



GOVERNMENT OF UGANDA

MINISTRY OF WATER, LANDS AND ENVIRONMENT

URBAN WATER AND SANITATION REFORM

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EXECUTIVE SUMMARY

1. INTRODUCTION

The Government of Uganda (GoU) is undertaking the reform of the water sector covering the rural and urban water and sanitation components, water for production (livestock, irrigation and rural industry) and water resources management. Reforms in the urban water and sanitation sub-sector to ensure efficient, sustainable, and affordable service provision to the population were initiated in 1999.

The Urban component study was undertaken from September 1999 to December 2000 under full co-ordination and supervision of the Ministry of Water, Lands and Environment (MWLE) represented by the Directorate of Water Development (DWD) and National Water and Sewerage Corporation (NWSC) and full participation of key agencies and Ministries through a highly consultative process with Development partners and Members of Parliament. The study included extensive investigation; in depth infrastructure and investment needs analysis; detailed financial analysis; various stakeholder workshops; presentation of several reports; a Study Tour to Ghana, Côte d'Ivoire, Senegal; concept documents, which were discussed at length; and a continuous process of seeking sufficient consensus amongst the stakeholders.

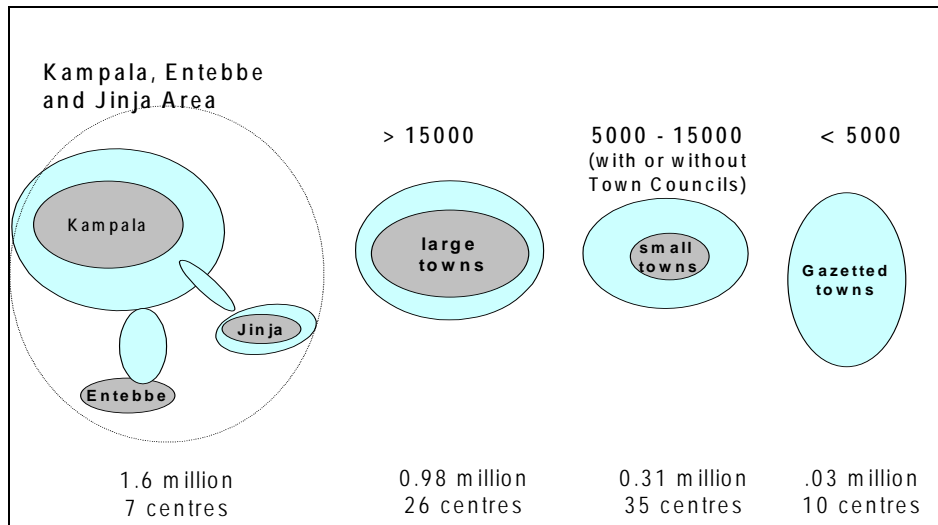
2. BACKGROUND

2.1 Overview of the Urban Water Supply and Sanitation Sub-sector

Uganda is largely rural, with only about 14% of the population urbanised. About 33 of the largest urban centres (with population > 15,000) display truly urban characteristics, whilst the remaining are typically small urban core centres surrounded by low-density settlements. This makes the urban water and sanitation sector small in comparison to other countries, with approximately 50,000 water active connections and a total revenue of about \$16 million per annum.

The urban sub-sector comprises of the towns that have a Town Council and are gazetted under the Local Government Act, as well as other towns that currently have a population exceeding 5000. Of these 78 towns, 33 (Kampala/Entebbe/Jinja Area = 7, plus large towns = 26) have populations exceeding 15000 and comprise a population of about 2.7 million. The remaining 45 small centres comprise an urban core with dispersed surrounding settlements, and comprise a total population of about 340 000.

Fig. 1: Urban Settlement Patterns in Year 2000



2.2 Urban Water and Sanitation Sub-Sector Goals

The Reform process is to be guided by the following sector goals

Service Coverage – To expand service coverage to give 100% of the population access to safe water and appropriate sanitation in 10 years, in line with the maxim “Some for all, rather than all for some.”

Sustainability – To achieve sustainability of service delivery. This includes efficiency improvements and the reduction of government subsidies if they remain necessary.

Affordability – To ensure that a basic adequate level of service is affordable via low-cost service delivery and the implementation of a subsidy and tariff framework which is equitable and beneficial to the poor.

Water as a social and economic good – It remains an underlying objective to ensure that water, as a social and economic good, is managed in the best way, bringing consequent benefits in terms of infrastructure, economic development, and health to the nation.

2.3 Performance of the Urban Water Sector

The primary problems of the sector are:

The sector cannot sustain itself, service its debts, raise capital for new infrastructure, and fund renewal or growth, despite adequate tariffs.

Policy and Governance Framework can be improved to ensure clear accountability and improved efficiency.

Management is ineffective. This can be borne out by high operating costs, excessive staff structures, extremely poor housekeeping and operational

organisation, and limited basic business systems. Best practices have not been established, and this will continue to thwart performance improvement.

High tariff as a result of smaller economies of scale.

3.0 REFORM STUDY FINDINGS AND RECOMMENDATIONS

3.1 Reform Objectives

The long term objective of the Reform is to ensure that services are provided with increased performance and cost effectiveness, to decrease the Government burden while maintaining the Government's commitment to equitable and sustainable water sector services in Uganda.

The specific objectives of the reform are:

Governance framework – To develop a regulatory and governance framework which facilitates meeting the specific objectives and that is well defined, clear, fit-for-purpose, and promotes stability and confidence in the sector.

Institutional arrangements – To put in place comprehensive institutional arrangements which will enable the sector objectives to be met to provide mechanisms for and give opportunities for urban centres to fall under private sector management.

Performance – To significantly improve the performance and efficiency of service provision. This implies the provision of cost-effective services in response to customer needs. This will require the development of a culture of providing a level of service for which the customers are willing to pay.

Finance for capital investment – To ensure access to adequate capital investment finance for rehabilitation, renewals and expansion.

Private Sector Participation - The successful introduction of private sector participation, which will reduce cost of delivery, whilst improving service levels.

Improve Operating Efficiency - The implementation of short-term (immediate) mechanisms to aggressively drive efficiency improvements in the sector, to reduce operating costs, and to place the sector in a more favourable position to negotiate and secure attractive private sector participation.

Improve Investment Efficiency – The introduction of an efficient asset and investment management structure, to improve investment planning and efficiency.

3.2 The Alternative Options for Reform

A wide range of possibilities were discussed and given due consideration. A study tour to Ghana, Côte d'Ivoire, and Senegal was also undertaken, during which valuable lessons were learnt about possible alternatives, concepts and issues of particular relevance to Uganda.

Three alternatives were identified as having the greatest potential benefits for Uganda and were evaluated in detail. These are:

- (a) Alliance Management Contracting Model
- (b) A Single Lease for the Urban Sector
- (c) The Concession of the Kampala, Entebbe and Jinja Area

After carrying out in-depth financial analysis, the recommended option is a single lease for the larger town grouping which requires the lowest Government investment of US\$ 208 million over 10 years. Ideally it would include the 33 large towns (>15,000), with a negligible impact on the subsidy requirements compared with a 15 or 18 town lease. It also allows for the other smaller urban towns to be managed under the WSDA framework, which is considered the most appropriate structure to manage the smaller towns. It should be noted that the recommendation that the group consists of 33 Towns is based on financial modeling. The final composition of the larger town grouping for which lease bids are invited will be determined prior to the tender and bidding process, while the actual bids received will determine the final grouping. It must also be noted that at a certain threshold, the benefit of a single lease grouping is significantly reduced.

3.3 The Demand for Water and Sanitation and the Investment Requirements

If the objective of supplying 100% of the population with access to safe water and appropriate sanitation in 10 years is met, there will be a significant increase in the number of connections, water sales and wastewater treatment. The water connections are expected to increase from the current 50,000 to 145,000 implying an annual increase of about 12%. The sewer connections are also to increase at an annual rate of about 5%. Water sales will likewise increase from 24 million m³ pa to 53 million m³ pa. The estimated investment required in the sector to achieve the projected growth is estimated at US\$ 280 million.

4. THE REFORM PROPOSAL

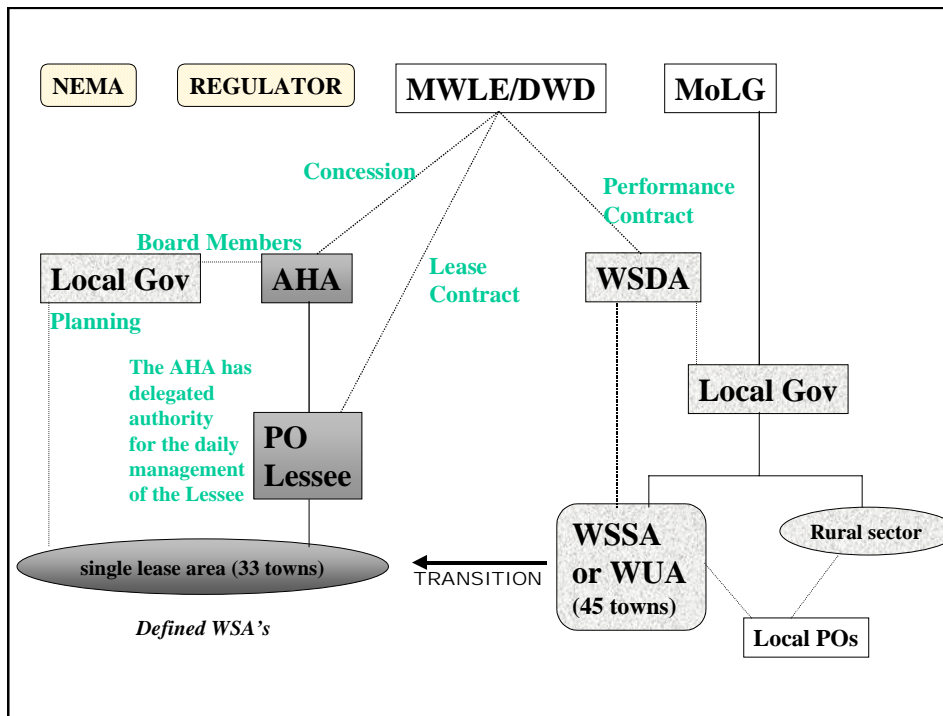
4.1 Water Supply

The proposal is to put in place a Single Lease for a grouping of the larger towns as soon as possible. For a grouping of about 33 towns, which is the optimum grouping for the sector management this could, at best, be achieved by the middle of 2005.

The management and operation of water and sanitation services package

of these urban centres would be under private management. The smaller urban towns would be managed under a government owned dispensation called the Water and Sanitation Development Agency (WSDA). The Sector would be subject to independent regulation.

Fig. 2: Framework for the Single Lease Model



(a) Private Management of a Single Package of Large Towns under a Lease Contract

A single lease for larger urban towns:

A grouping of the water and sanitation service areas (WSAs) of 33 large towns (or largest possible grouping) will be packaged together for the purposes of management and operations.

The operation and maintenance of water and sewerage services (all water supply; treatment and distribution; piped wastewater collection and treatment; metering; billing; revenue collection and customer relations), within the selected WSAs, will be leased to a PO. The Private Operator who secures the lease contract would be encouraged, through the lease bid documents, to form a company with substantial local shareholding, to execute the lease contract.

Asset Ownership:

The assets for the single lease grouping would remain in public ownership, held by an Asset Holding Authority (AHA) on behalf of government. The AHA would be responsible for investment planning, financing and execution. The AHA will be funded from a portion (about 5%) of the tariff collected by the PO of the Single Lease Grouping, and funds provided in the budgets of Capital projects for management and engineering.

(b) Public Sector Management of the Smaller Towns: The remaining

smaller urban towns are geographically spread throughout the country. The systems operated in these towns are really small, and suited to local management.

The recommendation is for decentralised management of the small towns under the direction and with the support of the WSDA.

The WSDA should be established as an autonomous state-owned institution to support water services development and management in the rest of the urban sector. The WSDA would be accountable for water and sanitation service provision in all areas outside the single lease grouping, but the delegation of duties to Local Government, Service Authorities and local POs would be mandatory. It is key that the WSDA is resourced by experienced people able to establish and drive best practice. The WSDA would maintain a small specialist Head Office structure, but channel all its energies towards supporting service provision. . The treasury will fund the WSDA.

- (c) **Local Government:** Local Government retains overall supervisory accountability at the local level, but it would be mandatory for them to appoint a service provider.
- (d) **Private Operators.** It must be emphasised that a key objective of the WSDA would be to drive local private sector participation. The WSDA would strike contracts with POs (with mandatory recommendation by the Local Government), and would advise on contractual provisions regarding control, performance measurement and monitoring by LG. In this way LG fulfils the role of local regulator/ supervisor.
- (e) **Regulation:** With the significant involvement of the private sector, an independent economic regulatory organisation framework will be necessary to set tariff, provide protection for the consumers and resolve any dispute between the private operators and the contracting party. Technical Regulation will be left to DWD, NEMA, AHA and WSDA. This regulation will primarily be exercised through the contracts.

4.2 Sanitation

Management of sanitation is core to the implementation of a sustainable urban water and sanitation service, and is addressed by this reform proposal in the following manner:

The existing systems for waterborne sewerage are limited, with 5% coverage and only 13 800 connections, of which 72% are in Kampala. Based on the principle that water and waterborne sanitation should be managed together, the Private Lease Operator will be accountable for the operation of piped water and waste water systems in the Water and Sanitation Service Areas under its control.

Planning new and extended waterborne sewerage systems, and moving people onto these systems is the responsibility of the PO in cooperation with the AHA and LG.

Funding for Sanitation: The capital expenditure to increase water borne sewer connections from the current 13,800 to 18,000 over a ten-year period and for rehabilitation would be about US\$ 84 million. Capital expenditure of about US\$ 5 million would be required for on-site sanitation in public areas.

This funding for water borne systems and waste disposal sites would be managed by the AHA and be obtained either via Government Loans, or from Donor funding.

The sale of water, and the levy attached to it for sewerage, will provide income to pay for the operation and maintenance of the water borne system, and also contribute to the UWF for future investment.

The funding for on-site sanitation would be via Local Government in the form of 'Conditional Grants' for improvement projects, with the provision that operation and maintenance is covered by the users. It is likely that funding this would be from the treasury, and possibly from donor funding.

5. BENEFITS OF THE REFORM

The main benefits, which can be expected, are:

Service Coverage: There will be an increase of service coverage over ten years, with a projected increase in water connections from 46 400 to 143 700, an increase in sewer connections from 13 800 to 18 000, and an increase in appropriate on- site sanitation.

Sustainability: At a projected average tariff of U\$0.70 per kl and operating cost of U\$0.39 for the Single Lease Grouping, sustainability will be improved, and this grouping will be able to service its debts, establish a National Water Fund, and maintain a healthy financial position.

Reducing Subsidies: Assuming that the same coverage targets are met, the subsidy burden on the government would be 40% of the projected burden if the reform did not take place.

Affordability: The projected operating tariff of the Single Lease PO averages at U\$ 0.39 per kl sold, which allows for the setting of affordable tariffs for the consumer, whilst maintaining the sustainability of the grouping. The WSDA aims at improving service provision and quality in the smaller urban towns, through the implementation of best practice. This is expected to result in appropriate service solutions at an affordable price for the consumer.

Regulation and Sound Governance: The reforms recommend a consistent framework in which appropriate water and sanitation service solutions can be affected. Independent regulation and sound, accountable, governance will support the sector.

Capital Investment: The reform framework, with its anticipated performance gains, and unequivocal governance structure is expected to elicit the confidence of funders and development partners.

Improved performance: The structure of the reform recommendations and the anticipated entry of an experienced PO for the lease and local POs where possible, is expected to achieve the performance and efficiency targets set.

The Social Good: The reform seeks to strike the balance between sustainability, affordability, and reducing the burden to the state, whilst maintaining the interests of the Ugandan people.

6. IMPLEMENTATION

Guiding Principles

There are a number of guiding principles to the reform implementation the key of which are the ownership of the process, observance of transparency procedures, support to decentralization process, asset ownership, sustainability needs, strong regulatory framework, private sector participation, cross-subsidization and a uniform urban water tariff.

Strategic Decisions

Government needs to take decisions on the following:

- (a) Perimeter of the lease towns
- (b) The best way to establish the AHA
- (c) Restructuring/strengthening of DWD
- (d) Regulatory Framework

The preparatory Period

The recommendation is to proceed to market as soon as possible and aim to secure the Single Lease for a Larger Town Grouping by 2005. This will require focused effort, short-term technical assistance, and professional leadership of the Sector Reform Management Group (SRMG), NWSC and DWD.

The preparatory stage between now and going to market for a lease contract is critical. It is in this period that the sector must take concrete actions to improve its position and prepare for a lease, whilst ensuring that the implementation does not disrupt ongoing management and development. This preparatory stage requires a clear strategy.

The ultimate accountability for successful implementation and the securing of a Lessee rest equally and collectively with the Ministry of Water Lands and Environment and the Ministry of Finance, Planning and Economic Development which must drive the process.

In order to initiate the reform and prepare for the new institutional arrangements, the following key preparatory actions should commence as soon as possible:

Establish Sector Reform Policy and Technical Committees.

Establish and implement communications strategy.
Confirm towns to be in the Larger Town Grouping.
Demarcate Water Supply Areas.
Procure funding for Technical Assistance consultancies.
Provide technical and management support to existing organisations to improve performance and prepare technical information required for the Bid documents.
Procure transaction advisors
Prepare draft Legislation and Regulatory frameworks.
Restructure DWD.
Detailed institutional design and formation of the AHA and WSDA (or DUWS) as soon as practically possible.
Review and finalise investment plans for groupings of towns.
Prepare bid documents for the lease.

It is vital that during the preparatory stage an ongoing operational framework will be maintained under the NWSC and the DWD, and that existing responsibilities for ongoing activities should be retained as far as possible. This should not stop the normal changes or developments that would occur in the sector if reform were not in progress. In this way, although driven by clear targets and a timetable, the changes would be structured and planned. This will also mean that, should problems arise which delay or prevent the procurement of a PO the existing institutional structures will be able to continue managing and operating the sub-sector.

7. REFORM IMPLICATIONS

- (i) There will be institutional changes and strengthening for DWD, NWSC and Urban Councils to take on new roles and responsibilities.
- (ii) The current legal and regulatory framework will have to be reviewed and amended to create an enabling environment for the sector to achieve to set goals.
- (iii) There is urgent need for integrated planning, improved service delivery, increased private sector participation and sustainability of services.
- (iv) The Government will have to mobilize additional investments to meet the set coverage targets.

Urban Water Supply and Sanitation Reform

1 BACKGROUND

1.1 Introduction

In September 1997 Government directed the then Ministry of Natural Resources, responsible for Water, to carry out the Water Sector Reform. The primary goal of the water sector reform was geared towards the provision of water and sanitation services in a cost of effective, efficient, equitable and sustainable manner, with Government limiting its role to that of policy maker, facilitator and regulator and the private sector to undertake service delivery. Government and development partners, through the Sector-Wide Approach (SWAP), would agree on a strategy to achieve improvement in sector performance, increased resource flows, more effective use of resources through agreed programmes

The Ministry, through the Directorate of Water development as the lead Government Agency for Water Sector and in consultation with Line Ministries, local governments and Development Partners is undertaking the water sector reform studies under four components comprising of (i) Rural Water Supply and Sanitation, (ii) Urban Water Supply and Sanitation, (iii) Water for Production, and (iv) Water Resources Management. The Rural and Urban Water Supply and Sanitation Sub-sector studies have been completed.

The Urban Water Supply and Sanitation reform Component study was undertaken from September 1999 to December 2000. This paper presents a summary of the study, findings and key recommendations that the Government should undertake to reform the sub-sector effectively.

1.2 Overview of the Urban Water Supply and Sanitation Sub-sector

1.2.1 The structure of the Urban Water Supply and Sanitation Sub-sector

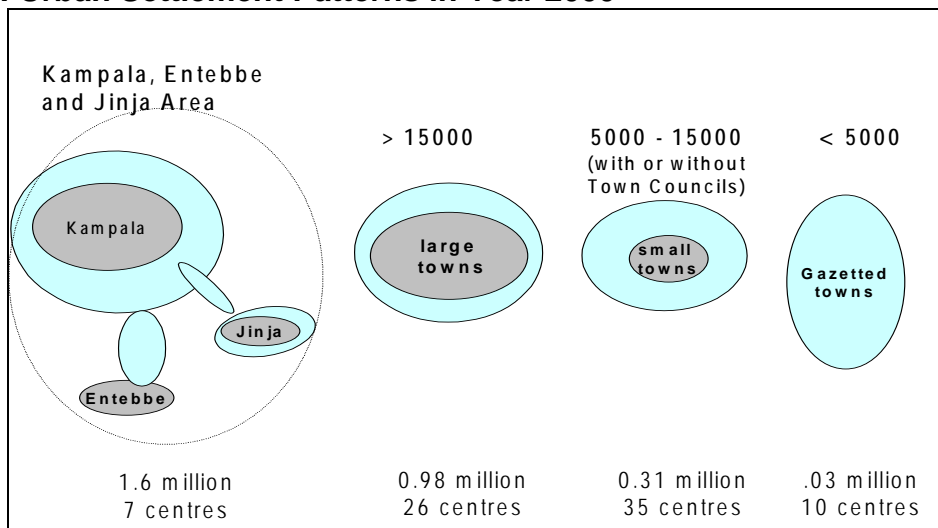
Urban Water and Sanitation Sub-sector in Uganda has been defined under the Reform to include all towns with population above 5,000 people, gazetted Town Council and all Districts Headquarters.

At present, 78 centers have been identified to comprise the urban sub-sector. Of these, 33 towns have populations exceeding 15,000 people and comprise of a population of approximately 2.7 million people (2000 projection). The remaining 45 Small towns comprise an urban core with dispersed surrounding settlements with a total population of approximately 350,000 people. Therefore the total population is slightly above 3million(2000 projection).

For the purpose of the study, the towns were grouped into categories by geographic location and size. The first group consists of towns supplied by the existing Kampala, Entebbe and Jinja water supply systems. The second and third group consists of all

towns with populations greater than 15 000 and 10 000 respectively. The fourth group consists of the remaining towns.

Fig. 1: Urban Settlement Patterns in Year 2000



Uganda is largely rural, with only about 14% of the population urbanised. About 33 of the largest urban centres display truly urban characteristics, whilst the remaining are typically small urban core centres surrounded by low-density settlements. This makes the urban water and sanitation sector small in comparison to other countries, with approximately 46 000 water active connections and a total revenue of about \$16 million per annum. The aim of successfully introducing private sector participation, and to enjoy the benefits of economies of scale, must be weighed in the context and attractiveness of the Ugandan urban water and sanitation sector.

The table below indicates the size of the market, and is helpful to gain a private operator's (PO) perspective, and appreciate the relative competitive position in which Uganda finds itself.

Table 1.1: Market Characteristics - A Regional Comparison

	South Africa	Ghana	Côte d'Ivoire	Senegal	Uganda
Urban population million (2000)	22	7.2	6.9	4.4	2.9
Major city population million (2000)	3	2	3	2	1
GNP/capita US\$ (1997)	3300	1300	1500	1700	900
Urban income \$ per month (1993)	N/A	140	230	150	70
Active Connections (2000)	> 2 000 000	250 000	420 000	250 000	< 50 000
Sales million m ³ per annum (2000)	> 2 000	87	113	74	23

1.2.2 Urban Water Sector Characterisation

Currently only about 54% of the urban population have access to safe water supply. Of these, only 12% of the households have direct connections at home. The situation for sewerage is worse. An estimated 5% of the urban population is covered by sewers

leaving the rest of the urban population to rely on on-site systems which are predominantly pit latrines.

The current size and structure of the Urban Water Supply and Sanitation Sub-sector is shown in table 2.2 below:

Key points arising from the above data are summarised below:

- (a) The size of the urban water sub-sector is small – with only about 46,000 active water connections earning a total revenue of about \$16 million per annum.
- (b) The sub-sector is concentrated in the KEJ area, which has 55% of the urban population, 63% of the active water connections, 72% of the active sewer connections and about 80% of the revenues in relation to the total urban water sector.
- (c) The diseconomies of scale become readily apparent as you move from KEJ to the large towns and then to the small towns. For example, the number of active water connections per town decreases from 4,200 in KEJ to 600 in the large towns down to 30 in the small towns. Further, the sub-sector is fragmented (spread across 78 towns).

The current size and structure of the Urban Water Supply and Sanitation Sub-sector is shown below:

Table 1.2: The Urban Sub-Sector

Towns	Groupings	7*	26	45	78
Population	Nos	1,610,000	980,000	340,000	2,930,000
	%	55%	33%	12%	100%
Water Connections	Nos	29,200	15,800	1,400	46,400
	% of total	63%	34%	3%	100%
Coverage	nos	30%	20-30%	20-30%	25%
	%	10,000	3,800	0	13,800
Sewer Connections		72%	28%	0%	100%
Coverage	%	5%	0-2%	0%	
Water Sales	M m ³ /a	19	4	0.3	23.3
% Domestic	%	45%	45%	70%	45%
Water Revenue	US \$ M/a	13	2.8	0.1	16
	%	81%	18%	1%	100%

Notes: *7 1. KEJ = Kampala, Entebbe, Jinja, Kajjansi, Mukono and Seeta

26. Large towns = towns with a population exceeding 15,000, but excluding KEJ.

45 Small towns = towns with a population of between 5,000 and 15,000, including smaller Gazetted towns.

The Urban Sub-Sector (the sum of 1 to 3 above).

1.2.3 Performance of the Urban Water Sector

Key operational indicators for National Water and Sewerage Corporation (NWSC) in relation to African best practice show that there are substantial operational and investment inefficiencies. This includes under-performance on Unaccounted for Water, Billing and Collection efficiency, and Operational and Overhead costs. Although there have been some performance improvements during the current financial year ending June 2000, these improvements do not significantly change the picture because there is such a large gap between current performance and benchmarked best practice.

- The estimated costs of the inefficiencies are:
 - Operational inefficiency: \$10 million per annum
 - Future investment inefficiency (if no further improvement): \$2 - 4 million per annum
- The average NWSC tariff of U\$ 0.7 per m³ is high but not unacceptable, given Uganda's smaller economies of scale compared to other countries (Côte d'Ivoire and Senegal have a tariff of U\$ 0.5). However, it is unacceptable that the NWSC cannot cover full costs within this tariff, service its debt, and provide for re-investment from retained earnings.
- The performance of urban areas outside of NWSC is generally below that for NWSC. In short the primary problems of the sector are:
 - The sector cannot sustain itself, service its debts, raise capital for new infrastructure, and fund renewal or growth, despite adequate tariffs.
 - Policy and Governance Framework can be improved to ensure clear accountability and improved efficiency.
 - Management is ineffective. This can be borne out by high operating costs, excessive staff structures, extremely poor housekeeping and operational organisation, and limited basic business systems.
 - Best practices have not been established, and this will continue to thwart performance improvement.

1.3 Institutional Framework

The current Water Sector Organisation may be briefly described as follows:

- (a) Ministry of Water, Lands, and Environment (MWLE) has overall responsibility for initiating the national policies and for setting national standards and priorities for water management. Water Policy Committee (WPC), established by the Water Statute, is responsible for advising MWLE on the above functions. In relation to local authorities their responsibilities include –

- providing guidelines for planning, implementation and monitoring of investments in the sector.

- ensuring and co-ordinating central government and donor funding to the local authorities in the form of unconditional and conditional grants.
- monitoring the performance of local authorities
- ensuring that appropriate assistance is provided to districts: the local authorities, communities and private sector for building the capacity of the sector.
- providing technical assistance for implementation of activities beyond the technical capacity of local authorities.

Directorate of Water Development (DWD) is the Government sector lead agency and is responsible for managing water resources, co-ordinating and regulating all sector activities and provides support services to the local governments and other service providers.

National Water and Sanitation Corporation (NWSC), an autonomous parastatal entity established in 1972¹ is responsible for the delivery of water supply and sewerage services in 15 large urban centers,

- (b) Local Governments (Districts, towns and other lower local government units) together with the communities, are responsible for implementing, operating, and maintaining water supply and sanitation facilities (except in the large urban centers under NWSC) in their area of jurisdiction.
- (c) The Ministries of the Ministry of Finance, Planning and Economic , Health and of Local Government are other ministries with the some responsibilities for the water sector.
- (d) Other role players within the section include Development responsible for finance provisions of the sector, Donor Agencies that provide the bulk of the funding for sector projects, NGOs and CBOs key in the implementation of projects as well as the private sector that provides a range of services from design to implementation.

1.3.3 NWSC operations

National Water and Sewerage Cooperation (NWSC) operates WSS in the following 15 towns: Kampala, Entebbe, Jinja, Masaka, Mbarara, Tororo, Mbale, Lira, Gulu, Kasese, Fort Portal, Kabale, Bushenyi/ Ishaka, Soroti and Arua.

NWSC's accounts for 1996/97 show surpluses of income over expenditure for Kampala, Jinja, and Entebbe with income and expenditure accounts for the remaining urban centres all showing deficits. NWSC showed an overall trading surplus for the year of approximately Ush 225m, a reduction of approximately Ush 500m on the previous year as a consequence of the adoption of two loss-making urban centres. Unless it is able to achieve performance improvements in relation to either or both operating costs and revenue recovery, NWSC's ability to cross-subsidise loss-making areas out of surpluses generated in other areas has now become seriously restricted and will constrain its ability to take over responsibility for further urban centres.

¹ NWSC was established by Decree No.34 of 1972. This decree was repealed by Statute No.8 of 1995, referred to as the "NWSC Statute", which now governs all operations of NWSC

While NWSC is in surplus on its trading account, it should be noted that it is unable to meet its liability in terms of loan interest and repayments and does not generate enough surpluses to finance system expansion or improvement to the extent needed, despite the fact that tariffs in Uganda are among the highest in the region for water service. Per capita sales in the NWSC towns are very low, about 35 litres per person per day, resulting in high unit costs.

The information available for water production and sales shows that UfW amounted to 44% of water put into supply for the six months ending December 1999 (46% in Kampala, 35% elsewhere). NWSC does not have reliable estimates of the proportion of UfW that is due to technical losses (leakage/bursts) as opposed to administrative losses (illegal or unidentified connections). Of its 54,000 customers at June 1999, however, 29% of the accounts were classified as inactive – not being billed, although possibly still consuming water. Poor management of customer accounts is also reflected in weak debt collection, with some 14 month's of sales as debtors. The KRIP plan to improve revenue (billing and collection) has not fulfilled expectations and has led to a significant service charge amounting to Ush 2.4 billion annually or about 10% of the Corporation's annual income of Ush 24.5 billion.

At the moment development budget for NWSC towns are channeled as a GoU loan to NWSC. In the short term possibility should be explored for conditional or equalization grant framework for NWSC to implement and deliver social activities, e.g. connecting the urban poor.

Overall unit costs (excluding interest charges) are high, currently in excess of Ush 1100 (US\$ 0.73) per m³. The Corporation has very high staff and related costs, amounting to more than half of operating costs (again, before interest).

NWSC's average tariff is approximately Ush 715 per m³ based on data for the financial year 1997. Average tariffs by category of user are shown in Table 3.1 below. Overall average tariff levels are high by regional standards and there is substantial cross-subsidy of household users by industrial and commercial users.

Table 1.3: Average tariffs by category of user, 2000

	Average Tariff Paid, Ush/M³	Average Tariff Paid, US c./m³
Domestic – Private Connection	462	32
Government and Institutions	760	52
Commercial and Industrial	1,056	73
Overall Average – Uganda	750	52

There is substantial over-provision in a number of the urban areas that fall under the responsibility of NWSC. An extreme example is the town of Lira where capacity utilisation is approximately 11%. At the time of the Country Framework Report (CFR) study, water was being pumped only twice a week from the treatment facility (over 40 km from the town itself). NWSC has inherited these schemes and has not itself been responsible for the over-provision. In general the origins of this type of over-ambitious scheme can be traced back to political interference in the planning process.

The consequences of political interference include not only examples of significant over-provision but also distortions in the pattern of service provision whereby investment resources are diverted from larger towns in great need of water supply/sanitation to smaller towns where less benefit can be obtained from the limited resources that are available.

Oversized and over-engineered schemes, e.g Lira water supply, waste operating resources as well as capital investment. Standards of maintenance are inadequate and operating costs high with a considerable risk that service cannot be sustained in the medium to long term.

2.2.3 Operations of Urban WSS by Local Governments

In line with the decentralisation policy, in 1994, Government transferred the responsibility of O&M of Urban WSS from DWD to the Urban Councils. The towns took over about 31 water systems, some which had just been rehabilitated.

Table 1.4: Status of Water Supply run by the local Governments (Year 2000)

No	Town WSS	Pop (1991)	Pop Proj (2000)	No of Connections	Tariff, Shs/m ³	Cond. Grant F/Y 2000/01
1*	Arua	22,217	38,311	515	600	144,000,
2*	Soroti	40,970	65,600	737	1250	148,700
3	Kumi	11,749	21,725	35	2000	24,000
4	Pallisa	2,927	5,047	90	1000	26,340
5	Kitgum	12,978	22,379			36,108
6	Moyo	6,679	11,517			51,828
7	Dokolo				833	
8	Kaberamaido			15	2000	
9	Kamuli	6,495	11,200	4	600	24,000
10*	Bushenyi	14,195	24,478	210	740	96,000
11	Katwe	6,297	10,859	277	760	
12	Hoima	4,616	7,960	227	1000	96,000
13	Masindi	10,839	20,043	434	616	
15	Mubende	9,301	16,039			36,000
16	Bugiri	9,506	16,392			3,840
17	Kisoro	7,485	12,907	65	600	48,000
18	Iganga	19,740	34,040			36,000
19	Kotido	4,554	7,853	157	1000	36,000
20	Moroto	10,517	18,050	11	200	36,000
21	Bundibugyo	6,845	10,732	90		36,000
22	Kaliro					
23	Kamonkole			1	1000	
24	Kapchorwa	4,604	8,245			24,000
25	Kalisizo			200	1000	
26	Wobulenzi					
27	Nkokonjeru					
28	Ibanda					
29	Wobulenzi					
30	Ngora					
31	Kaliro					

* now under NWSC operation

The Water systems were limping and Government introduced a Conditional Grant for O&M starting in FY 1999/2000 where shs 1.1bn, 1.18bn and 1.3bn were provided for FY' s 1999/2000, 2000/2001 and 2001/2002.

For the small town WSS funds allocations and channelling are project based at the moment. Except, for O&M of water systems, where Government introduced Conditional Grants for the Local Governments. In the short to medium-term possibility could be explored for the transfers as conditional grants framework for the investment in the Small towns. In the long run funds could be sent as budget support directly to dedicated WSS authorities.

1.4 Policy and Legal Framework

This section presents the status of the relevant policy pertaining to water and sanitation service provision and sets a premise for the way forward. The current policy framework for the sector is as presented in the following sections.

1.4.1 Over-arching Policy Framework

The policy objective of the government with regards to water supply and sanitation needs to be seen within the broad context of national policies related to macro-economic policy, governance policy including local government, natural resources policy and the broad context of water resources policy. In summary, the main elements of these policies may be stated as follows:

(a) Poverty Eradication

Poverty eradication is a fundamental objective of Uganda's development strategy for the next two decades, wherein government has resolved to reduce the proportion of the population living in absolute poverty to 10% [from 56%(1992) to 44%(1997)] and in relative poverty to 30% by the year 2017. Government prepared a Poverty Eradication Action Plan(PEAP) in1997(revised 2000) as a guiding framework for the achievement of poverty eradication. It adopts a multisectoral approach, recognising the multi-dimensional nature of poverty and the interlinkages between the influencing factors. Within the context of continuing macro-economic stability and broad-based economic growth, it aims to promote the following;

- Creating a framework for economic growth and structural transformation,
- Ensuring good governance and security,
- Directly increasing the ability of the poor to raise their incomes,
- Directly increasing the quality of life of the poor.

Implementation of the PEAP is performed under the Medium Term Expenditure Framework (MTEF), which integrates policy-making with expenditure based on strategic priorities and budget constraints. Priorities have been set under the PEAP as rural feeder roads, modernisation of agriculture, implementation of land act, primary health care, primary education, water supply and sanitation

(b) Decentralisation

The process of decentralisation and the implementation of the Local Government Act (1997) has not been without difficulties. In a number of towns the systems have not

been adequately maintained and in one the Town Council closed down services entirely. The problems have been primarily two fold:

- The rapid transfer of functions from one sphere of government to another has not been accompanied with a corresponding building of skills in all areas – technical, administrative and managerial. Low managerial and technical functional capacities at district and town level, and delayed accountabilities leading to under-utilisation of earmarked resources.
- The human and other resources that had been built up over time at national government level were thus not available in other spheres of government which inherited the water services functions. In particular financial resources have not been adequate although there are limited government conditional subsidy funds available.

(c) Privatisation

Private sector involvement in the water sector is currently limited. In addition to the conventional involvement of the private sector in the implementation of projects as consultants and contractors, certain elements of privatisation have been implemented. The borehole drilling function which was undertaken by the DWD is now largely undertaken by the private sector. Slow involvement and implementation by the private sector as a result of their internal managerial and technical deficiencies, coupled with slow district bureaucratic systems. The NWSC entered into a private sector management contract entitled the Kampala Revenue Improvement Program (KRIP) which has not been a success. The contract was ill conceived and has not been adequately managed. This has not been a useful experience in the promotion of private sector engagement. In general, however, the policy of private sector engagement has only been marginally applied.

1.4.2 The National Water Policy(1999)

The National Water Policy (1999) has been made and it promotes a new integrated approach to water management to guide the allocation of water and the associated investments. This new approach is based on the continuing recognition of the social value of water, while at the same time giving much more attention to the economic value of water. Water for domestic use is given the priority in terms of water allocation and utilisation.

The water policy is based on the following six guiding principles based on the 1990 “New Delhi Statement”. These fall under the primary theme of “**some for all, rather than more for some**”. These principles cover the following elements:

- (a) Environmental protection and integrated management of resources.
- (b) Institutional reforms to promote integration and participation, especially of women.
- (c) Community management of services.
- (d) Financial viability through “sound financial practices”, better management and appropriate technology.
- (e) Demand driven and user contribution to costs to promote ownership and sustainability.

- (f) Allocation of public funds to meet the needs of the unserved..

The policy document sets the stage for water resources management and guides development efforts aimed at improving water supply and sanitation in Uganda. To a large extent, the policies reflect the socio-economic, development and financial fabric prevailing in present-day Uganda; but with foresight to the future.

The Water Policy document has a substantial section entitled “Strategies” which covers the implications of the sector policy objectives and guiding principles. The section contains the following materials:

- (a) Technology and service provision
- (b) Service level criteria; Technology – water supply, Drinking water quality standards; Technology – sanitation and sewerage, Health and hygiene education
- (c) Financing, subsidies and tariffs
- (d) Management and sustainability aspects
- (e) Capacity building; Operation and maintenance (in rural and peri-urban areas); Sustainability and ownership aspects
- (f) Private sector and NGO/CBO participation. The role of the private sector is acknowledged as important and likely to increase in the future, particularly in the urban context. The text, however, inadequate for the promotion, guidance and regulation of the private sector in the provision of water services“
- (g) Co-ordination and collaboration

1.4.3 Other Sector Related Policies

(a) Health Policy and Strategic Plan

The Health Policy (1999) reiterates that sanitation lies within the mandate of the health ministry, and notes that the war against poor sanitation has to be intensified and maintained in order to consolidate and improve on the gains made in this area. In furtherance of this objective, the key priorities include support to local governments and authorities to improve sanitation and general hygiene. The continuation of health problems like cholera are largely attributed to the persisting problems of poor sanitation and the low coverage of safe water in the population (including the contamination of domestic water sources through inadequate maintenance). The policy recommends a review of the Public Health Act in order to enhance enforcement of public health regulations in the country.

Environmental sanitation and hygiene is identified as the medium through which the sanitation problems will be addressed mainly by providing technical support to local authorities, NGOs and relevant institutions; and building capacity in the districts for an efficient environmental health delivery system through training.

The Health Sector Strategic Plan (2000-2005) have been prepared where some issues of sanitation are to be addressed. The national targets of the sanitation programme by the end of the plan period (2004/2005) are:

- All districts will be carrying out regular drinking water quality surveillance;
- Increase safe waste disposal in 60% of households and institutions by 2004.

In order to realise these targets, the programme is expected to strengthen collaborative mechanisms at various levels with relevant agencies for promotion of safe water and sanitation. The active involvement of other government agencies particularly the ministry responsible for water will be strengthened. At District level, the District Director of Health Services is responsible for the planning, management, monitoring and co-ordination of sanitation with all agencies working at the district level. The Ministry of Health will continue to monitor the sanitation activities of the central and local governments.

(b) National Gender Policy (1999)

The affirmative action by Government in support of gender equity in the national socio economic activities has encouraged women to play a major role in decision making with respect to issues that affect them most such as water and sanitation quality and quantity. On the basis of this policy, the level, in terms of percentage of the total membership, of women participation in decision-making organs has been nationally agreed and is respected. The National Gender Policy recognizes women and children as the main carriers and users of water.

1.4.4 The Constitution 1995,

The Constitution lays the premise for the Water Statute and all the other laws that have a bearing on the water sector. The Constitution of the Republic of Uganda provides for the national objectives and directive principles of state policy. The social and economic objectives include, but are not limited to -

- (a) the state taking all practical measures to promote a good water management system at all levels (objective XXI);
- (b) the state promoting sustainable development and public awareness of the need to manage land, air and water resources in a balanced and sustainable manner for the present and future generations. In addition, the utilisation of the natural resources of Uganda must be managed in such a way as to meet the development and environmental needs of present and future generations. The state must promote and implement an energy policy which will ensure the people's basic needs and those of environmental preservation are met. Local governments must create and develop parks, and promote the rational use of natural resources so as to safeguard and protect the bio-diversity of Uganda (objective XXVII);
- (c) the enjoyment of rights and freedom is inseparable from the performance of duties and obligations, and accordingly various duties are placed on every citizen (objective XXIX). Consequently, it can be argued that the duty to pay and the duty to manage a water system are part of the duties of a citizen.

The Constitution makes provision for natural resources of which water forms an integral part. The constitutional provisions make it clear that water resources management is the duty of the state unless otherwise decreed by parliament.

Government, local or central, holds natural resources in trust for the people of Uganda in accordance with the provisions of the Constitution. As trustee, government only has powers to grant concessions, licences or permits in respect of the natural resources listed.

1.4.5 The Local Governments Act 1997

The Local Governments Act (1997) aims to give full effect to the decentralisation of functions, powers, responsibilities and services at all levels of local governments; to ensure democratic participation in, and control of decision making by the people concerned; to establish a democratic, political and gender sensitive administrative set-up in local government; to establish sources of revenue and financial accountability and to provide for the election of local councils.

The functions and services of government and local governments are listed in the second schedule to the local governments Act. It is a verbatim restatement of the provisions of the sixth schedule to the Constitution, and retains water resources and any matter incidental to or connected therewith as the responsibility of central government.

The functions and services for which the district councils are responsible, include but are not limited to, medical and health services including environment sanitation and health education and water services including the provision and maintenance of water supplies in liaison with the ministry responsible for water. The urban councils are responsible for the town's water and sanitation services outside the jurisdiction of NWSC. Districts are enjoined to assist the central government to preserve the environment through the protection of forests, lake shores, streams and the prevention of environmental degradation.

The line ministry is responsible for ensuring that government initiatives and policies are complied with at the local government level. A line ministry may, in addition provide technical support to a local government for the purposes of ensuring adherence to performance standards and building capacity within the local government. The Ministry of Local Government is responsible for co-ordinating local governments for the purposes of harmonisation. The MOLG, therefore, may facilitate co-operation between local governments, and may in the event of disagreement between local governments' act as an arbiter.

1.4.6 The Water Statute, 1995{tc \12 "1.5 The Water Statute, 1995}

The Water Statute was enacted in 1995 in line with the principles from the Water Action Plan(WAP) to:

"... provide for the use, protection and management of water resources and supply; to provide for the constitution of water and sewerage authorities, and to facilitate the devolution of water supply and sewerage undertakings".

The main objectives of the statute are:-

- (a) to promote the rational management and use of the waters of Uganda by: -

- the progressive introduction and application of appropriate standards and techniques for the investigation, use, control, protection, management and administration of water resources;
 - the co-ordination of all public and private activities which may influence the quality, quantity, distribution, use or management of water resources;
 - the co-ordination, allocation and delegation of responsibilities among Ministers and public authorities for the investigation, use, control, protection, management or administration of water resources;
- (b) to promote the provision of a clean, safe and sufficient supply of water for domestic purposes to all persons;
- (c) to allow for the orderly development and use of water resources for purposes other than domestic use, such as the watering of stock, irrigation and agriculture, industrial, commercial and mining uses, energy, navigation, fishing, preservation of flora and fauna and recreation in ways which minimizes harmful effects to the environment;
- (d) to control pollution and to promote the safe storage treatment, discharge and disposal of waste which may pollute water or otherwise harm the environment and human health.

The statute defines the rights in water and water administration vested in Government, the Water Policy Committee (constitution and functions), water resources planning tools (Water Action Plan), parameters affecting hydraulic works and uses of water, water and waste discharge permits.

The statute also defines the mode of water supply and sewerage emphasizing the concept of service delivery using Water and Sanitation Authorities, Water User Groups and Water User Associations.

Water Resource regulations (1998)), Waste discharge regulations (1998)), the Water supply Regulations (1999) and the Sewerage Regulations(1999) were gazetted to effect some aspects of the Water Statute.

The legal status of the WUGs and WUAs is not expressly provided for. There is therefore a need to clarify the status of these entities so that they are empowered to perform their functions better. As far as the Water Statute is concerned, local government's role in the Water Statute structures is limited to assisting in the establishment of the structures. Supervision and monitoring is done by DWD. The rationale for this provision is very clear. The structures established under the Water Statute are formed for the specific purpose of establishing, operating and maintaining water sources. Consequently, the funds collected from the water users are to be used to further this purpose and ensure the sustainability of the water source. Were such function to form one of the functions of a local authority, sustainability of the water sources would be hard to attain in view of the fact that local authorities have a myriad of other obligations for which they have insufficient funding. The Statute, in addition, does not address the issue of ownership of water facilities. The law on asset ownership for other entities should therefore be clarified as, asset ownership is a crucial issue in any major undertakings/investments in the water and sewerage sector.

1.4.7 National Water and Sewerage Corporation Statute (1995)

The National Water and Sewerage Corporation Statute, 1995 aims to revise the objectives, powers and structure of the NWSC. The NWSC exist as a body corporate and may lawfully do; acquire, hold and dispose of real and personal property and sue or be sued in its corporate name.

At the commencement of the NWSC Statute the corporation was deemed to have been appointed a Water Authority and Sewerage Authority, under the provisions of the Water Statute 1995. The Minister is required to enter into a performance contract with NWSC in relation to its operations in accordance with the provisions of the Water Statute.

All property owned by the corporation immediately before the commencement of the NWSC Statute continued to be owned by the corporation. Where the assets of an authority providing water supply or sewerage services are vested in the corporation, no compensation is payable by the corporation in respect of the transfer of those assets. It is clear that ownership of property (assets) is a central feature in determining whether the corporation takes over an area as a service provider. Asset ownership, it is envisaged, would be an issue that needs to be resolved before any entity desirous of becoming a water or sewerage authority commits itself to such function.

The NWSC Statute makes the Corporation's position on asset ownership very clear. The Statute in addition authorises the Corporation to enter into contracts with other entities for the better provision of services.

1.4.8 The National Environment Statute, 1995

The National Environment Statute, 1995 aims to provide for sustainable management of the environment, to establish an authority as a co-ordinating, monitoring and supervisory body and for other matters incidental or connected to that purpose.

The Authority in consultation with the lead agency shall carry out an environmental impact assessment for activities that are likely to have a significant effect on the environment. An environmental inspector may enter any land or premises for the purpose of determining how far the activities carried out on the land or premises conform to the statements made in the environmental impact statement. The owner of premises or the developer of the project shall take all reasonable measures to mitigate any undesirable effects not contemplated in the environmental impact statement.

An analysis the Water Statute and the NWSC Statute portrays the need for an independent regulator for the sector. The regulator should strictly carry out the regulation function and detract from undertaking any implementation.

1.4.9 The Land Act, 1998

The Land Act reiterates the provisions of the Water Statute authorising entry of an official onto private land for a public purpose. The Act refers to the environmental laws and provides that they be applied in the utilisation of land. Once again the government's role as trustee for natural resources is restated. Compulsory acquisition of land is allowed as long as adequate, prompt and fair compensation is paid. Land may therefore be obtained for the development, improvement or otherwise of water and sanitation facilities. The costs of this may, however, be very high.

1.5 Urban Water and Sanitation Sub-sector Goals

The sector goals which guide the reform process are:

- **Service Coverage** – To expand service coverage to give 100% of the population access to safe water and appropriate sanitation in 10 years, in line with the maxim “Some for all, rather than all for some.” (New Delhi Statement)
- **Sustainability** – To achieve sustainability of service delivery. This includes the reduction of government subsidies if they remain necessary, or at least improving the efficiency of such subsidies.
- **Affordability** – To ensure that a basic adequate level of service is affordable via low-cost service delivery and the implementation of a subsidy and tariff framework which is equitable and beneficial to the poor.
- **Water as a social and economic good** – It remains an underlying objective to ensure that water, as a social and economic good, is managed in the best way, bringing consequent benefits in terms of infrastructure, economic development, and health to the nation.

1.6 Key Issues for the Sub-sector

There are many significant challenges affecting performance of the urban water and sanitation sub-sector in Uganda. They include:

- (a) Public management of the water sector has not brought about the efficiencies required to build a sustainable urban water sector, nor is it likely to achieve these efficiencies if left to continue.
- (b) The economic incentives, and the existing management incentives (reward and penalties), are ineffective and will not elicit performance. Individual managers do not perceive significant commercial risk, and state institutions seldom have a strong commercial risk culture.
- (c) Best practices (administrative, operations, service) have not been established, and this will continue to thwart performance improvement. The establishment of best practices is also a function of management.
- (d) The sector cannot sustain itself, service its debt, and raise capital for new plant, nor fund renewal or growth, despite adequate tariffs.
- (e) Management is ineffective. This can be borne out by the high operating cost for water, the excessive staff structures, the extremely poor housekeeping and operational organization and limited basic business systems. This is evident at head office level and even more so in the towns.
- (f) Poor accountability at a number of levels: a lack of accountability for a customer service ethic, a lack of accountability between service providers, between service providers and “service authorities”, and a lack of ultimate accountability within the sector.

- (g)** The lack of quality data on coverage, operational functionality of facilities, user contributions, water sources potential, operations and financing of sector partners, make effective planning at all levels difficult. MWLE/DWD is establishing Water Sector Management Information System(MIS) and Water Sector databases have been introduced to some Districts .
- (h)** Poor coordination ,where donors supported individual projects without a common approach has led to fragmented interventions, duplication of efforts and misuse of resources by the different sector players. There is need to enhance co-ordination and collaboration in the water and sanitation sector.
- (i)** In large parts of the country access to water from other alternative sources is available to consumers free of charge. Most of this water is of poor quality and may be remote, requiring relatively long haulage distances. These circumstances result in consumers being faced with the choice of paying for water from the formal service or collecting it free from the alternate sources. They will do the former only if they perceive that the value of water from the formal source exceeds the cost and is preferable to the alternative source for reasons of quality, quantity or convenience. If water services are to enjoy the patronage of consumers, therefore, consumers need to be convinced of their value, particularly in poor communities. Without this there will be no willingness to pay and it is unlikely that the service will be financially viable.

2. REFORM STUDY FINDINGS AND RECOMMENDATION

2.1 The Reform Objectives

The long term objective of the reform is *“to ensure that services are provided with increased performance and cost effectiveness, to decrease the Government burden while maintaining the Government’s commitments to equitable and sustainable water sector services in Uganda”*.

The reform process is to achieve expanded service coverage to 100% at affordable tariff and sustainable facilities and services.

The specific objectives of the reform are:

- (a) **Governance framework** – to develop a regulatory and governance framework which facilitates meeting the specific objectives and that is well defined, clear, fit-for-purpose, and promotes stability and confidence in the sector.
- (b) **Institutional arrangements** – To put in place comprehensive institutional arrangements which will enable the sector objectives to be met to provide mechanisms for and give opportunities for private sector participation management and investment.
- (c) **Performance** – To significantly improve the performance and efficiency of service provision. This implies the provision of cost effective services in response to customer needs. This will require the development of a culture of providing a level of service for which the customers are willing to pay.
- (d) **Finance for Capital Investment** – To ensure access to adequate capital investment finance for rehabilitation, renewals and expansions. This was a pre-condition for the sector to access additional financing under the PRSC/Budget Support arrangements.
- (e) **Private Sector Participation** – The successful introduction of private sector participation, which will reduce cost of delivery, whilst improving service levels.
- (f) **Improve Operating Efficiency** – The implementation of short-term (immediate) mechanisms to aggressively drive efficiency improvements in the sector, to reduce operating costs, and to place the sector in a more favorable position to negotiate and secure attractive private sector participation.
- (g) **Improve Investment Efficiency** – The introduction of an efficient asset and investment management structure, to improve investment planning and efficiency.

2.2 Methodology

The following methodology was used in the study.

- Twenty-six (26) of the 78 urban centres were visited and detailed assessment done. They provided the benchmarks and the parameters used in assessing the requirements of the remaining towns.
- Review of existing policies, laws and legal framework.
- Review of the existing Institutional Framework.
- Study Tour to 3 West African countries (Ghana, Cote D’Ivoire, Senegal) to study the water sector reform and privatisation processes
- Consultation Workshops and meetings including meetings the Line Ministries, PS, NWSC Board, Members of Parliament from the Natural Resources Committees.

2.2.1 SWOT Analysis

The findings are provided in terms of a SWOT analysis table:

Table 2.1 : SWOT Analysis of Urban Water Sub Sector in Uganda

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Many sources of water • Some good infrastructure in key areas • Well qualified staff centrally • Seem to enjoy the goodwill of a significant donor base. • Relatively unpolluted water sources • Well documented policies and strategies (high level) • Pockets of focused expertise 	<ul style="list-style-type: none"> • The general condition of water and sanitation infrastructure is poor. • Lack of maintenance facilities, and a lack of top management commitment to maintenance (budget and resources) • Limited enforcement of water pollution, Health and Safety, sanitation legislation. • Lack of capacity in Districts • Structurally complex – many bodies with ambiguous accountabilities. • Lack of business skills • Lack of accounting procedures and practices. • Current situation not sustainable • Disparity between theoretical knowledge and application. • Lack of standardised practices and technology • Inability to collect revenue • High unaccounted for Water levels • Lack of Technical Training and the cost of non-compliance

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ● Privatization ● Coming off a low base, progress will be noticed. ● An enlightened government. ● Opportunity to build a best-practice model. ● Mobilized women's associations ● Private sector participation 	<ul style="list-style-type: none"> ● Poverty ● The negative perception of KRIP ● Limited national infrastructure ● Unreliable power supply ● Over reliance on Donors and ● Extremely poor town planning and development control ● High population growth ● Low commercial and industrial base ● Fear by current stakeholders of change. ● Poor implementation of PSP ● Perception of PSP

2.3 Institutional Framework Options

2.3.1 Generic institutional options

Prior to the selection of feasible institutional options and the short-listing of the preferred options a government needs to undertake a range of analyses. These analyses must determine factors such as the state of the water sector, the existing regulatory framework as well as the analysis of stakeholders with reference to private sector participation (PSP) (i.e. stakeholder perceptions about the prospects of PSPs).

There are a number of generic institutional options possible for water and sanitation service provision. These include not only different forms of PSP, but also other kinds of restructuring within a framework of government ownership and operation. The task is to determine whether greater efficiencies can be obtained within such a framework, possibly by internal reorganization, devolution of responsibility from the national level to local administrations (or its opposite, greater centralisation), and introduction of more businesslike practices within a government-based system.

Public-Private Sector Partnerships in the water sector vary from the fulfilment of limited attributions to overall responsibility. There are five broad different options of PSP and many varieties of each of these. Table 4.1 below, gives a summary of the various PSP types

Table 2.2: Various PSP Types

Option	Asset ownership	Operation & maintenance	Capital investment	Commercial risk	Duration
Service contract	Public	Public and private	Public	Public	1-2 years
Management contract	Public	Private	Public	Public	3-5 years
Lease	Public	Private	Public	Shared	8-15 years
Concession	Public	Private	Private	Private	25-30 years
BOT/BOO	Private and public	Private	Private	Private	20-30 years
Divestiture	Private or private and public	Private	Private	Private	Indefinite (may be limited by license)

(a) *Service contract*

Service contracts secure private sector assistance for performing specific tasks - installing or reading meters, monitoring losses, repairing pipes, or collecting payments. They are typically for short periods, from 6 months to two years. Their main benefit is that they take advantage of private sector expertise for technical tasks or open these tasks to competition. They leave the responsibility for coordinating these tasks with the public utility managers. Service contracts are, at best, a cost-effective way to meet special technical needs for a utility that is already well managed and commercially viable. They cannot substitute for reform in a utility plagued by inefficient management and poor cost recovery.

(b) *Management contract (with or without performance incentives)*

Management contracts transfer responsibility for the operation and maintenance of government-owned businesses to the private sector. The simplest involve paying a private firm a fixed fee for performing managerial tasks. More sophisticated contracts can introduce greater incentives for efficiency, by defining performance targets and basing remuneration, at least in part, on their fulfilment. Management contracts are most likely to be useful where the main objective is to rapidly enhance a utility's technical capacity and its efficiency in performing specific tasks, or to prepare for greater private involvement.

(c) *Lease*

Under a lease arrangement a private firm leases the assets of a utility from the government and takes on the responsibility for operating and maintaining them. Because the lease-taker effectively buys the rights to the income stream from the utility's operations (minus the lease payment), it assumes much of the commercial risk of the operations. Under a well-structured contract the lease-taker's profitability will depend on how much it can reduce costs (while still meeting the quality standards in the contract), so it has incentives to improve operating efficiency. Leases are most appropriate where there is scope for large gains in operating efficiency but only limited need or scope for new investments.

(d) *Concession*

A concession gives the private partner responsibility not only for the operation and maintenance of a utility's assets but also for investments. Asset ownership remains with the government, however, and full use rights to all the assets, including those created by the private sector, revert to the government when the contract ends - usually after 25 to 30 years. The main advantage of a concession is that it passes full responsibility for operations and investment to the private sector and so brings to bear incentives for efficiency in all the utility's activities. The concession is therefore an attractive option where large investments are needed to expand the coverage or improve the quality of services.

(e) *Build-Operate-Transfer (BOOT)*

Build-operate-transfer (BOT) arrangements resemble concessions for providing bulk services but are normally used for greenfield projects, such as a water or wastewater treatment plant. In a typical BOT arrangement a private firm might undertake to construct a new water treatment plant, operate it for a number of years, and at the end of the contract relinquish all rights to it to the public utility. BOTs tend to work well if the main problem a utility faces relates to water supply or wastewater treatment. But if the problem is a faulty distribution system or poor collections performance, a BOT is unlikely to remedy it - and may even aggravate it.

A variation of the BOT model is the build-operate-own (BOO) arrangement, in which the assets remain indefinitely with the private partner.

(f) Divestiture & Joint Ventures

Divestiture of water or sewerage assets, through a sale of assets or shares or through a management buyout, can be partial or complete, transferring ownership of assets to the private sector.

Joint ventures is a Partnership or alliance between two or more of the options listed above.

There is willingness in Uganda to move the water and sanitation sector further along the route towards greater participation by the private sector. This willingness should, at this early stage be tempered by the knowledge that PSP on its own is no panacea for problems in water and sanitation. A range of institutional options has been tabled, so as to encourage an open-minded approach to the identification of appropriate solutions to the challenges currently facing the industry. It may be, for instance, that considerable improvement could be made to the performance of a particular isolated town by simply bringing to bear a concerted effort of capacity building in the responsible managers, and the introduction of an improved management system to support the skills learned.

2.4 A short list of institutional options for Uganda

(a) Criteria for short listing the Options:

The three short-listed alternatives were selected on the basis of the following aspects:

- (i) Each alternative, albeit not necessarily the ideal solution as presented, contains distinctly different components.
- (ii) This enabled the stakeholders to first consider the separate components and alternatives, and later to consolidate these into a preferred institutional framework.
- (iii) The three distinct alternatives also raise most of the issues that need consideration when choosing the most appropriate solution.
- (iv) The alternatives move from least binding to most binding PSP arrangement, thus from management contracting, to leasing, to a concession. Each with the appropriate institutional arrangement for the centres not under private management.
- (v) It should be noted that the options, and finally the recommended option, take a clear view that public sector management of water does not elicit the efficiencies necessary for an acceptable and sustainable service at an affordable tariff.
- (vi) Having dealt with most of the considerations within the three alternatives, which contain the building blocks to develop a recommendation, the stakeholders were in a position to give adequate consideration to the reasons supporting the recommendation.
- (vii) The three short listed options were:

- (viii) The Alliance – takes on all WSAs/towns, it is founded on a “most accessible” form of PSP.
- (ix) The Lease – takes on a package of large WSAs/towns through a lease arrangement. (This model requires a framework for managing the remaining WSAs/towns).
- (x) The Concession – takes on only Kampala/Entebbe/Jinja (with possibly some extension of the area) through a concession (with investment and BOOT obligations). (This model requires a framework for managing the remaining WSAs/towns).

(b) Analysis of the short-listed alternatives

In order to select the preferred option, the short-listed options were analysed using criteria such as the institutional accountability of the various functions for each option, the advantages and disadvantages of each option, the comparison of each alternative with set objectives for the sector reform, the practicality of each option and the comparison of having one or more private participants.

The final comparison was made for the following cases of the short-listed options:

Option 1:Concession for KEJ; WSDA management of the other urban areas.

Option 2:Lease for 33 towns large towns (Including KEJ); WSDA management of the other urban areas.

Option 3:Lease for 78 towns

Option 4:Urban Alliance management for the 78 towns.

The conclusions to be drawn from the Analysis of the short-listed alternatives are as follows:

- (i) The lease for a selection of more profitable towns (say 15 – 20 towns) would in fact be the most financially optimal package, and would require the lowest subsidy. However, such a package is not optimal as a 33-town package, taking all factors, such as coverage, management efficiencies, benefits of economies of scale, etc into consideration. The 33 town package is thus recommended as the optimal package.
- (ii) The concession and the alliance models require significantly higher subsidies than the lease options. The concession remains problematic in that it leaves an area (the other 70 towns) with large capex needs, high operating costs and low revenues. This problem could conceivably be addressed with combinations of a concession/lease/ management contracts with a single PO to increase the private sector coverage in the sector, but this option is not supported since it leads to conflicting incentives, contractual complexity and governance problems.

- (iii) The Alliance Contracting Model, apart from being very expensive, also carries a number of risks. The collaborative relationship and process of reform are too open ended, and does not give due consideration to the urgency of reform in Uganda. It will take too long before the alliance assumes investment risk and can reduce the burden on the state. The odds that a single long-term collaborator can be found, and relationship can be developed that results in the efficiencies needed, are slight and risky.
- (iv) Whereas the financial modelling indicates that there is not a large difference between the 33 town and 78 towns lease, other considerations determine the preference. The single lease for the total 78 town grouping is not supported, since the smaller towns will not necessarily benefit, as would larger towns, from a centralised management approach. The efficiency assumptions may be optimistic, and hence the subsidy may be too low. Further, issues such as management efficiencies, geographic considerations, and the attractiveness of the package to a PO, are key considerations when limiting the size of the package.
- (v) On the basis of the overview, the lease for the 33 town grouping is favoured. It includes the large towns (>15,000), with a negligible impact on the subsidy requirements. It also allows for the rest (45 towns) to be managed under the WSDA framework, which is considered as a more appropriate approach for the smaller towns.
- (vi) The lease for a selection of 33 towns was selected as a recommended option for the reform of the urban water sector. The decision was made taking into account factors such as coverage, management efficiencies and benefits of economies of scale among others.

2.5 Urban WSS Investment Needs

The investment requirements are guided by the key sector goals, which are:

- a) ***“To promote coordinated, integrated and sustainable water resources management to ensure conservation of water resources and provision of water for all social and economic activities.”***
- b) ***“Sustainable safe water supply and sanitation facilities, based on management responsibility and ownership by the users, within easy reach of 80% of the Urban population by 2005 and 100% by 2010.”***

The key government policies impacting on investment in the sub-sector are:

- (a) Water is to be regarded as both a social and economic good. This implies that there needs to be a balance between the social imperatives of facilitating affordable access to safe water supplies necessary to maintain health and the economic imperatives of ensuring the resources are used efficiently (not wastefully) and that investments are sustainable.
- (b) The government stated objectives to ensure universal access to safe water supplies (100% coverage) in urban areas within a ten-year period, i.e. by the year 2010. This statement of intent has been used as the basis for assessing investment needs.

- (c) The government wishes to achieve a financially self-sustainable urban water sub-sector, which is not reliable on subsidies from government.
- (d) It is government's policy to seek PSP in service provision with the view to increasing service efficiencies and revenues, thus decreasing the burden on limited government resources for O&M but instead concentrate on developing new facilities for the unserved urban population especially the poor.
- (e) Ensuring that access to water is affordable.²
- (f) Subsidies, where inevitable, should be targeted and transparent (SMART)

2.5.1 Service levels

(a) Water Supply

Computation of the investment requirements was based on the following considerations:

- A basic service to provide piped water to 80% of the urban population with the remaining 20% being served by point sources within 10 years. (40% private connection, and 405 public standposts).
- Demand consumption based on the following service levels:

People per connection	15
Monthly consumption per private connection	2m ³ /month
Daily per Capita consumption (private connection)	27 l/c/d
People per public standpipe	200
Daily consumption per capita (public standpipe)	10 l/c/d
Monthly consumption per non-domestic consumption	3% growth in consumption
- A population growth rate of 4-5% has been assumed suggesting an increase from 2.9 million people in 2000 to 4.7 million in 2010.

(b) Sewage

- (i) A basic service is assumed to cover 18% of private water connections and for non-domestic water connections it will cover 25%.
- (ii) Effluent discharge is assumed to be based on following service levels:

People per private connection	-	6
Monthly discharge per private connections	-	20m ³ /month
Monthly discharge per non-domestic connection		
Large towns	-	60m ³ /month
Medium and Small towns	-	30m ³ /month
- (iii) Piped sewerage is not envisaged in Small Towns outside the lease group up to the year 2010.

(c) Sanitation for Kampala City

Sanitation situation in Kampala poses the greatest challenge and raises high priority issues. The bulk of the proposed capital investment in water-borne sewerage will be focused on the greater Kampala area. The Kampala City Council, the AHA and the

²The number of towns here increased to 84 due to the creation of new districts

Lessee will have to work closely together to plan and implement systems, which can be expanded with time.

With regard to the ongoing and critical challenge of on-site sanitation, the Kampala City Council remains accountable to plan and manage this component of public service provision.

Because of the critical status of the present situation and the very serious health risks in Kampala, it is recommended that an in-depth strategy focused exclusively on the sanitation, both water-borne and on-site sanitation of Kampala be undertaken and implemented.

The emphasis here should not be on policies, since these are well developed, but rather on practical issues of integrated physical planning, implementation and service improvement. A Special Task Force to look into the affairs of sanitation in Kampala has been recommended.

The WSDA/DUWS will, prepare financing and investment plans, undertake infrastructure planning, establish best business practices, establish standard contracts and monitor the performance of service providers.

2.5.2 Analysis of Investment Needs

The towns are grouped into categories by geographical location and size. This first group consists of towns situated in the Kampala, Entebbe and Jinja (KEJ) corridor (7 towns). The second and third group consists of all towns with populations greater than 15000 and 10,000 respectively. The fourth group consists of the rest.

- (a) Two target scenarios for the service coverage, a base scenario and a high scenario were investigated. The target for the base scenario is to provide piped water to 80% of the urban population with the remaining 20% being served by point sources within 10 years. The high scenario targets to provide piped water to 100 % of the urban population within 10 years.
- (b) The service coverage provided by the existing infrastructure was assessed during the town visits and by analysing the reports, plans and documents made available to the Study Team and evaluating the information collected during the visits to twenty-six towns.
- (c) Shortfalls in the existing infrastructure required to meet the target service levels objective were identified and quantified in as much detail as possible for the 26 towns which were visited.
- (d) Based on the information available an initial assessment was made of the need for and the possibility of rehabilitating the infrastructure components in each of the sampled towns. If a component was deemed to be unreliable or unserviceable due to age or its poor condition was reported or observed, allowance is made in the investment needs for the total replacement of the component. Where a component was deemed to be rehabitable, a percentage of its replacement value, based on engineering judgement and the age of the component, was estimated as the cost to rehabilitate the component to extend its useful life.

- (e) Unit costs of construction were determined from recent and current contracts, and from current cost of materials.
- (f) Costs were estimated for the required infrastructure and hence the total infrastructure investment needs for the sampled towns were determined.
- (g) Typical shortfalls in the existing infrastructure for the remaining towns were determined on the basis of proportioning the average cost for rehabilitation and expansion the sampled towns in terms of population.
- (h) An average cost per capita for implementing a new system was determined and applied to the remaining towns without any systems. The average cost per capita was determined by calculating a replacement cost for the existing systems sampled taking cognisance of the type of system likely to be used.
- (i) Unit cost rates were obtained from reports and tendered rates from Contractors. The rates that were reported were adjusted to 1999 base date in U.S. dollars using an inflation rate of 2.5%. All the rates were standardised as not to include Preliminary & General and Engineering and Administration costs. P&G of 20% and Engineering and Administration of 15% were added to final component costs.

The cost estimate for the Sampled towns has been structured in as much detail as possible. The costs for the base and high scenarios were determined by applying the unit cost rates to the quantities identified. These costs formed the bases for determining the costs to the remainder of the towns. The extrapolation of costs was done for the Base and the High scenarios. Based on the assessment of the water investment needs for the sampled towns, an extrapolation of the investment needs for the remainder of the 75 towns was carried out. Similarly, based on the sewerage investment needs for the sampled towns, an extrapolation of the investment needs for the remaining towns with a population in excess of 15 000 was done. The method used is relied on proportioning the costs in terms of population for the different categories of towns:

It must be noted that this process was used to establish the total water investment needs for the urban sub-sector and that discrepancies will exist when individual towns are considered. It should be noted that feasibility studies would be required when assessing the investment needs for an individual town.

2.5.3 Service targets

(a) Water

The following Table summarises the extent in the growth in water service coverage for both the base and the high scenarios for the different groupings of towns.

Table 2.3: Water Coverage

Category	No. of Towns	Current 2000	Base Scenario 2015	High Scenario 2015
KEJ	7	29%	75%	87%
Towns > 15 000	26	29%	80%	91%
Towns 10k– 15 000	12	19%	84%	100%

Towns <10,000	33	11%	86%	97%
TOTAL	78	27%	78%	90%

The following Table summarises the extent in the growth in water connections for both the base and the high scenarios for the different groupings of towns.

TABLE 2.4: WATER CONNECTIONS

Category	No. of Towns	Current 2000	Base Scenario 2010	High Scenario 2010
KEJ	7	29 219	80 496	113 749
Towns > 15 000	26	15 761	46 099	75 604
Towns 10 – 15 000	12	837	7 056	12 761
Towns<10,000	33	522	10 084	18 083
TOTAL	78	46 339	143 735	220 196

The following Table summarises the extent in the growth in water connections for both the base and the high scenarios for the different groupings of towns.

TABLE 2.5: WATER PRODUCTION

Category	No. of Towns	Current 2000	Base Scenario 2015	High Scenario 2015
KEJ	7	105 679	128 954	203 099
Towns > 15 000	26	23 817	49 509	89 329
Towns 10 – 15 000	12	1 102	5 768	13 409
Towns< 10,000	33	606	8 225	18 806
TOTAL	78	131 205	192 456	643

(b) Sewerage

The following Table summarises the extent in the growth in sewerage service coverage for both the base and the high scenarios for the different groupings of towns.

TABLE 2.6: SEWERAGE COVERAGE

Category	No. of Towns	Current 2000	Scenario 2015
KEJ	7	5%	14%
Towns > 15 000	26	1%	7%
TOTAL	33	4%	11%

The following Table summarise the extent in the growth in sewerage connections for both the base and the high scenarios for the different groupings of towns.

TABLE 2.7: SEWERAGE CONNECTIONS

Category	No. of Towns	Current 2000	Scenario 2015
KEJ	7	9 955	21 966
Towns > 15 000	26	3 811	14 079
TOTAL	33	13 766	36 045

2.5.4 Investment Requirements

(a) The next Twelve Years

The total capital expenditure over the next twelve years for basic service provision is estimated to be US \$ 380 million. The capital costs include the cost for both expansion and rehabilitation. The total investment need up to the year 2015 is dependent on population and level of service. The average annual capital expenditure for the base scenario is estimated at about \$30 million.

The investment needs were reviewed in the light of the 2002 population census figures. As the growth rate of the Urban Centres was lower than initially expected the investment projections could be revised downwards.

The cost per capita for water service expansion in the base scenario ranges between 43\$ per capita to 171\$ per capita for the larger towns and smaller towns respectively. This cost has been calculated as the total expansion cost divided by the difference in population served in ten years and the current population served. This significant difference in the cost per capita in water expansion between the larger towns and the smaller towns is attributable to the fact that in the larger towns there is capacity in the existing bulk infrastructure and that in the smaller towns the density of connections in relation to the reticulation is lower.

The cost per capita for water service rehabilitation ranges between 64\$ per capita to 33\$ per capita for the larger towns and smaller towns respectively. This cost has been calculated as the total rehabilitation cost divided by the current population served. The difference is attributable to the fact that the systems in the larger towns are older and requires additional rehabilitation.

2.5.5 Criteria for Prioritisation of investments

A number of projects are being implemented by the DWD and NWSC and are at different stages of implementation. As the reforms are implemented, it is planned that the investment momentum is maintained. Furthermore, it has been recognized that in order for the reforms to succeed, there will be need to strengthen operations in the towns including substantial investments in rehabilitation, renewals and expansion of facilities. This funding for water-borne systems and waste disposal sites would be managed by the AHA and be obtained either via Government loans or from Donor funding.

The following criteria should be applied in prioritising projects:

- (a) It is important that schemes should be economically viable to ensure the sustainability of the schemes. Towns with a large population and large economic base would tend to have a greater prospect of implementing an economically viable system.
- (b) Centres with large commercial activity tend to rely heavily on water supply systems and have greater means of paying for water consumed. Areas with industrial activity will tend to stimulate the economy of the region thus providing the economic base for development of the area and subsequently improving the economic viability of the scheme.

- (a) To achieve maximum impact attempts should be made when selecting a project to ensure that the greatest number of people can be supplied for the least possible expense. The following areas have been identified in achieving maximum impact:
- (b) Densification of the existing water supply systems by actively promoting additional water connections
- (c) Rehabilitation of existing bulk infrastructure where an adequate distribution system already exists.
- (d) Rehabilitation of existing distribution system which is hampering the maximum potential utilisation of the current production facilities.
- (e) Construction of new distribution systems in towns by tying in to another town's existing bulk infrastructure at minimal expense. This is applicable to satellite towns around Kampala.
- (f) Technical constraints such as type of water source, development of the source and level of treatment required can influence the feasibility of a scheme.
- (g) Large towns with no existing system should enjoy a higher priority than smaller towns as these towns generally have a higher economic potential and a larger market for piped water systems.
- (h) District capitals are generally the larger centres in a region and the area with the most potential for economic development. The installation of a piped water system could promote further economic development in the region.
- (i) Towns that have reports of frequent outbreaks of waterborne diseases should be considered as high priority towns for a piped water supply system.
- (j) Towns with a single point source of water are more likely to have their water source contaminated, as a result of a large number of people congregating to collect water. By installing a piped water system the source can be protected, additional distribution points are created, and the risk of contamination of the source is reduced.
- (k) It is important that towns requesting a pipe water system take the necessary preliminary steps to ensure that a water system can be feasible. It is important that the right social climate be created to ensure the successful implementation of a scheme. The necessary steps to creating the best climate would include an overall strategy based on education on the benefits of piped water and appropriate sanitation, town planning, feasibility studies and business plans.

2.5.6 Opportunities for Cost Reduction

Area of opportunities for cost reduction have been identified and include:

- (a) By increasing the population densities, better utilisation of pipe lengths is made thus reducing the average cost of distribution per connection. This can be

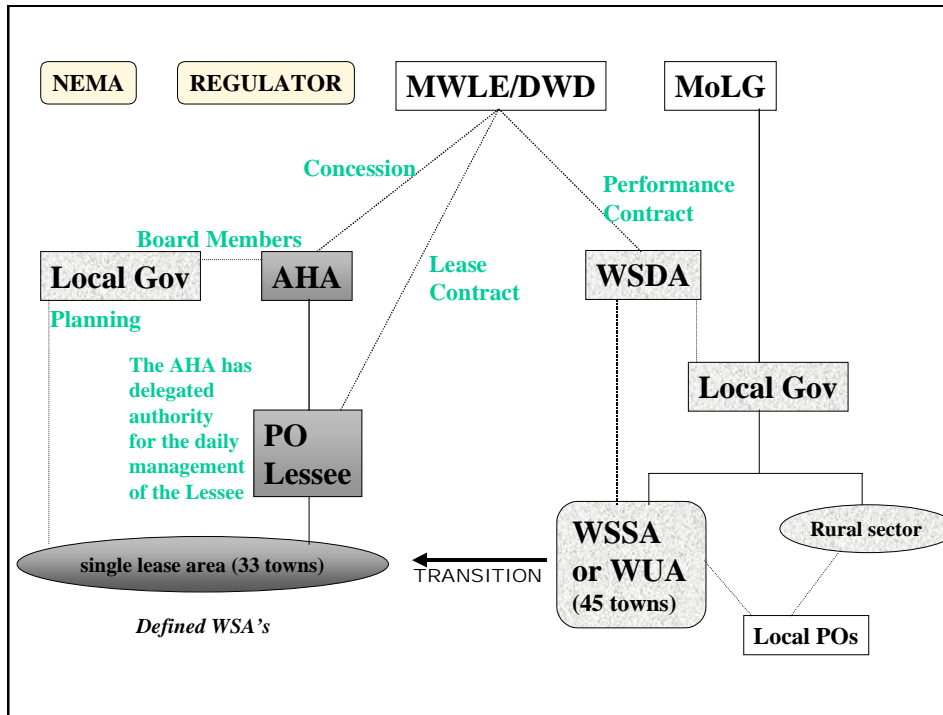
- achieved with comprehensive town planning, except for areas already developed.
- (b) Accepting a higher proportion of standpipes and point sources the capital investment per capita is reduced.
 - (c) With the introduction of increased activity in the water sector, a more competitive market may emerge resulting in a reduction of unit rates.
 - (d) Systems should be planned to meet the growth in demand, taking affordability and appropriate level of service into consideration. Therefore, to avoid unrealistic demand forecasts, the demand for and unit consumption per connection and standpipe should be assessed carefully in connection with the pricing structure.
 - (e) Studies are required on a project basis for determining the appropriate use of technology from which savings can be made.
 - (f) To avoid imbalances between production and distribution, the design of distribution networks should be based on a detailed assumption of the demand for connections and standpipes and the dimensioning of production capacities to be limited to the foreseeable demand.
 - (g) Improving overall investment efficiency. Sound project management, as prescribed in the “ Rural Towns Water and Sanitation Programme – Small Towns Water & Sanitation Project Implementation Manual” should be applied.

3.6 Recommendations

Proposed Institutional Framework

After careful analysis of the alternative institutional options against the reform objectives the proposed reform includes a Lease contract for the main Private Sector involvement. It comprises a single lease contract with an experienced Private Operator for the management of the water and sanitation services in a group of the larger towns and the local management, with central government support, for the water and sanitation services in the smaller towns.

Fig. 2: Framework for the Single Lease Model



(a) Private Sector Operation of Large Towns

The recommendation is that a group of up to 30 – 35 of the larger towns, all with a population of more than 15 000 in 2000, be managed by a private sector operator under a single Lease contract for a 10 year period. The lease would be reviewed after 5 years. The exact number of towns and the actual towns to include in large town group for the initial Lease contract has to be decided but it will include the 12 towns currently managed by NWSC. The contract will require the private operator to operate and maintain the water and sewerage systems in the towns for a period of 10 years, increase the number of consumers and connections, meet specified performance and re-investment targets. It is anticipated that a limited number of additional towns will join the Lease during the Lease period.

The basic strategy in large Towns would, therefore, be to commercialise and privatise O&M and management. The IPO would be contracted to improve

- (a) operational performance of the facilities,
- (b) financial performance of the services thereby reducing state subsidies in O&M,
- (c) Improve quality of services,
- (d) expand social coverage

The lease model aims to achieve financial self-sufficiency for the lease grouping, as a result of improvements in performance that introduction of the PO is expected to enhance. This means that within a timeframe, government will not provide any budgetary support for operations and maintenance of urban water and wastewater services within the lease grouping, except for the Conditional Grants that have been proposed for the urban poor. Further the lease grouping will be able to fund all loans and investment, albeit via government secured loans, from its tariffs, as a result of the expected improvements. This self-sustainability is one of the key objectives of the Reform process.

Within the lease grouping, the tariff structure will be uniform. It will be made up of two components, the share paid to the Private Operator (PO) to meet his staff and operational costs (including a small profit) and a share used to contribute to the Urban Water Fund (UWF) and possibly in due course the National Water Development Fund (NWDF) managed by the UWD. The share payable to the PO will be transparently determined through competitive bidding. However, Government through the Local Government Councils may provide subsidies targeted at water and sanitation in very poor urban communities.

However, state subsidies will continue to be required but expected to reduce over time.

The O&M activities of the PO will be monitored and supervised by a Regulator.

(b) Local Management of the Smaller Towns

Responsibility for service provision in the smaller towns, which are not in the lease group, will continue to be vested in Local Governments. Local governments will enter into performance contracts with the MWLE. The performance contract will specify standards to be met and conditions for accessing Government subsidy. To ensure effective decentralised service provision central government support will be required.

The reform proposals for small Towns are:

- (a) a state-owned organisation/agency oversees development and provision of water services in small Towns,³
- (b) decentralised responsibility for provision of WSS services be retained involving LGAs and communities,
- (c) O&M and management of facilities and services be contracted to POs, procured under a process that will be guided by the WAD
- (d) the UWD support to the WSS facilities and services, monitors, supervises and guides the POs and LGAs involved, and,
- (e) the UWD acts as the Regulator for price and quality of services provided.

For the small Towns under the Local Governments and UWD, the same principal for self-sufficient would be desirable.. However, experience has shown that for small Towns , it is almost impossible to cover all operational costs from the tariff. This is due to low economies of scale in small Towns. Moreover many of the systems are in varying states of disrepair and so the operating cost include a significant portion of expenditure to finance system losses, undue repairs and other inefficiencies. Moreover due to the relative low income levels, increasing tariffs would render the service as unaffordable, reduce ability to pay and revenue collections.

³ The *Sector Reform Paper* has suggested two options in this regard:

(a) an autonomous state owned Water and Sanitation Development Agency, WSDA or,

(b) a Department of Urban Water Supply within DWD

while the *Institutional Study Report* proposes that the existing WAS be upgraded to a Division (WAD) within a newly upgraded Urban Water Department (UWD) within the DWD. This is a more practical and desirable option, and is assumed for purposes of this paper.

It is therefore anticipated that like in the past, since it is difficult to cover all operation costs through the tariffs, the Government will provide a subsidy. The subsidy will be through the Conditional Grants for O&M of small urban water systems but provided under the strict existing guidelines that will ensure that these subsidies are only applied to the pre-determined areas that will lead to improvements in system sustainability and coverage and gradually decrease reliance on subsidies. In addition, the WAD shall maintain a budget for strategic cross cutting interventions or activities that are unpredictable and/or beyond the capacities of the LGAs, especially for systems where general renovations have been earmarked. However subsidies must be well targeted and transparent and should not in any way be a replacement for revenue generated from water sales.

It has been suggested that a uniform tariff be applicable to the small Towns as well and that subsidies be based on the difference between possible revenue and cost. Much as uniformity is attractive, this would lose out on the need for choosing the most feasible technology in terms of O&M cost. It would also imply that even systems that can break even will receive subsidies, hence reducing the incentive for better performance. What is being suggested for now is that LGs in consultation with the Pos be allowed to review tariffs and come up with proposals as part of their business plans, provided that ability and willingness to pay are given due consideration. After all life styles vary from town to town and cross subsidization between Towns is not envisaged.

(c) Asset Ownership

All assets will remain in public ownership but be managed effectively, commercially and at arms length/semi autonomously. The ownership of the assets in the large town group will be vested in a wholly government owned Asset Holding Authority (AHA). The AHA will be responsible for planning and implementing the very significant investment in water and sewerage infrastructure required in the large town group. It will also be the government authority that monitors the performance of the private operator and enforces the Lease contract on behalf of government.

Local Government, on behalf of central government, will hold the assets in the smaller towns in Trust. As towns graduate into the Lease group the assets will be transferred to the AHA.

(d) Regulation

With the significant involvement of the private sector an independent economic regulatory organisation framework will be necessary to set tariffs, provide protection for the consumers and resolve any dispute between the private operators and the contracting party. Technical Regulation will be left to DWD and NEMA the AHA and the WSDA/DUWS. This regulation will be primarily be exercised through the contracts which will incorporate the standards of the relevant agencies e.g. Water Quality, Environment, Public health, etc.

(Note: This still needs review. The countries in West Africa, Senegal and Cote de'voire do not have independent regulations and regulatory clauses (basically economic) could be put in the contracts with operators.)

(e) Asset Holding Authority(AHA)

The AHA will hold the water and wastewater assets of the lease group town grouping on behalf of government. The Asset Holding Authority, which will be 100% government owned, must be properly designed and staffed to be able to fulfil its functions effectively and efficiently. It will require some skills to be outsourced

The AHA will be fully responsible for all infrastructure investment planning and execution, AHA could outsource most of the work to the Private Sector. It will be responsible for sourcing funding, managing investment portfolios, the Urban Water fund and monitoring the Lease Contract for O&M.

The AHA and Private Operator (Leasee) will establish appropriate forums with Local Authorities for coordination and integration of water sector investment plans with other local development plans. The AHA will be a Small Agency staffed with a Small Team of professionals experienced in investment portfolios, assets management, finance and engineering.

The Asset Holding Authority will be a small organization with a Board of Directors of significant technical and commercial ability, and including members with international standing. It will have a small powerful team of about 20 people whose track record of management of investment portfolios is unquestionable.

(f) WSDA/DUWS

It is proposed that either a WSDA be created as a new autonomous agency .The motivation for splitting the WSDA from DWD is firstly to separate service provision and support, and secondly to establish a focused unit with a narrowly defined mandate. However, the Ministry of Public Service has issued a document on guidelines for formation of autonomous agencies and it is clear that it introduces a new range of challenges. Secondly creating a new agency that is not generating its own revenue may introduce yet another difficulty in financing. During implementation of the urban Reforms, it is planned that the viability of creating the WSDA will further be elaborated.

An Organisation Study of DWD, assisted by DANIDA was completed in March 2001. It is recommended that the present Urban Water Division in DWD be upgraded to a Department in order to handle the big task in the sub-sector irrespective of whether the WSDA will be created or not. The DUWS will have two divisions; one for supporting the O&M in the Small Towns and the other for management of development programmes. The WSDA/UWD will be a small organization staffed with experienced professionals in engineering, finance and social-economic development.

Key functions of the WSDA/UWD would include;

- i. It would assist Local Governments to draw up water and sanitation business plans.
- ii. It would interact directly with the smaller urban towns (45), and supporting the WUAs directly. Where it believes a Water and Sanitation Services Authority (WSSA) needs to be established, it will facilitate its establishment.

- iii. It would assist in packaging systems and water provision solutions within geographic areas, with an emphasis on fit-for-purpose and innovative systems. The approach would be demand driven, in that the LG and the WUA/WSSA would determine their needs by means of WSS business plans.
- iv. It would drive on-site sanitation best practices.
- v. It would assist in contracting local POs wherever possible, and drive operational and service best practices through the POs.
- vi. It would manage the National Water Development Fund.
- vii. It would facilitate the transition of towns into the lease grouping. This is a key role played by the WSDA, in which it prepares and capacitates towns large enough to go into the lease grouping and motivates and facilitates their transition.
- viii. It would be the main vehicle for investment planning and execution of infrastructure development but would outsource all or most of the tasks to the Private Sector.

(g) The Role of the Local Governments

The importance of Local Government and the role it plays must be emphasized. Local Government will continue to have an important role, both as the authority responsible for service provision in the smaller towns as well as being the local representative of the people and the local representative of government, monitoring the effectiveness of service provision, in all towns.

It will have to fulfill a key role in integrated planning and plan for service provision LG plays a key role in the AHA, and would be represented on the Board of Directors. Further it would play the role of local regulator in the individual towns, ensuring that service provision both by the lessee, and by the smaller POs in smaller towns complies to the agreed standards.

It will have to fulfill a key role in integrated planning and plan for service provision. It is also emphasized that Local Government must be consulted extensively, especially in the preparatory period when the lease group is being agreed and during the implementation period when new roles and responsibilities are being accepted. The need for a sound communication and consultation strategy applies equally to other stakeholders.

(h) International Private Operators (IPOs)

Discussions were made with international private water and sanitation services operators and their willingness to take up operating responsibility in any market and would very largely be a function of price. The main concern that was raised was around the integrity of the bidding process i.e. the need to be assured that proposal call processes would be taken all the way. Bidders also expressed a need to be informed of the process to be followed e.g. pre qualification up to results, the need to have a database of information engineering and financial as well as assurance on payment in accordance with the contract. Other issues raised were around the

influence of government on investments and the type of institutional reforms that should be adopted.

3.6.3 Financial Framework

The basic financial framework for the urban water sub-sector will be as follows:

- (a) **Financial self-sufficiency** - The lease model aims to achieve financial self-sufficiency for the lease grouping. This means that, within an agreed time frame, government will not provide any budgetary support for the operations and maintenance of urban water and wastewater services within the lease grouping. Further, the lease grouping will be able to fund all loans and investment, albeit via government secured loans, from its tariff.
- (b) **Urban Water Fund** - An Urban Water Fund (UWF) will be created for investment in urban water and sanitation infrastructure. The UWF will be funded from income derived from water sales in the urban sub-sector. The AHA will manage the fund.
- (c) **National Water Development Fund** – A NWDF will be created to fund investment primarily in the small towns and rural water and sanitation sub-sector outside of the single lease area. This will be funded by a combination of grants, concessionary loans, government subsidies and a levy on water sales within the lease area. This fund will be managed by the WSDA.
- (d) **Cross-subsidisation** – The principle of cross-subsidisation is accepted.
- (e) **Urban water tariff** - The urban water tariff structure will be uniform within the lease grouping. It will be made up of two components, the share paid to the PO and a share used to contribute to the UWF and possibly in due course the NWDF. Tariffs to the end consumer will be structured so as to facilitate affordable access to adequate water.
- (f) **Revenue for sanitation** – Revenue for sanitation will be obtained from a levy on the water tariff.
- (g) **Dedicated new connection fund** - The PO will be required to establish and manage a dedicated new connection fund. This fund will be financed from a dedicated “new connection levy” within the water tariff and possibly from PO own funds at some stage. The AHA in negotiation with the PO will determine the level of the levy. The PO will use this fund to invest in new connections. A mechanism will need to be found to keep the construction cost of the new connections low, perhaps by requiring the PO to put these new connections out to competitive tender on a regular basis.
- (h) The funding for water to the peri-urban area and on-site sanitation should be in form of ‘Conditional Grants’ to the Towns Councils , with the provision that operation and maintenance is covered by the fees form the users. It is likely that funding this would be from the treasury, and possibly from donor funding.

Investments in the Large/Lease Towns

The capital investment portfolio for the 33 lease group towns under the AHA will be from 3 main sources:

- (a) Public financing from the treasury and development partners. The funding will be in form of loans to finance commercially viable investments or in form of grants to finance the social mission particularly towards the urban poor areas.
- (b) A portion of the tariff collected by the Private Operator, the difference between the tariff rate and the PO fee (agreed on at the time lease contract negotiation).
- (c) Some components of the assets will be funded and executed by the Private Operator. These will include facilities that are geared towards expanding coverage, creation of efficiency and increased revenue. Such items may include service lines, meters etc.

Investments in the Small towns

Funding of capital investments and operations of the Small towns will be from the Government treasury and Development partners. It is not envisaged that funds would flow “upwards” from the customer to the Local Government or WSDA.

At present, the Government is providing Conditional Grants through the Poverty Action Fund towards operation and maintenance.

Town Councils – Town councils are responsible for integrated development planning and in particular ensuring that appropriate sanitation facilities can be provided within the planning framework for the town. The town councils will continue to take the overall accountability for planning, coordinating and monitoring the provision and management of on-site sanitation services. In particular they must ensure the provision and operation of public on-site sanitation facilities at taxi parks and other public places and waste disposal facilities.

All water service business plans prepared by towns council must include appropriate short and long-term sanitation plans. Town councils should be resourced to enforce good public and private domestic sanitation practice.

The Water Authorities –The Water Authorities(AHA/WADA,LG) must ensure that all its water infrastructure planning is accompanied by plans for sanitation systems that are appropriate to the level of water service planned. Where there is no water-borne system, this must include the provision of facilities for disposing of the sludge removed from on site facilities. Any water-borne sewer system must be planned to accommodate disposal of the waste from on site facilities.

Water Supply

Water Supply Services to peri-urban areas for the urban poor continue to be a major challenge for the Government. Some of the factors affecting supply include:

- (a) Lack of physical and structural plans for settlements and hence making it difficult to extend services to the areas.
- (b) Population increases which tend to outpace the rate of infrastructure development.
- (c) Low income levels and poverty which hinders private connections and payment of services.

In view of the above challenges, it is not expected that water supply services in peri-urban areas will be commercially viable. Hence investment in peri-urban areas targeting the urban poor should be funded as part of the Social Mission of Government from the treasury and Development Partners. The situation in Greater Kampala and the slum areas require special attention. At present, there are no planned programmes focusing on peri-urban areas. However, the German Government through GTZ has indicated a plan to support PO involvement in peri-urban areas as part of the support to the Reform programme.

On Site Sanitation for the urban poor

A key component of the sector is the proper implementation and management of on-site sanitation, since this will remain the appropriate service for the majority of the urban poor. Public toilets should be constructed to serve the urban poor. Key stakeholders taking accountability for this service include:

3.6.4 Monitoring of Performance/Benchmarks

To achieve these objectives set out in this strategic plan, the GOU has to put in place mechanisms for monitoring sector performance. Performance monitoring should incorporate-Efficiency aectivend eff measures, service level measures, capital investment progress report, technical operation report, Economic and financial measures (billing and revenue collection, operating expenditures, financial statement).

4. BENEFITS OF THE REFORM RECOMMENDATIONS

The main benefits, which can be expected, are:

Service Coverage: There will be an increase of service coverage over ten years, with a projected increase in water connections from 46 400 to 143 700, an increase in sewer connections from 13 800 to 36 000, and an increase in appropriate on- site sanitation.

Sustainability: At a projected average tariff of U\$0.70 per kl and operating cost of U\$0.39 for the Single Lease Grouping, sustainability will be improved, and this grouping will be able to service its debts, establish a National Water Fund, and maintain a healthy financial position.

Reducing Subsidies: Assuming that the same coverage targets are met, the subsidy burden on the government would be 40% of the projected burden if the reform did not take place.

Affordability: The projected operating tariff of the Single Lease PO averages at U\$ 0.39 per kl sold, which allows for the setting of affordable tariffs for the consumer, whilst maintaining the sustainability of the grouping. The WSDA aims at improving service provision and quality in the smaller urban towns, through the implementation of best practice. This is expected to result in appropriate service solutions at an affordable price for the consumer.

Regulation and Sound Governance: The reforms recommend a consistent framework in which appropriate water and sanitation service solutions can be affected. Independent regulation and sound, accountable, governance will support the sector.

Capital Investment: The reform framework, with its anticipated performance gains, and unequivocal governance structure is expected to elicit the confidence of funders and development partners.

Improved performance: The structure of the reform recommendations and the anticipated entry of an experienced PO for the lease and local POs where possible, is expected to achieve the performance and efficiency targets set.

The Social Good: The reform seeks to strike the balance between sustainability, affordability, and reducing the burden to the state, whilst maintaining the interests of the Ugandan people.

5. URBAN WATER REFORM IMPLEMENTATION

The implementation of the reform will be guided by the following principles:

5.1 General Principles

- i) **Water as a Social Good** – All Ugandans should be able to satisfy their basic need for safe water and appropriate sanitation.
- ii) **The 80:20 Principle** – The greatest priority will be given to areas where the greatest benefits can be obtained, in a reasonable time frame, for the effort invested in reform. (i.e. 80% of the benefit can be achieved with 20% of the effort). This does not mean that some areas will be ignored, but rather that transformation will be managed as a process, with high-impact priorities enjoying attention first, systematically addressing the needs of all Ugandans.
- iii) **Some for All and not all for some**
- iv) **Equity-All** Ugandans to access safe water and sanitation facilities, good services at affordable and equitable tariffs.
- v) **Transparency and Inclusivity** – The reform process should be both transparent and inclusive. The processes for change should be clearly explained to all who will be affected. All the stakeholders should be involved in the reform at the appropriate stages of the process.
- vi) **Ownership** – The reform process must be championed and owned by the Ugandan stakeholders if it is to be sustainable. External stakeholder support is very important but their impetus alone will not suffice.
- vii) **Simplicity** – The reforms required, the necessary institutional arrangements and management systems should adhere to the principles of simplicity, effectiveness and fit-for-purpose.
- viii) **Incentives and Risk** – Real incentive and real risk remain the most powerful drivers of performance and should be used to maximize effect.
- ix) **Policy Legislation** – The policy and legislative framework must be coherent, clear and provide an enabling environment.

5.2 Specific Principles

- i) **A Champion of Reform** – The reform requires a political sponsor and a champion of reform, who transcends the individual stakeholders interests, has a clear vision and who fully appreciate the economic and social imperatives of the reform and who will accept personal accountability for maintaining the momentum of the process.

- ii) **A dedicated Ugandan Team** – A strong team will be needed, staffed mainly by Ugandans, which is dedicated to managing the reform process. They should enjoy a strong and clear mandate by the stakeholders, adequate funding, and have the standing and influence to implement reform.
- iii) **Decentralization** – The GOU policy position on decentralization is accepted and acknowledged however, the balance between centralized and decentralized management, systems, capacity etc. should be determined by fitness-for-purpose, best practice and commercial reality, rather than a rigid decentralization policy.
- iv) **Asset Ownership** – Asset ownership and decentralization are linked. The structure of asset ownership should be such that it supports the effective investment in, and operation and maintenance of the infrastructure.
- v) **Strong Regulation** – A strong regulatory framework, funded by the sector, is needed.
- vi) **Permit System** – All commercial exploitation of the water resource must be regulated by permit. This is particularly important within boundaries of the area under private sector management.
- vii) **Responsibility and Accountability** – Within the water sector there is and will continue to be more than one organization responsible for ensuring the provision of water and sanitation services. It is essential that for any town or settlement that is unambiguous responsibility and accountability for service provision.
- viii) **Sustainability of Services** – The Urban Sector should strive to be fully financially sustainable, able to raise adequate finance for sustainable investment on the basis of its own financial strength, and able to repay all interest and principle on existing and new debt.
- ix) **Funds generated in the Urban Water Sector must be retained in Sector** – The development of the sector must be first use to which all tariffs are applied i.e. the income must be “ring-fenced”.
- x) **Water and Waterborne Sanitation must be managed together** – The operation of the piped water and wastewater systems should be undertaken by the same agency for a given geographic area.
- xi) **A Uniform Urban Tariff** will be applied in support of the policy of equity. This means that possibly within the whole Urban Sector, but at least within a single management unit (e.g. lease) a uniform tariff will be paid by all customers receiving the same level of service.
- xii) **Significant Private Sector Participation** – Significant PSP is more likely to achieve higher efficiencies and sustainability than a public utility in the Ugandan context. The approach is thus to seek the highest practical and effective level of PSP that can be secured for the greatest number of consumers.

xiii) Cross Subsidization – The principle of cross subsidization is an acceptable mechanism to ensure affordability of services. The basic principle underlying good practice in subsidization are:

- Subsidies should be targeted
- Subsidies should be equitable to the majority and transparent
- Subsidies should be applied in terms of clearly defined rules
- Subsidies should be time barred

5.3 Strategic Decisions

Government of Uganda needs to:

- (a) Decide on the perimeter of the lease towns,
- (b) Make the necessary legislation/amendments to relevant Acts, Statutes and Regulations to facilitate entering into a lease contract, creation of the AHA, and Regulator,
- (c) Make the necessary administrative decisions required to facilitate the transformation of DWD and NWSC
- (d) Enter into discussions/negotiations with development partners, whose support will be necessary with a view to an early determination of available technical and financial assistance,
- (e) Establishment of the various inter-ministerial reform management organs and committees.

5.4 Implementation Framework

- (a) Establish the Ministerial Policy Coordinating Committee, (MPCC), (Ministers and PSs)
 - (b) Establish the Implementation Steering (Technical) Committee, (ISC), (PSs, Directors, Regulator and Task Team Leaders). This committee is responsible for ensuring that the Reform is implemented in a structured and coordinated manner.
 - (c) The committee will require technical support from resources outside the Line Ministries and their departments. The outsourced resources are envisaged to be as follows.
- ◆ Short Term Reform Advisor

A short term Reform Advisor should be appointed as soon as possible to maintain momentum and support the Committee for approximately the next 6 months, until the Reform Manager is appointed. The advisor will assist the committee in procuring the Reform Manager, agreeing the scope of work and structures of the Task Teams and providing any other support

If possible this appointment should be funded from an existing budget. It would also be desirable that the short-term advisor is familiar with the Reform process to date.

◆ Reform Manager:

The reform manager will be the co-ordinator of the reform and the main interface between the two task Teams as well as between the various Ministries and government Departments involved. His main responsibility will be to establish and monitor the detailed Reform work Plan, to ensure that all aspects of the Reform Process are started and completed timely and remain within Budget.

- (d) Establish the Lease Procurement (Privatisation) Task Team.
The main responsibility of this task team is to manage all the activities required for the procurement of the Lessee. The following actions are required for its establishment.
- (e) Establish the WSDA/DUWS Task Team.
The main responsibility of this task team is to manage all the activities required for the establishment of the WSDA/DUWS, the institutional framework and methodologies for the decentralised management of the smaller towns. The following actions are required for its establishment.

5.5 Transition Arrangement

There is need for commitment to the Reform Process, including arrangements for management of the transitional period:

(a) Strengthening of NWSC

During the transition period there is need to strengthen service delivery operations and establishing a track performance record of NWSC. It is hoped that it is through this means that the Government will attract a good lease with a good price.

In addition NWSC should strengthen its departments to carry out professional project management, asset evaluation and management. With the increased PSP engagements especially in Kampala WSS, NWSC will also strengthen its performance monitoring and evaluation capacity to manage PSP contracts during the period of the transition.

The following preparatory/transition activities will be undertaken during the period 2001-2005:

- i. assessment of the Capital requirements for investment in identified Lease Towns,
- ii. preparation of management information and system profiles on the lease Towns for inviting tenders,
- iii. preparation and documentation for lease bids,
- iv. procurement of PO and entering into a lease Contract.

The Performance Contract between MFPED and NWSC will continue to guide the operations of NWSC. Taking of new towns should be guided by the above contract and should be properly coordinated with all stakeholders.

Tariffs in the large Towns will be uniform and in the small Towns, tariffs will be set according to the O & M costs for providing the services by the local authorities. A study to harmonise this and (2) above is to be implemented in the near future.

The UWD should be established and sufficiently staffed by professional engineers, financial/accounting analysts and sociologists adequately equipped to perform their duties. It will primarily be (a) a driver for best practices, (b) monitor and evaluator of performance (c) developer of WSS facilities and (d) a promoter of schemes from the small Towns to the lease grouping. Outsourcing expertise will be an important method of implementing its operations.

(b) Support towards LGA Management of O&M

While UWD is being formed, WA Unit will need to continue supporting LGAs and take the lead in driving best practices. To do so, WA Unit will undergo a qualitative and quantitative transformation to (a) provide management advisory services to LGAs and POs and (b) monitor the performance of POs and Water Authorities. The Division will need to be adequately staffed with the right skills in business management, finance, engineering and monitoring. The Division will also need to be adequately equipped with hardware, software and communications technology.

The fulcrum around which reforms on support towards LGAs management shall revolve around the appointment of local POs to manage facilities and provide services. Under this strategy the following principal activities will be undertaken:

Support to DWD is still required, comprising of TA and funds for strategic investments for of business plans, system profiles, capacity building and systems improvements in order to sustain the existing systems and facilitate PSP in management of water systems in small and large Towns.

Subsidies in form of grants for O & M are inevitable in small towns where cost recovery for O & M cost is not possible. The subsidies should be targeted and transparent and should be used to supplement revenue but not to replace it.

The current arrangement for PSP in the small Towns will continue to be encouraged but support for capacity building for Private Operators and Water Authorities are necessary in order to achieve results.

- a) Updating information and records on all WSS facilities in small Towns, as a pre-requisite to introduction of Pos,
- b) Establishing O&M requirements of each existing WSS facility,
- c) Assessment of the financial viability of each of the existing 41 and new WSS services and projecting the level and magnitude of required subsidies,
- d) Developing Best Practices Manuals for Private Operators,
- e) Building capacities of Private Operators, Water Boards and Water Authorities to carry out their functions,
- f) Monitoring and evaluating performance of Pos, Water Authorities and their Boards,

- g) Revision of the performance of the current Performance and Management Contract documents and identification of areas needing revision, and,
- h) Identifying, nurturing and advising on facilities that could graduate to the lease.

Danida has financed the preparation of a Strategy Paper to identify, detail and quantify operations that need to be implemented over the interim period, to ensure that the above activities are effectively carried out. The Paper will be ready by the end of March 2002. This should enable the proposed Water Authorities Division to implement its mandate. face the task ahead.

6. IMPLICATIONS OF THE REFORM IMPLEMENTATION

The main implications of the reform for each organisation are listed below.

6.1 Directorate of Water Development

The DWD will be able to focus on its role as the executive arm of the MWLE, responsible for policy and development, sector co-ordination, and technical regulation. It will also continue its responsibilities for the management and protection of the water resources and support Local Governments in provision of water and sanitation services, especially in the rural sub sector, including the rural growth centres.

6.2 Legal and Regulatory Framework

The current regulatory framework needs to be reviewed in order to harmonize the existing laws and regulatory functions; to allow greater participation of all stakeholders, including the private sector, to improve the delivery of sector services. The Local Government Act, the Water Statute, the NEMA statute, and other laws need to be harmonized and formed a basis for informed decisions to be made in reforming the sector.

The merits and design of an appropriate regulatory framework need further analysis as the independent economic regulator could be established as a new organisation or as part of a multi- sector regulator is accepted by government. Technical regulation remains with the relevant technical regulating agencies.

The National Water Policy needs to be amended to address issues relating to subsidy/cross-subsidy, community participation, private sector participation, capacity building, tariff, reporting, accountability, and consumer relations.

6.3 National Water and Sewerage Corporation (NWSC)

AHA could be formed in one of two ways:

- (a) The first option is to establish a new Authority, under its own legislation. It would recruit suitable staff from existing organisations within the sector as well as from outside the sector.
- (b) Once the AHA is established it would take over responsibility from NWSC and the relevant Local Authorities, for the assets of the large town lease group. The NWSC would continue to be responsible for the operation and maintenance in these towns until private operators takes over this responsibility.
- (c) The second option would be to form the AHA by transforming the NWSC. Initially the existing NWSC would be divided into two independent business units, strengthened as necessary with outsourced skills. The two units would be:

- ◆ A carefully planned and properly staffed Asset Holding and Investment unit. It would be responsible for the expansion of the infrastructure in the towns which are currently under NWSC control, with the possibility of including the other towns which are to be included under the Lease contract.
- ◆ An operating unit responsible for service provision in the towns under NWSC control.
- ◆ The asset holding unit will then be transformed into the Asset Holding Authority while the operating unit will be taken over by the lessee.

6.4 District Urban Water Supplies/DWD

The proposed WSDA/DUWS will be formed as a focussed unit to oversee and support the service provision in the smaller towns. It will be able to draw on the planning and investment expertise in the AHA to support it. It can be established in one of two ways:

- It could be established as an independent Agency, WSDA.
- This agency will be 100% Government owned and financed with no possibility of revenue generation.
- Alternatively this function could be carried out by DWD if a dedicated Department, responsible for Urban Water Services DUWS is formed,. This will be up-grading the current Urban Water Division, which does not have sufficient seniority or capacity to fulfill this role.

In either case the WSDA/DUWS will have to be properly designed and staffed with the necessary resources and expertise.

6.5 Legislation

The Local Government Act (1997) and the Water Statute (1995) should be amended to clearly define the revised responsibilities of Local Government and DWD. The NWSC Statute 1995 will require repealed and other legislation may be required to establish the regulator, the AHA, and the WSDA.

6.6 Local Ownership/Involvement

(i) The Lease package

The Private Operator who secures the lease contract for the larger town grouping will be encouraged, through the lease bid documents, to form a company with a substantial local shareholding, to execute the lease contract. The local shareholding can be taken up by Government, local entrepreneurs who will be involved in service provision as part of the Lessee Company, other Ugandan businesses and employees of the operating company. The lessee will also be encouraged through the bid documents to use and develop local Private Operators as much as possible.

(ii) Management in small towns

Local private operators and Water and Sanitation Service Authorities will be encouraged to take on service provision contracts in the smaller towns, under

standard contracts prepared by the WSDA/DUWS and monitored by local government with WSDA/DUWS support. The WSDA/DUWS will also be required to help the development of local management capacity.

6.7 Integrated Planning

If the Urban Water and Sanitation sub Sector is going to be able to achieve the target service coverage, be cost effective and financially sustainable, other government departments have important roles to play, in conjunction with MWLE. In particular:

- (a) Local Governments, the Ministry of Local Government and the Ministry of Water, Lands and Environment (Lands) will have to significantly improve the current levels of physical planning in the urban areas and rural growth centres ensure that the urban plans are enforced.
- (b) The various ministries responsible for infrastructure development should coordinate their efforts to improve infrastructure so that, for example the water sector's needs for electricity and other services can be met. If the other sector's potable water requirements can also be met when required, this will promote economic development in agreed areas.
- (c) The Ministries of Health, Local government and others should coordinate their health and hygiene education initiatives with the provision of new water and sanitation systems so that the health benefits of safe water and appropriate sanitation can be realised.