates for the sub-programme activities 2012/13 to 2015/16 (UA Million)

Components	Total	ADF and RWSSI TF	ADF Group %
i) Rural Water Supply and Sanitation			
a) District Water and Sanitation Conditional Grant	152.32	12.00	8%
b) Large Gravity Flow Schemes	30.00	8.00	27%
ii) Small Towns/RGCs Water Supply & Sanitation	79.04	20.00	25%
iii) Sector Programme Support	24.18	3.59	15%
Total Programme cost	285.53	43.59	15%

Source: Strategic Investment Plan for Water and Sanitation Sub Sector (November 2010).

2.6. Programme's Target Area and Population

2.6.1. The programme's target is to contribute to meeting the water and sanitation related MDGs by 2015. This implies an increase in the access to safe drinking water and improved sanitation to an additional 2.4 million people in rural and small towns. The proposed

⁴ Negotiations are ongoing with the World bank and the European Union for the mobilization of further funding to the sector.

intervention along with other DP's contribution will contribute to the GoU's efforts in achieving these targets resulting in a significant reduction of water-borne diseases, improved school retention (particularly for the girls) and increased productivity due to time saved in water collection.

2.7. Participatory process for Programme identification, design and implementation

2.7.1. The Bank's identification and preparation missions visited the target programme regions and met with stakeholders, including regional authorities, council mayors and water management committees to assess the level of involvement of the potential beneficiaries. It was noted that the selection of sites and infrastructure is conducted in a participatory manner involving all stakeholders. There is an inbuilt component within the sector to ensure demand responsive, participatory, accountable and transparent practices. In addition, local districts, WSDF - C, Community Based Organizations, including Water Users Associations (WUAs) and Non-Governmental Organisations (NGO) are benefiting from the on-going capacity building programmes led by the GoU and the Joint partnership Fund (JPF).

2.8. Bank Group Experience, Lessons Reflected in Programme Design

2.8.1. The Bank is among the largest development partners supporting the water and sanitation sector in Uganda. It has recently supported the Rural Water and Sanitation Programme and Small Towns Water Supply and Sanitation Project, which were successfully completed in 2009. Best practices and lessons learned from these completed operations in the country include: a) the use of existing institutional arrangement comprising of technical staff from the districts and towns is instrumental in creating a sense of ownership and ensuring sustainability after project implementation; b) the promotion and mainstreaming of gender, environmental and social safeguards in the sector has a positive impact on the output and outcomes of the operation; c) the use of indigenous private operators to manage and operate the water supply and sanitation facilities is an effective way of improving service delivery.

2.8.2. These lessons have been incorporated in the design of the proposed operation through the realignment of the Bank's support to the WSS in Uganda away from project to a programme approach and a move to co-ordinated funding of water and sanitation provision. The Programme will also continue to promote indigenous Public Private Partnerships (PPP) in the management of the water supply and sanitation services in small towns and locally constituted water users committees with gender balanced representation in rural areas. The Programme will also contribute to the on-going efforts by the sector to mainstream environmental, social and gender issues through continuous capacity building. (*Annex B1*)

2.8.3. The introduction of the programme is fully in line with the current policy of the GOU whose aim is to achieve: (i) harmonized strategy and common approaches for a given sector at the national level, (ii) a participatory approach to planning and follow-up of activities, (iii) the improvement of cost-effectiveness and sustainability of services provided, and (iv) the improvement of monitoring, transparency and reporting. This approach will further strengthen and consolidate gains achieved from previous and active interventions in the sector, whilst reinforcing the sector from within.

2.9. Key performance Indicators

2.9.1. The main indicators defined for monitoring the programme's impact are the Golden Indicators developed by Uganda's water supply and sanitation sector. These indicators, which also address the Bank's Core Sector Indicators (CSI) include: access, functionality, sanitation, water quality, quantity of water, equity, gender (no. of women in water and sanitation committees / service boards), water borne diseases, schools retention rate among girls, and water resources management compliance. During the implementation of the programme, the monitoring/evaluation experts will pool all the data on the results of programme activities and the intermediate effects collected by the districts, Regional Directorates for Water Resources, water point management committees and councils. Additional monitoring data will be gathered from Joint Sector and Joint Technical Reviews as well as Joint Assessment Framework/Joint Budget Support Framework (JAF/JBSF) and Health Sector Performance Report. (*Please see AnnexCI*).

2.9.2. The Uganda Water Atlas completed in 2010 provides the baseline data on water supply, functionality, and distribution. . The WATSUP database is well established and is operational; a small town water supply database is set-up and operational (includes storage; processing; analysing; the system is comprehensive). The proposed programme will support the sector efforts to establish sanitation reference baseline. Moreover, the Environment and Social Safeguard Framework developed in June 2011 will be used to guide compliance in mainstreaming environment.

III. PROGRAMME FEASIBILITY

3.1 Economic performance

Table 7: Key Economic Figures

EIRR 20.2% and NPV UGX 41.53 billion (at 12% base case)

NB: detailed calculations are available in *Annex B7*

3.1.1 The economic analysis covers the water supply and sanitation activities in the small towns in central region. The proposed programme will generate positive impact, which will enhance the livelihood and well-being of the target population. The economic returns are measured in terms of the benefits which accrue to beneficiaries in the form of regular and adequate drinking water supply, access to sanitation services, time gained, a decline in water-borne diseases and malaria and a general improvement in living conditions. The project's economic rate of return, which reflects its benefits, stands at 20.2 %. The value is higher than the opportunity cost of capital of 12% and thus the programme is considered economically viable. This rate is calculated based on investment, replacement and operating costs and quantifiable project benefits represented by: incremental water and sanitation benefits of the programme, social and economic benefit of alternative uses of time previously used for fetching water by households over a long distance, incremental health benefits from improved water supply and sanitation services. All costs and benefits are considered net of duties and taxes. In addition, the economic life of the investment is estimated at 20 years.

3.2 Environmental and Social Impact

3.2.1 Environment: The programme is classified under Environmental Category 2. The Programme will comprise the construction of (i) rural water supplies systems that entail boreholes fitted with hand-pumps, rain water harvesting systems and piped gravity flow schemes, and (ii) small town water schemes that will involve implementation of different technologies as appropriate. Since the selection of towns, sites and technology to be used will be done as the programme progresses, specific locations cannot be identified at this early stage and therefore the MWE has developed a Strategic Environment and Social Framework (SESA). Within this framework, the MWE has developed a long term implementation plan for Environmental and Social issues with the approval of the National Environmental Management Authorities (NEMA) and in line with the Bank's Environmental and Social Assessment Procedures.

3.2.2 Key environmental impacts of the programme may be the depletion and contamination of aquifers if proper pumping tests are not conducted to understand behaviour and interconnection. This will be mitigated by ensuring that proper strategic assessment of water resources and related issues are conducted. Other negative impacts include temporary and short term dust emissions, noise, soil erosion, invasive alien vegetation during the construction phase. All these will be mitigated through the implementation of an Environment and Social Monitoring Plan (ESMP) in each of the sites. (*Annex B8*)

3.2.3 Climate Change: The Programme will generate climate change benefits by moving from traditional pumping systems to solar driven pumping units in RGCs hence reducing the carbon footprint. Furthermore the promotion of ecological sanitation environmental friendly latrines will result in waste being turned into energy. The programme will also focus on other climate change issues, such as rainwater harvesting. The SESA will help ensure that infrastructures are constructed outside of flood lines. Furthermore, the SESA will include groundwater modelling to ensure that boreholes extract water from aquifers that are resilient to severe drought conditions.

3.2.4 Gender: Women and men are important stakeholders in the WSS due to the different roles they play in the management and use of water and sanitation. However, women being the major collectors and users of water for domestic purposes are more burdened than men. They are also the main health care givers in the households in charge of the upbringing of children. The JWSSPS recognizes the crucial need to involve women in decision making in the sector and promotes their participation through capacity building. .

3.2.5 The 2nd Water and Sanitation Gender Strategy (WSGS) (2010 – 2015) and the Gender Plan of Action are the basis for mainstreaming gender and women's needs and the WSSP will support the on-going efforts of the sector to implement them. Particular attention will be given to strengthening women's decision making power by ensuring that the percentage of WUAs and Water and Sanitation Service Boards (WSSBs) with at least one woman holding a key managerial position increases from the current 85% and 77%, respectively to at 95% by end of 2015. Moreover, the programme will support training of the MWE, WSDF-C and TSUs staff in gender mainstreaming and collection of gender disaggregated data.

3.2.6 Social: The Programme will have direct impact on the wellbeing of communities, in particular women and children by allowing the latter to devote more time to productive activities while making it possible for the former to attend school. The programme aims to

increase the percentage of people with access to safe drinking water within 1.0 km from 65% to 77% by 2015.

3.2.7 Through the provision of easy access and safe drinking water, sanitation facilities and the promotion of CLTS campaigns, the programme is expected to increase the number of people practicing good hygiene in their daily activities. This will translate in an increase in the percentage of people accessing sanitation facilities from 70% in 2010 to 77% in 2015. The overall percentage of people accessing and using hand-washing facilities is also expected to increase from current 21% to 50% in 2015. Special focus will be given to mothers and caregivers, aiming to increase access and use these facilities from 24% in 2010 to 40 % by 2015. Moreover, the programme will support the construction of approximately 398 gender-segregated and disabled-friendly sanitation facilities in public places and schools. The number of pupils accessing and using hand-washing facilities in schools is also expected to rise from 33% in 2010 to 50% by 2015. Overall, the programme will contribute to reducing water borne diseases from 68% to 30% by 2015. This will have direct impact on the population's health, especially on children, who are the most vulnerable to water borne diseases.

3.2.8 In addition, job opportunities for local communities, especially artisans, will be created during the programme's implementation and subsequent operation and maintenance. Capacity building for WUAs, WSSBs, and Water and Sanitation Private Operators (WSPOs) in consultative programme management, community mobilization, gender sensitization, and programme back-up support will ensure equitable access and sustainability of the operations. The programme will also train about 1948 artisans of which 30% will be women on construction of sanitation slaps and econ-san.

3.2.9 The implementation of the programme will require involvement of contractors and labourers. Employing locals for unskilled jobs, e.g. digging trenches, land clearance, will minimise influx of people, as well as reduce risks of HIV/AIDS contamination and significant family disruptions. The JWSSPS has encompassed an HIV/AIDS strategy, which includes awareness activities and dissemination of information. The WSSP will support the health district focal officers and a health expert in WSDF-C responsible for rolling out of the strategy, particularly during the construction phase, when there is movement and concentration of labourers and contractors from different areas. (*Details in Annex B8*)

3.2.10 Involuntary resettlement: No involuntary resettlement is expected to take place as a result of the programme.

IV. IMPLEMENTATION

4.1 Implementation Arrangements

4.1.1 The Government of Uganda will be the borrower of the funds and recipient of the grant. The Executing Agency (EA) is the MWE, who will be responsible for the overall coordination of planning, implementation and monitoring of the programme. The implementation of the programme will be managed through existing national decision making structures, utilizing national planning, procurement, budgeting, accounting and reporting systems which will be strengthened.

4.1.2 The support to the decentralized Rural Water Supply and Sanitation activities will be

implemented by the Districts and will be financed through the district water and sanitation development conditional grant (DWSDCG) Funds will flow from ADB to the GOU consolidated account at the Bank of Uganda (BoU) and then directly to the relevant districts upon approval by the MWE of agreed workplans.

4.1.3 The remainder of the components of the programme: i) LGFS and MVSPS ii) STWSS schemes; and iii) SPS, will be implemented by the MWE, Directorate of Water Development (DWD) using the JPF as funding modality. Funds will be channelled through the JPF's foreign currency account at the BoU. The JPF secretariat and WSDF-C will be responsible for detailed budgeting and consolidating the accounting and reporting. The implementation of the ESMP will be the responsibility of the environmental and social experts at districts level and sanitation and environmental health expert at the WSDF-C and it will done in accordance with NEMA's Policies and Guidelines (*Details are provided in annex B3*).

Table 8: WSSP Implementation and Financing Arrangements

Component Area	Implementing Agency	Financial Modality
Rural Water and Sanitation		
a. Support to decentralized implementation of RWSS	a. Districts	a. Earmarked sector budget support – via District Water and Sanitation Development Conditional Grants
b. Support to Large Gravity Flow Schemes (LGFS) and solar powered system	b. MWE/DWD	b. Funds transferred to JPF earmarked for LGFSs and MVSPSs
Small Towns Water and Sanitation		
Support to small towns' water supply and sanitation schemes	MWE/WSDF Central	Funds transferred to JPF earmarked to Central Region
Sector Programme Support		
Sector Programme Support	MWE/ JPF secretariat	Funds transferred to JPF earmarked for Sector Programme Support

4.2 Disbursement Arrangements:

4.2.1 The support to the DWSDCG (UA 12 million) will be released in four annual tranches of indicative UA 3 million. The first disbursement of UA 3 million will be made on fulfilment of conditions of the Loan and Grant Agreement. The actual amounts and releases of the subsequent tranches will be based on the recommendations of the sector performance report and the agreed minutes of the Joint Sector Review for the financial year ending 30 June 2013, and the subsequent reports and minutes until the financial year ending 30 June 2016.

4.2.2 The support to the JPF (UA 31.59 million) will be disbursed in four tranches of indicative UA 8 million for the first three years and 7.59 million for the fourth year. The first disbursement of UA 8 million will be made on fulfilment of conditions of the Loan and Grant Agreement. The actual amounts and releases of the subsequent tranches will be based on the approval by the Water and Sanitation Sub-sector Working Group of the annual progress reports for the financial year ending 30 June 2013, the annual work plan for the financial year 2013-2014 and the subsequent reports and work plans until the financial year ending 30 June 2016. (*Annex B4 for further details*)

4.3 Governance:

4.3.1 Uganda has conducted numerous public financial management (PFM) diagnoses in close collaboration with its DPs. These include: the 2004 Country Integrated Fiduciary Assessment (CIFA), the 2008 PEFA self-assessment (PEFA Lite) conducted by the Office of the Auditor General of Uganda, and the 2008 PEFA. Overall, the different diagnoses depict a progressive enhancement of Uganda's financial management and accountability systems over the years. The fiduciary risks associated with poor budget formulation and budget preparation processes have been reduced. Commendable strides have been made towards improving the legal and regulatory environment and implementing the Integrated Financial Management System (IFMS) across the whole of Central Government and few Local Governments. The areas of external scrutiny and auditing have also seen improvements and more useful and up to date information is now provided in the Report and Opinion of the Auditor General to Parliament on the Public Accounts of the Republic of Uganda. Since the last assessments, the Supreme Audit Institution has also become more independent; including separation from the main Civil Service and now prepares budgets independently, which are then approved by parliament.

4.3.2 In spite of the progress in the reforms, fiduciary risks continue to constrain policy effectiveness in Uganda, particularly in terms of the limited FM capacity in some districts, due in part to the GoU's rapid decentralization policy. The local governments, in particular new districts, are challenged with increasing staff vacancy rate. While the Ministry of Local Government has stepped up recruitment and capacity building, staff retention is low because once trained, staff tend to move to central government or private sector. Moreover, follow up on audit recommendations (both internal and external) remains weak and the government still has some way to go before it can implement a realistic multi-year programmatic budgeting.

4.3.3 Since 2007, The Government of Uganda has been implementing a comprehensive programme of PFM reforms, the Financial Management and Accountability programme

(FINMAP). The FINMAP covers the entire financial management process from planning and budgeting to oversight by Parliament. Actions to address institutional capacity challenge are also being implemented, which is leading to a continuous improvement of the fiduciary framework. The Public Expenditure Management Committee (PEMCOM) has been set up as the forum for dialogue on PFM issues between Government and Development Partners on all PFM issues. On the side of the donors, a Public Financial Management Donor Group (PFMDG) has been set up. The WSSP will continue to support the GoU in its effort to reduce fiduciary risks and further actions will be undertaken to mitigate the risk specific to the programme's implementation.

4.4 Procurement:

4.4.1 Existing procurement arrangements under both funding modalities are in accordance with national procurement procedures as prescribed under the Public Procurement and Disposal of Public Assets Act (2003), its accompanying regulations as well as Local Government Regulations (2006) and bidding documents. In order to harmonize implementation arrangements, procurement of goods and works under ADF funding will follow the same procedures for all activities under National Competitive Bidding (NCB) and it is envisaged that most activities will be within NCB procedures. Any procurement of goods and works for STWSS and LGFS under International Competitive Bidding Procedures and acquisition of consulting services will be undertaken in accordance with the Bank's Rules and Procedures.

4.4.2 The Bank has assessed the national procurement procedures and bidding documents for procurement of Goods and Works under NCB and noted that they are generally consistent with the Bank's Rules and Procedures, details are presented in *Annex B5*. However, there are some deviations and omissions in the Public Procurement & Disposal of Public Assets (PPDA) Act, regulations and standard bidding documents, which will not be applicable under ADF financing which are outlined in the loan and grant agreements.

4.4.3 Procurement activities by districts for the Rural Water Supply and Sanitation being a sector budget support, and the Sector Program Support (SPS) will be done in accordance with the national procurement procedures without taking into consideration the above mentioned deviations.

4.4.4 Procurement activities under the Programme will be carried out by the districts for the rural water supply and sanitation (support to decentralised implementation of RWSS) and MWE for the rest of the programme activities. Activities under the programme are demand driven, as such the scope of procurement will be determined on an annual basis based on work plans and procurement plans subject to the Bank's prior review. The plans shall be detailed enough to indicate, description of the activity, indicative budget, procurement method, indicative timelines and implementation schedule. Table 9 below summarizes the thresholds to be used under the programme for procurement activities related to the STWSS and LGFS:

Table 9: Summary of Procurement Thresholds

Category	ICB	NCB	Shortlist
Civil Works	> UA3 million	Less than 3 million	
Goods	> UA 0.3 million	Less than 0.3 million	
Services			Firms > 200,000 UA International Firms ≤ 200,000 local Individual > 50,000 UA International Individuals ≤ UA 50,000 local

4.4.5 Assessment of the Executing Agency, MWE's Procurement & Disposal Unit (PDU) and the Implementing Agencies i.e. WSDF-C and Districts was undertaken and the findings have formed the basis for the action plan and recommendations detailed in *Annex B5*. Generally the risk level is high at District level and moderate under JPF. Appropriate mitigation measures have been recommended accordingly. The mitigation measures include targeted support for regular capacity building in procurement, regular supervision and annual post procurement reviews for the programme and strengthening the MWE by recruiting additional Procurement Officer to support the JPF activities.

4.5 Financial Management

4.5.1 The programme will fully make use of the Country PFM systems. For the funds flowing to the JPF, the MWE and WSDF-C will be responsible for detailed budgeting and the consolidating the accounting and reporting. On the other hand, the sector budget support implemented by the Districts, will wholly be accounted for in the government accounting system-IFMS.

4.5.2 The Financial Management (FM) Capacities of the MWE, the WSDF-C and the JPF have been assessed as adequate for the programme. They have adequate and competent staff to carry out the FM responsibilities of the programme and have financial control mechanisms in place. On the other hand, the FM capacities of the districts have been assessed with varying results. While the older more established districts have close to adequate FM capacity, the new districts FM capacities require improvement. Appropriate mitigating measures have been identified and incorporated in programme design to provide reasonable assurance that ADF fund will be used for the purpose intended, in the most economic and efficient manner. These are presented in detail in *Annex B4*.

4.5.3 As part of the Internal Control system, the Internal Audit of the Ministry will include the programme in its annual work plan and will conduct internal audits at least once annually. The internal audit reports will be shared with the DPs, including the Bank.

4.5.4 All JPF annual financial statements of the programme component will be audited by the Auditor General or a firm appointed by the Auditor General on Terms of Reference agreed with the DPs. At the programme midterm, a Value for Money (VfM) technical audit will be carried out by the Auditor General or his appointee on Terms of Reference agreed with the DPs contributing to the JPF. The VfM technical audit report will be tabled and discussed at the midterm review of the programme. Where the audits (both financial and VfM) are not undertaken by the Auditor General, they will be paid for from the programme funds. The Auditor General is responsible for the audit of local governments and the development partners, including the Bank will have access to the consolidated Local Governments Annual Audit Reports.

4.6 Monitoring:

4.6.1 The overall monitoring setup includes (JSRs), held twice a year Technical Review in March and Joint Sector Review in September, and the MTEF annual and quarterly work plan. In addition the sector conducts regular technical reviews, surveys, VFM and tracking studies. The programme will make use of these existing MWE monitoring and evaluation (M&E) system, which is part and parcel of the Government's M&E system. The MWE will have the

overall responsibility for monitoring the implementation of the programme as well as will supervise the implementation of ESMP in each site. MWE will also ensure that the Rural and Urban Data base annually capture the hydro geological data and related information on all new and rehabilitated facilities under the programme to facilitate assessment of progress and input in the next Water ATLAS.

4.6.2 The Bank will follow up the implementation of the programme, through active participation in the periodic technical and sector reviews, regular supervision mission during programme implementation, and ex-post evaluations. The MWE will compile and submit to the Bank quarterly progress reports, as well as annual progress reports. A midterm review will be conducted jointly by the MWE and the DPs (including the Bank) in June 2014. Upon completion of the programme, MWE will prepare and submit to the Bank a programme completion report (PCR). The milestones for monitoring are summarized as follows:

Timeframe	Milestone	Monitoring process / feedback loop
10/2011	Loan Approval	ADF Board
01/2012	Loan Effectiveness	Launching Mission – Follow-up
04/2012	First Disbursement	ADF – UGFO to monitor closely
06/2014	Mid Term Review	Stakeholders Involved – Follow-up
06/2016	Completion	ADF/UGFO to monitor closely

4.7 Sustainability:

4.7.1 The programme adopts demand responsive approach, whereby all stakeholders, including the beneficiary communities are involved to ensure a sense of ownership and commitment as well as sustainability of the water supply and sanitation facilities. The proposed institutional arrangement involves a transfer of the water supply schemes from MWE to Water Authorities (WAs), and the operation of the facilities by Private Operators (POs) through management contracts. This arrangement, which has been used in other small towns across Uganda, will enhance efficiency in the management of the programme’s facilities and in revenue collection to ensure the sustainability of the facilities. In each town, revenues from water will be deposited in an escrow account, which will be operated by both the POs and WAs to cover expenditures related to water services. The funds will be ring-fenced to minimize the possibility of diversion of water revenues to fund other activities. The operationalization of the Umbrella Organizations (UOs) for operation and maintenance, creation of WAs and the signing of the Performance contract between the MWE and the newly created WAs, and subsequent establishment of management contracts between WAs and the POs will be undertakings of the Loan/Grant.

4.7.2 The programme will also provide support to capacity building activities for UOs, WAs and POs on Operation and Maintenance (O&M) issues to enable them to meet their obligations under the performance and management contracts and thus enhance the institutional sustainability of the programme. For the rural water supply, the programme will strengthen and revitalise the community based maintenance system (CBMS) through improved mobilization, sensitization and training of community members and hand pump mechanics, in adherence to the existing National Framework for Operations and Maintenance of Rural Water Supply.

4.7.3 The programme will take into account affordability of services in the design of the facilities such that the ability and willingness to pay of the beneficiaries is not compromised.

This will be captured in the feasibility studies of each facility. The application of O&M cost recovery tariffs, in line with the existing GoU policy in programme towns, will be an undertaking of the loan/grant.

4.7.4 Lastly, the sustainability of the WSS schemes will also be enhanced through the Government's efforts to engender ownership in the communities and local authorities/districts where the activities are implemented. The programme will take the same approach and encourage that communities, equally represented by both women and men, be actively involved in the planning, selection and implementation of the facilities thereby increasing the sense of ownership. Through their gender balanced water user committees/associations, they will manage and fully cover their operating and maintenance costs, ensuring continued safeguarding of the installed facilities.

4.8 Risk management

4.8.1 The sector reforms are still in progress; delays or diminished political commitment to complete the reforms on time might result in lack of institutional capacity at district and regional level. This may in turn result in the deterioration of the service levels in the sector. Effective monitoring and policy dialogue between DPs and GoU will ensure commitment to on-going policy reforms is sustained.

4.8.2 There are risks associated with the weak implementation capacity of the programme at district and sometimes national levels, monitoring of community mobilization activities and timely implementation of the programme. In order to mitigate these risks, there is on-going capacity building to strengthen LGs and communities' implementation capacity. The programme approach offers an opportunity for the development of management systems by GOU with assistance from its DPs to facilitate the introduction of common arrangements for accounting of funds and monitoring of sector performance, thereby reducing reporting requirements of GOU staff.

4.8.3 There is a risk that sanitation might lag behind or fail to get off the ground, in a meaningful manner, as a result of the continued fragmentation of sanitation roles and responsibilities between three line ministries cooperating under the Sanitation Memorandum of Understanding (MOH, Ministry of Education and MWE). In addition, there is need for medium term financial commitments of funds to the Sanitation Budget Line (SBL). In order to address this risk, MWE under the JWSSPS has already committed UGX 2 billion on the SBL for the financial year 2011/12. The proposed programme, along with other DPs, will support the GoU's on-going efforts to improve capacity and service delivery of sanitation at district level. The programme will also provide funds to the SBL so as to further promote sanitation.

4.8.4 There is also fiduciary risk related to transparency in the award of contracts and the management of fund flows at the district level. The Programme will support the training of FM staff at the district level as one way of enhancing capacity at the local government level. Furthermore, there are annual reviews in place including annual joint sector reviews; public expenditure financial accountability assessments; annual financial audits; annual procurement reviews and mid-term value for money technical audits. With Respect to procurement, the risks will be mitigated through recruitment of additional staff to the MWE PDU, and WSDF-C and regular trainings.

4.9 Knowledge Building

4.9.1 A mechanism designed to capture knowledge has been put in place by the MWE and data and information is collected on a regular basis on water schemes, WAs, POs, the Association of Private Water Operators (APWO) and Regulation Unit. As part of its support to the SPS, the Bank will finance in-depth analytical work to draw out lessons learnt from the implementation of the programme, in particular the experience related to the use private operators in small towns WSS schemes. The knowledge gained will assist the sub-sector in achieving optimal exploitation of the water sources and support the Bank to replicate the good practice in other regional member countries.

V. LEGAL INSTRUMENTS AND AUTHORITY

5.1 Legal Instrument

5.1.1 ADF loan and RWSS-TF grant will be used to finance the programme

5.2 Conditions Associated with Bank's Intervention:

A. Conditions Precedent to Entry into Force of the Loan Agreement: The Loan Agreement shall enter into force subject to the fulfilment by the Borrower of the provisions of section 12.1 of the General Conditions Applicable to Loan Agreements and Guarantee Agreements of the African Development Fund.

B. Conditions Precedent to Entry into Force of the Grant Protocol of Agreement: The RWSSI TF Protocol of Agreement shall enter into force upon signature.

C. Conditions Precedent to First Disbursement of the Loan and Grant: The first disbursement of the loan and grant resources shall be subject to fulfilment of the following conditions to the satisfaction of the Fund:

- (i) Provided evidence of having opened two foreign currency Special Accounts (SA) (one for the Loan and the other for the Grant) with the Bank of Uganda for the deposit of the proceeds of and the for transfer of funds from the SA respectively; and
- (ii) Approval by the National Environment Management Authority of the Environment and Social Management Plan (ESMP) for the implementation of the Programme.

D. Undertakings: During the implementation of the programme, the Borrower/Recipient undertakes as follows:

- (i) To comply with all applicable Fund policies for the environmental and social safeguards (including resettlement) in relation to specific project sites, once these have been agreed with stakeholders and in accordance with the programme level Environment and Social Management Plan (ESMP);

- (ii) To include in the quarterly reports the status of implementation of environmental and social aspects for specific project sites;
- (iii) To provide written confirmation that the services of the umbrella organization for Operation and Maintenance in the central region of the Borrower are operational by 30 June 2012; To ensure that water authorities have been established in the Programme towns in the central region of the Borrower;
- (iv) To ensure that the MWE signs a performance contract with the water authority for each Programme site;
- (v) To ensure that the water authorities sign management contracts with the private operators for the respective Programme sites, and
- (vi) To ensure that the water authorities in the Programme apply the tariffs covering operation and maintenance costs in accordance with the Borrower's policies by the time the Programme facilities have been commissioned.

E. Conditions Precedent to Subsequent Disbursements of the Loan and Grant: The obligations of the Fund to make the second and subsequent disbursements of the Loan shall be conditional upon the Borrower submitting evidence satisfactory to the Fund of the following:

- (i) The sector performance report and the agreed minutes of the Joint Sector Review for the financial year ending 30 June 2013, and the subsequent reports and minutes until the financial year ending 30 June 2016; and
- (ii) Approval by the Water and Sanitation Sub-sector Working Group of the annual progress reports for the financial year ending 30 June 2013, the annual work plan for the financial year 2013-2014 and the subsequent reports and work plans until the financial year ending 30 June 2016.

5.3 Compliance with Bank Policies

5.3.1 This Programme complies with all applicable Bank policies.

VI. RECOMMENDATION

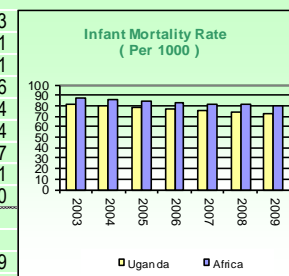
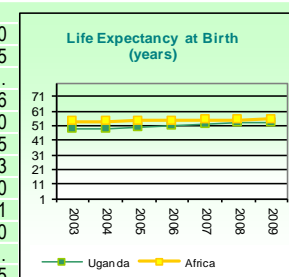
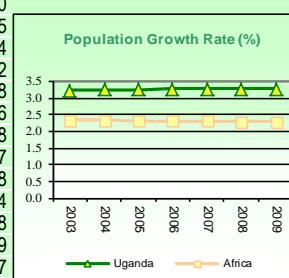
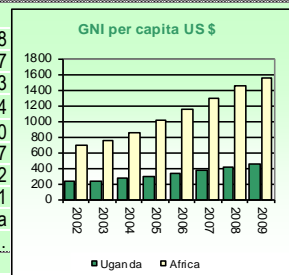
Management recommends that the Board of Directors approve the proposed loan of ADF UA 40 million and RWSSI TF grant of Euro 4 million (UA3.59 million) to the Government of Uganda for the purposes and subject to the conditions stipulated in this report.

Appendix I. Country's comparative socio-economic indicators

Uganda

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Uganda	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		241	30 323	80 976	54 658
Total Population (millions)	2010	33.8	1,031.5	5,659	1,117
Urban Population (% of Total)	2010	13.3	39.9	45.1	77.3
Population Density (per Km ²)	2010	140.2	34.0	69.9	20.4
GNI per Capita (US \$)	2009	460	1 525	2 968	37 990
Labor Force Participation - Total (%)	2010	43.3	40.1	61.8	60.7
Labor Force Participation - Female (%)	2010	46.5	41.0	49.1	52.2
Gender -Related Development Index Value	2007	0.509	0.433	0.694	0.911
Human Develop. Index (Rank among 169 countries)	2010	143	n.a	n.a	n.a
Popul. Living Below \$ 1 a Day (% of Population)	2009	28.7	42.3	25.2	...
Demographic Indicators					
Population Growth Rate - Total (%)	2010	3.3	2.3	1.3	0.6
Population Growth Rate - Urban (%)	2010	4.6	3.4	2.4	1.0
Population < 15 years (%)	2010	48.7	40.3	29.0	17.5
Population >= 65 years (%)	2010	2.9	3.8	6.0	15.4
Dependency Ratio (%)	2010	105.1	77.6	55.4	49.2
Sex Ratio (per 100 female)	2010	100.4	99.5	93.5	94.8
Female Population 15-49 years (% of total populatic	2010	21.7	24.4	49.4	50.6
Life Expectancy at Birth - Total (years)	2010	54.1	56.0	67.1	79.8
Life Expectancy at Birth - Female (years)	2010	54.8	57.1	69.1	82.7
Crude Birth Rate (per 1,000)	2010	45.4	34.2	21.4	11.8
Crude Death Rate (per 1,000)	2010	11.9	12.6	8.2	8.4
Infant Mortality Rate (per 1,000)	2010	70.3	78.6	46.9	5.8
Child Mortality Rate (per 1,000)	2010	115.2	127.2	66.5	6.9
Total Fertility Rate (per woman)	2010	6.2	4.4	2.7	1.7
Maternal Mortality Rate (per 100,000)	2008	430.0	530.2	290.0	15.2
Women Using Contraception (%)	2006	23.7	...	61.0	...
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2005-09	12.0	58.3	109.5	286.0
Nurses (per 100,000 people)*	2005-09	131.1	113.3	204.0	786.5
Births attended by Trained Health Personnel (%)	2006	41.9	50.2	64.1	...
Access to Safe Water (% of Population)	2008	67.0	64.5	84.3	99.6
Access to Health Services (% of Population)	2005-08	...	65.4	80.0	100.0
Access to Sanitation (% of Population)	2008	48.0	41.0	53.6	99.5
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2007	5.4	4.9	0.9	0.3
Incidence of Tuberculosis (per 100,000)	2009	293.0	294.9	161.0	14.0
Child Immunization Against Tuberculosis (%)	2009	90.0	79.9	81.0	95.1
Child Immunization Against Measles (%)	2009	81.0	71.1	80.7	93.0
Underweight Children (% of children under 5 years	2006	16.4	30.9	22.4	...
Daily Calorie Supply per Capita	2007	2 211	2 465	2 675	3 285
Public Expenditure on Health (as % of GDP)	2008	6.3	5.7	2.9	7.4
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2009	121.6	102.7	107.2	101.3
Primary School - Female	2009	122.4	99.0	109.2	101.1
Secondary School - Total	2009	27.4	37.8	62.9	100.1
Secondary School - Female	2009	24.9	33.8	61.3	99.6
Primary School Female Teaching Staff (% of Total)	2009	40.5	47.0	60.5	81.4
Adult literacy Rate - Total (%)	2008	74.6	64.8	80.3	98.4
Adult literacy Rate - Male (%)	2008	82.4	74.0	86.0	98.7
Adult literacy Rate - Female (%)	2008	66.8	55.9	74.8	98.1
Percentage of GDP Spent on Education	2009	3.2	4.6	3.8	5.0
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2008	28.7	7.8	10.6	10.9
Annual Rate of Deforestation (%)	2005-09	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005-09	...	10.9
Per Capita CO2 Emissions (metric tons)	2009	0.1	1.1	2.9	12.5



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators; last update : May 2011
 UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.
 Note : n.a. : Not Applicable ; ... : Data Not Available.

Appendix II. Table of ADB's portfolio in the country

Summary of Bank Group Portfolio of On-going and Newly-approved Projects/Programs/Studies																
Date of Update: 31st July 2011																
Serial No.	Project Description	Approval Date	Signature Date	Disbursement Effectiveness Date	1st Date of Disbursement	Approved Amount UA million			Amount Cancelled (UA million)			Net Commitments (UA million)	Amount Disbursed (UA million)	Disbursed (%)	Deadline for Last Disbursement	Status (not effective & on-going/ineffective, etc)
						ADB	ADF Loan	ADF Grant	ADB	ADF	ADF Grant					
A. AGRICULTURE																
1	National Livestock Productivity Improvement Project	04/12/02	02/06/03	22/11/04	02/02/05	nil	23.74	2.80	nil	nil	nil	26.54	24.93	93.9%	31/12/10	effective
2	Farm Income Enhancement & Forestry Conservation project	29/09/04	18/01/05	17/05/06	14/07/06	nil	31.57	9.85	nil	nil	nil	41.42	22.89	58.90	30/12/12	effective
3	Community Agricultural Infrastructure Improvement Programme- Project 1 (CAIIP-1)	31/01/07	17/05/2007	21/09/07	19/10/07	nil	30.00	nil	nil	nil	nil	30.00	15.99	71.7%	31/12/13	effective
4	Community Agricultural Infrastructure Improvement Programme- Project 2 (CAIIP-2)	17/09/08	11.05.2009	02/09/09	23/10/09	nil	45.00	nil	nil	nil	nil	45.00	0.94	8.9%	31/12/14	effective
5	Community Agricultural Infrastructure Improvement Programme- Project 3 (CAIIP-3)	3-May-11				nil	40.00	nil	nil	nil	nil	40.00	0.00	0.0%	31/12/2016	
6	Markets and Agricultural Trade Improvement Project 1 (MATIIP-1)	25/03/2009	13.05.2009	05/02/10	17/03/10	nil	38.00	nil	nil	nil	nil	38.00	0.70	2.6%	30/09/15	effective
Agriculture - Sub Total												220.96	65.45	29.6%		
B. TRANSPORT																
7	Road Sector Support Project 1 (Kabale Kisoro Bunagana Rd)	27/04/05	19/05/05	24/07/06	12/04/07	nil	27.01	1.49	nil	nil	nil	28.50	26.94	94.5%	29/12/12	effective
8	Road Sector Support Project 1 supplementary Loan	20/12/2006	22/01/2007	18/02/2008	22/06/09	nil	32.99	nil	nil	nil	nil	32.99	21.17	64.2%	29/12/12	effective
9	Road Sector Support Project 2 (Fort portal Bundibugyo Rd)	17/12/07	15/05/08	18/11/2009	20/01/2010	nil	56.65	1.35	nil	nil	nil	58.00	17.46	38.40%	31/12/13	effective
10	Road Sector Support Project 3 (Nyakahala Ibanda Rd)	25/09/09	12/04/2010	non		nil	80.00	nil	nil	nil	nil	80.00	-	0.0%	31/12/14	not effective
Transport - Sub Total												199.49	65.57	32.9%		
11	Kampala Water Sanitation Project	16/12/2008	11/05/2009	18/02/10	16/07/10		35.00	nil	nil	nil	nil	35.00	0.17	0.5%	31/12/14	effective
Water and Sanitation - Sub total												35.00	0.17	0.5%		
D. SOCIAL																
12	PPF-Support to Mulago Hospital Rehabilitation	30/04/09	29/07/2009	11/02/10	04/03/10	nil	0.50	nil	nil	nil	nil	0.50	0.26	51.2%	28/07/10	effective
13	Support to Mulago Hospital	23/06/11				nil	45.50	nil	nil	nil	nil	46.00			31/05/2016	not effective
14	Support to Post Primary Education and Training Project (Education III)	19/12/05	23/01/06	26/04/06	07/09/06	nil	nil	20.00	nil	nil	nil	20.00	14.10	80.1%	31/12/11	effective
15	Support to the Health Sector Strategic Plan II	08/11/2006	22/01/2007	04/06/07	10/08/07	nil	20.00	nil	nil	nil	nil	20.00	12.91	75.0%	31/12/12	effective
16	Support to Post Primary Education and Training Project (Education IV)	25/11/08	11/05/2009	31/08/09	22/12/09	nil	52.00	nil	nil	nil	nil	52.00	1.28	2.8%	31/12/14	effective
17	Rural Income and Employment Enhancement Project	17/11/09	12/04/10	none	12/10/10	nil	10.20	0.00	nil	nil	nil	10.20	4.87	47.7%	n/a	effective
Social - Sub Total												148.70	33.42	22.5%		
F. INDUSTRY																
18	Mineral Resources Management & Capacity Building Project	29/09/04	18/01/05	15/02/05	07/12/05	nil	nil	5.35	nil	nil	nil	5.35	3.92	74.4%	31/12/10	effective
Industry - Sub total												5.35	3.92	73.3%		
G. ENERGY																
19	Bujagali Transmission Interconnection Project	28/06/07	26/10/07	23/04/08	06/06/08	nil	19.21	nil	nil	nil	nil	19.21	9.69	60.4%	31/12/11	effective
20	Mbarara-Nkenda/Tororo-Lira Transmission Lines Project	16/12/08	26/03/2010	none		nil	52.50	nil	nil	nil	nil	52.50	nil	0.5%	31/12/13	not effective
Energy - Sub total												71.71	9.69	60.9%		
GRAND TOTAL FOR PUBLIC SECTOR OPERATIONS												681.21	178.22	26.2%		
F. MULTI NATIONAL PROJECT																
21	NELSAP 1	17/12/08	13/05/09	none		nil	7.59	0.00	nil	nil	nil	7.59	0.00	0.0%	31/12/14	not effective
22	Creation of Sustainable Tsetse and Trypanosomiasis Free Areas	08/12/04	19/05/05	30/12/05	10/04/06	nil	3.45	0.24	nil	3.10	nil	3.69	1.77	65.3%	31/12/11	effective
Multi National Projects- Subtotal												11.28	1.77	0.16		
H. PRIVATE SECTOR OPERATION																
23	Bujagali Hydro Power Project	02/05/07	21/12/07	20/05/08	29/05/08	72.17	nil	nil	nil	nil	nil	72.17	55.95	83.9%	31/12/12	effective
24	Buseruka Hydropower Project	29/07/08	25/04/2009	25/07/2009		5.84	nil	nil	nil	nil	nil	5.84	2.92	50.0%	31/12/10	effective
Private Sector Operation - subtotal												78.01	58.87	75.46		
GRAND TOTAL INCLUDING MULTI NATIONAL AND PRIVATE SECTOR PROJECTS												770.50	238.85	31.00		

Appendix III. Key related Programmes financed by the Bank and other development partners in the country

DPs	Programme / Project	Program implementation period	Amount in UA million
AfDB	Kampala Sanitation Program	2009-2014	35,00
AfDB sub-total			35,00
EU	Kampala Sanitation Program	2010-2011	6,70
EU	South Western Towns Water and Sanitation Phase 3	2009-2011	5,25
EU	Mapping of groundwater resources in Uganda	2010-2013	1,24
EU sub-total			13,19
KfW	Support to WSDF-N and WSDF-E	2011-2015	17,92
KfW	Kampala Sanitation Program	2009-2014	15,30
KfW	Kampala WSS Programme 1a (Gaba III Intake Waterworks)	2004-2010	10,60
KfW sub-total			43,82
Danida	ADRA Uganda Nakayot food security project(Dam and irrigation system)	2010-2011	0,59
Danida	Support to Climate Change Unit	2008-2012	1,32
Danida	Joint Partnership Fund (basket fund)	2010-2013	9,06
Danida	Budget Sector Programme Support for rural and WfP	2010-2013	24,75
Danida sub-total			35,72
Austria	Joint Water and Sanitation Sector Programme Support (JWSSPS)	2010-2013	6,27
Austria	South Western Towns Water and Sanitation Phase 3	2006-2011	4,70
Austria	Support to JWSSPS for WSDF Northern Uganda	2009-2010	1,34
Austria	Sustainable Water Supply and Sanitation Service Delivery in Pader District	2010-2013	0,68
Austria sub-total			12,99
Japan	Comprehensive Water Resources Development and Management Plan for the Lake Kyoga Basin	2009-2011	2,78
Japan	The Project for Improving Access to Safe Water in Mbale District	2009-2010	0,07
Japan	The Project for Improving Access to safe Water for Returnees in Lira and Dokolo District	2009-2010	0,05
Japan sub-total			2,90
Sweden	Joint Partnership Fund (basket fund)	2008-2010	6,60
Sweden	Budget support to Rural water supply	2008-2010	3,75
Sweden sub-total			10,35
TOTAL DONOR CONTRIBUTION TO UGANDA WSS			151,07

Appendix V. Map of the Programme Area

