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Is urban water sector reform in Uganda pro-poor?

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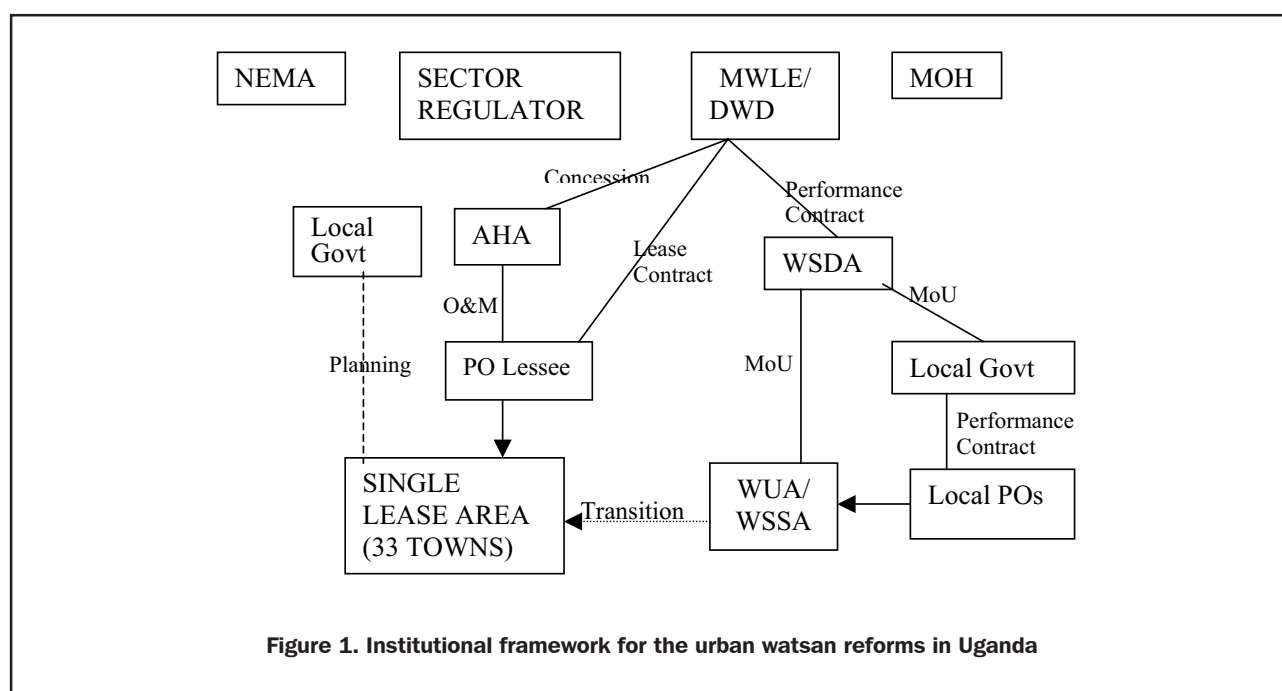
WATER SERVICE COVERAGE to the urban areas of Uganda is one of the lowest in Africa, estimated at about 25% of the total urban population at the turn of the century. Sewerage coverage is far less. As a result, the government commissioned a study to explore the best option to reform the water sector with an objective of achieving universal coverage by the year 2015. The consultants came up with a final report in 2001, in which they proposed a single lease contract for a group of 33 larger towns, and management contracts for smaller towns. This paper critiques the proposals, and concludes that there are inadequate mechanisms put in place to serve the urban poor.

Background information

The Water Supply and Sanitation Collaborative Council projected that out of an estimated 784 million people living in Africa in 2000, only 62 percent were served by an "improved" water supply, while 60% were served by "improved" sanitation (WHO & UNICEF, 2000). Compared to their counterparts in rural areas, the poor living in urban centres suffer more serious effects of low watsan service coverage, due to the multiplier effects of poor sanitation in low-income settlements. Furthermore, there is a higher population growth rate in the urban centres than in the rural areas, due to natural growth and rural-urban

migration, in search of better livelihoods. By the year 2015, urban population in Africa is projected to increase by 68%, to 501 million. Since most of the urban migrants are low-income earners, this will lead to the proliferation of low-income settlements in the urban centres. There is greater need, therefore, to accelerate service coverage to the urban poor.

Urban population in Uganda is estimated at about three million people, made up of 1.6 million people living in seven primary urban centres, about a million people living in 26 secondary towns of at least 15,000 people each, and the rest living in 35 small centres of between 5,000 and 15,000 people each. Water and sanitation services to fifteen of the primary towns are provided by the National Water and Sewerage Corporation, a government owned corporatised utility. Services to the rest of the towns is delivered by water departments of town councils, private operators on management contracts with the town boards, or by water user associations. A study carried out recently indicated that as of 2000, there were a total of 46,400 piped water connections in the Uganda urban sector, with population coverage of only 25% (Consult 4 et al, 2001). The waterborne sanitation service coverage is lower, with only 13,800 sewer connections in the whole country. The same study estimated that compared to known examples of best



practice in African water utilities, the cost of operational inefficiency is estimated at US\$ 10 million per annum, while that of investment inefficiency is projected at US \$ 37 million for the all the water and sewerage connections.

Owing to the low service coverage and poor operational/investment efficiency in the urban sector enumerated in the last paragraph, the Government of Uganda commissioned a study for the urban water sub-sector reform in 1998, with objectives of improving efficiency to achieving universal service coverage by 2015, and ensuring sustainability of service delivery together with affordability for the poor, while considering water as a social and economic good. The study, which ended in 2001, recommended that a single lease be put in place as soon as possible, probably by the year 2004, initially for a grouping of about 30 towns; the rest of the smaller towns be let to local private operators on management contracts. Figure 1 shows an institutional framework for the proposed reforms in the urban water/sanitation sub-sector, as recommended by Consult 4 Ltd consultants in association with Palmer Development Group, Ernst & Young, and Sunshine Projects. The next sections examine the proposals in greater detail, with particular reference to provisions put in place to ensure service extension to the urban poor.

Policy issues

The Ministry of Water, Lands and the Environment will remain the lead agency in the sector, and will mainly be responsible for policy issues, sourcing of investment finance and setting of performance standards. The Directorate of Water Development (DWD) will act as the executive arm of the ministry. DWD will co-ordinate the water sector, take responsibility for water resources management, and monitor compliance with conditions of water abstraction and discharge permits. DWD will also carry out research and development functions, and provide technical support and advice.

One of the driving factors for the water sector reform was to limit the role of government to policy making, facilitating, and regulating. If, as it is anticipated, government role in service delivery is brought to a bare minimum, in the long run, the urban poor will gain from the reformed institutional arrangement in a number of ways. In the first instance, improved efficiency of service delivery by the private sector will translate into wider service coverage and better service levels, which, with appropriate regulatory mechanism will benefit the urban poor. Secondly, government will concentrate on the role of overseeing and regulating the water sector, which will hopefully increase efficiency and effectiveness of the government agencies. Thirdly, interference from government officials, in favour of more affluent sections of society will be minimised, creating a better environment for service delivery to all consumers.

Service provision

The operation and maintenance of water and sewerage services within selected water/sewerage supply areas will be leased to a private operator on a ten-year renewable timeframe. It is proposed that up to 33 towns may be grouped together. However, the number of towns in the group may be smaller, depending on the practical implications and attractiveness of the bid to private operators. The lessee will be chosen through an open and competitive pre-qualification and two-part bidding process. The successful private operator will be required to form a company with substantial local shareholding. The remaining 45 or so towns will be managed by local Water User Associations (WUA) or Water and Sanitation Services Authorities (WSSA), as appointed by the local government authorities. Operations and maintenance of the water supply systems in these towns may be delegated to local private operators, through management contracts. The Water and Sanitation Development Agency (WSDA), an autonomous state-owned organisation accountable to DWD, will also actively support provision of services in these small towns.

Major advantages of centralised management of a group of larger towns is the economies of scale that can be achieved, as well as superior management skills anticipated from the private operator. It is anticipated that with appropriate regulatory mechanisms, the efficiency gains there from will be translated into improved service delivery to low-income settlements of the urban areas. Furthermore, a single management agency for a group of larger towns will enable cross-subsidisation between the economically viable and unviable units of production.

The formation of WSDA, a different agency to manage the smaller towns is perceived to be a move that may benefit the urban poor in these smaller urban units. Recent research has shown that management of water and sanitation services in the small towns requires an approach that is different from those applicable in conventional urban areas or rural areas. Furthermore, the central government is to provide investment funds and tapering subsidies for operation and maintenance to small towns, through WSDA. If managed well, this framework will provide benefits to the urban poor. It is presumed that the performance contract between WSDA and DWD will provide built-in incentives for efficiency and effectiveness, particularly for the benefit of the urban poor. The involvement of local private operators in operation and maintenance of water services in small towns could improve efficiency and effectiveness if performance contracts are properly drafted and well operationalised. A shortcoming, though, is availability of suitable local entrepreneurship in the local towns. Additionally, the roles and responsibilities for WSDA and local government unit in service provision to small towns are not well articulated in the reform paper. The ambiguity could be a recipe for inefficiencies, and clarifications need to be made.

Asset management and capital investment

Regarding the group of larger towns, an Asset Holding Authority (AHA) will be set up, to operate as a limited liability company, which will hold the water supply and wastewater assets on behalf of the government. AHA, which will sign a concession contract with the government, will manage the urban water fund that will be used for financing investments in the group of larger towns. A portion of the water tariff revenues will go into the urban water fund, which will also be partly funded by international loans and grants raised by the AHA, and guaranteed by the central government. On the other hand, assets in the smaller towns will be held by WSDA on behalf of the government. The WSDA will manage the conditional grant system for operation and maintenance of the assets in the small towns, as well as plan and source funds for capital works.

Creation of separate agencies to manage assets and capital investment for both the larger and towns groupings is perceived as a move to improve efficiency and accountability in capital investment and asset management. It is hoped that performance targets in investment planning and execution will be well formulated for both AHA and WSDA, to include a right mix of incentives, which will drive investment efficiency. If, as a result, service coverage expands to meet benchmarked targets, the urban poor will stand to benefit highly from the sector reform.

Sanitation

Under the reform proposals, waterborne sewerage systems in the larger towns will be managed together with the water supply systems. AHA will also manage planning and capital development for sewerage systems. It is the responsibility of local governments to ensure an integrated development planning, including provision of appropriate sanitation facilities. However, the sector reform does not propose a solution for the big percentage of piped water supply that are not connected to the central sewerage network.

Regulation

The sector reforms propose carrying out independent regulation on environmental and economic issues. The environmental regulation will be the responsibility of the already existing National Environmental Management Agency (NEMA), who may delegate functions to other organisations with the technical capacity. The Ministry of Health (MOH) will monitor potable water quality and compliance to sanitation standards, and DWD will undertake raw water quality monitoring and compliance to drinking rights. An independent regulator will be set up to carry out functions of economic regulation, which may, with time be achieved through multi-sector or bi-sector regulation. The terms of reference for the regulator include setting of the tariff through consultation with major stakeholders, setting guidelines for contracting of service providers, moni-

toring the performance standards in the sector, and balancing the interests of various stakeholders. The start-up fund for the regulator will be provided by the central government, and ongoing funding will be sourced from a dedicated nominal portion of the tariff.

Setting up of an independent regulator is a step in the right direction, and should translate into benefits for the urban poor if the contracts are pro-poor, and if the regulator has capacity and the authority to deal with issues that affect the urban poor. The separate funding arrangement for the regulator is a prerequisite for building the independence of the regulator, which may create benefits for the urban poor.

Tariff structure

The sector reform proposals cater for a uniform urban water tariff within the larger towns grouping that operates on the principle of cross-subsidisation according to social equity considerations. However, no further details of the tariff structure are mentioned. For the smaller set of towns, the local government authorities in individual towns are mandated to negotiate with the operator about a tariff structure, which would be approved by the WSDA and the regulator. It is hoped that these regulatory mechanisms in place will protect the interests of the urban poor in smaller towns.

Conclusion

The water sector review proposals for the Uganda urban sub-sector have been briefly reviewed in this article. The proposals have general provisions that could be exploited to improve services to the urban poor. However, there are also many loopholes that could be utilised to keep the status quo, i.e. continued low service coverage to the urban poor. There are no striking provisions in the water sector reform that point to deliberate policies for accelerating services to the urban poor. It is therefore unclear whether the proposed reforms can be classified as pro-poor. It remains to be seen, whether water policy makers concerned with the reform process will emphasize services to the urban poor during the planning and implementation phases.

References

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