I. Introduction and Context

Country Context
Over the past 25 years, Uganda has experienced sustained economic growth. Annual GDP growth averaged 7 percent in the 1990s, accelerated to over 8 percent from 2001 to 2008 and is expected to remain robust, averaging about 7 percent from FY12 to FY14. With the discovery of oil— which will begin to impact the economy significantly only after 2016— Uganda expects to have the resources required to step up the pace of development and meet its goal of becoming a middle income country by 2040.

Uganda’s economy is largely dependent on natural resource exploitation including the country’s abundant water supply. While primary agricultural commodities (mainly coffee, tea, and cotton) still account for more than 50 percent of exports, in recent years growth in exports has been led by fish, tourism, oil re-exports and, to a lesser extent, flowers, tobacco, and maize. The government expects agriculture, forestry, manufacturing, oil and gas, tourism, mining, ICT, and construction to drive the economy in the short to medium term.

In 2010, the Government of Uganda (GoU) launched its five year National Development Plan (NDP) covering the period 2011 to 2015. The NDP’s main theme is Growth, Employment and Socio-Economic Transformation for Prosperity. It aims to broaden the country’s development strategy from poverty reduction to structural transformation in order to raise growth and living standards by addressing key priorities including: unblocking infrastructure bottlenecks, increasing agricultural productivity and value addition, reintegrating northern Uganda, managing rapid urbanization, and strengthening human capital. The NDP notes that better management of water resources has a key role to play in each of these areas of priority.

Sectoral and Institutional Context
In 1999, the Government began a series of reforms aimed at making Integrated Water Resource Management (IWRM) the foundation for water sector management and development. The sector is currently taking steps to build an appropriate policy and institutional framework for IWRM — including regulatory and development capacity for information management, planning and infrastructure financing — and to operationalize a catchment-based approach. The Ministry of Water and Environment (MWE) has established four decentralized Water Management Zones (WMZs), under the Directorate of Water Resources Management (DWRM) that will take the lead in developing and managing the IWRM strategy at the regional level.

GoU has also taken important steps towards strengthening the decentralized management of water supplies in line with the local government act. Rural and small town water supply is currently the responsibility of local governments— supported by the Directorate of Water Development (DWD)— while large urban water supply is the responsibility of the National Water and Sewerage Corporation (NWSC). NWSC has made significant strides towards performance-based sector management leading to tangible improvements in coverage. A growing number of local private providers are also taking up management contracts with local governments for water supply to small towns (about 75 towns).

As a result of more than a decade of reforms, the water sector has made steady progress towards its 2015 Poverty Eradication Action Plan (PEAP) targets — some of which are more ambitious than MDG goals. Access to water systems has increased in rural (from 61% to 65%) and urban (from 51% to 67%) areas over the past five (2005-10) years; sanitation coverage has also increased in rural (from 57% to 70%) and urban areas (77%); water quality in large towns has generally improved; and cumulative water
storage capacity continues to rise. However, there are significant challenges ahead including: aligning policy, legislative and regulatory frameworks to reform lessons and outcomes; adapting sanitation solutions to rapidly densifying urban areas; reversing the decline in functioning water supply systems; addressing surface and groundwater pollution; and increasing water-for-production storage capacity.

**Relationship to CAS**

The proposed Water Sector Management and Development Project (WMDP) is included in the current Country Assistance Strategy (CAS) of 2010-2015. The CAS supports the Government of Uganda’s water and sanitation sector goals for 2015 which are outlined in the NDP. The indicators for these goals include: access to safe water, water infrastructure functionality, per capita investment cost, access to sanitation, gender, management, water quality, compliance with water permits, and hand washing. The NDP also highlights the role of water as an input to the economy, primarily in relation to agriculture (including livestock and fisheries), but also tourism, industry, commerce, and energy. Both the NDP and CAS highlight prudent natural resources management – including water – as critical to sustainable growth.

In support of the CAS, the Bank prepared a Uganda Water CAS (UWCAS) that outlines priorities for Bank engagement in Uganda’s water sector. The UWCAS identifies limited development of water infrastructure and inadequate water resources management – coupled with natural challenges of hydrological variability and transboundary water resources – as key reasons for the inefficient utilization of water, rising unmet demand, declining water quality, and high vulnerability to water shocks. Environmental degradation and climate change are expected to place additional pressure on Uganda’s water resource base.

Based on these findings, the WMDP will support the Government’s efforts to introduce IWRM by creating an enabling analytical, infrastructural and institutional platform to improve water resource management, improve productivity and service delivery, and reduce vulnerability to water shocks. The Bank has played a catalytic role in introducing transformational reforms in Uganda. For example, the Bank funded Small Towns Water Project piloted reforms that have now been rolled out to 75 towns; and the Poverty Reduction Strategy Credit series supported a system of fiscal transfers to local governments that have now been mainstreamed. The WMDP will scale up support for IWRM currently provided at a smaller scale through the Nile Basin Initiative and the Lake Victoria Environmental Management Project I & II.

**II. Proposed Development Objective(s)**

**Proposed Development Objective(s)**

The Project Development Objectives is to strengthen institutional capacity for sustainable Integrated Water Resource Management (IWRM) planning, management and development, and to improve access and reliability of water services in priority urban centers. The project will contribute to higher level goals of sustaining natural resources, improving service delivery and increasing economic productivity.

**Key Results**

Key results to be achieved through the project are: (i) strengthened institutional capacity for effective water sector development and management; (ii) improved access to urban water supply and sanitation, and protection of watersheds water sources for current and future utilization; (iii) development and targeted implementation of integrated water resources management and investment plans; and (iv) improved IWRM information and monitoring systems.

**III. Preliminary Description**

**Concept Description**

The Team considered the option of a Sector Investment Loan (SIL) as well as a Results Based Loan (P4R). While the option of a SIL would be more typical, given that the client already has various performance based arrangements under implementation (e.g. delegated contracts in NWSC and output based contracts in DWD), the option of using P4R will also be considered. It is proposed that WMDP activities will be grouped as follows:

Component 1 – Strengthening Water Sector Institutions for effective IWRM and Development. This component aims to provide support for implementing priority sector policy reforms and institutional modernization for both water resources management (WRM) and water supply and sanitation (WSS). It will strengthen, harmonize or establish key institutions responsible for water resources management and service delivery; provide targeted institutional strengthening at appropriate levels (e.g. WMZs, central); provide training and capacity development support; build an enabling platform of institutional and governance arrangements, structures, systems and business processes, and strengthen institutional cooperation and integration between entities responsible for management of water resources with those responsible for management of land, wetland and forest resources. As DANIDA is actively supporting MWE in policy-reforms, the project design will be closely coordinated with their ongoing and future support (SMP).

Component 2 - Integrated Water Resources Management and Development in WMZs. This component aims to support (i) improvement of water resources monitoring and information systems across the country, including functionality and coverage of the hydro-meteorological network, and effective systems for information management, analysis, dissemination and use; (ii) identification of priority investments such as catchment management, wetlands and forest restoration and management as related to water resources management, sustainable land management measures, multipurpose storage reservoirs for flood management,
micro hydropower generation, and other functions, and rainwater harvesting based on participatory WMZ and catchment planning; (iii) preparation and implementation of select investments in key sectors. One WMZ will likely be selected to implement priority investments, with the intention of scaling up in the future.

Component 3 - Investments in UWSS services and source protection. This component aims to support investments in priority urban water supplies and protect future sources such as: (i) 6-10 priority water supply and sewerage systems in NWSC municipalities including Arua, Gulu, Bushenyi/Ishaka, Mbale, Fort Portal and Kasese; (ii) 10-15 Local Government/ DWD investments in small town water supply and sanitation systems (including limited sewerage and sludge management in central business districts) through public private partnerships (PPPs) and Output Based Approaches (OBAs); and (iii) watershed and source restoration and protection through land, forest and wetland management measures for selected existing and future water supply sources. This component will also implement site specific environmental and social mitigation measures as will be identified both in the ESMF/EMPs and RPF/RAPs.

Component 4 - Project implementation, monitoring and reporting. This component will support implementing agencies (mainly MWE, DWRM, DWD, NWSC, National Forestry Agency and Department of Forest Services) to effectively implement and manage the project. It will provide for incremental operating costs, consultancies, office equipment and training/capacity building. Specific activities will include project coordination and reporting, technical and administrative capacity development, monitoring and evaluation, management information systems, financial management, procurement, and audits. Existing institutional structures (e.g., program teams and the Water Policy Committee) will be used to enhance and mainstream project activities. In addition, the component will provide for independent third party monitoring of project performance, e.g. through engagement of community and non-governmental organizations.

IV. Safeguard Policies that might apply

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VI. Contact point

World Bank
Contact: Rosemary Mukami Kariuki
Title: Sector Leader
Tel: 5355+3284 /
Email: rkariuki@worldbank.org

Borrower/Client/Recipient
Name: Ministry of Finance, Planning and Economic Development
Contact: Title:  
Tel: Email: 

Implementing Agencies
VII. For more information contact:
The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop