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## PPP in small towns' water supply in Uganda

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THE WATER SUPPLY and Sanitation Collaborative Council estimated that at the turn of the millennium the global number of people with inadequate service levels in water and sanitation was 1.1 billion and 2.4 billion respectively (WHO/UNICEF, 2000). The people most affected by this deficiency are those with low-income levels. The challenge facing water sector managers and professionals is to provide adequate services to the population who are currently unserved, and to be able to meet demand for the projected population growth. One way to go about this challenge is to involve various partners such as private operators and community groups in the provision of services.

In Uganda, it is estimated that about 54% the urban population have access to safe water supplies, while only 5% have access to sewerage services. The Uganda urban settlement profile is made up of 1.7 million people living in seven primary urban centres, about a million people living in 26 secondary towns of at least 15,000 people, and 400,000 people living in 35 small centres of between 5,000 and 15,000 people (Consult 4 et al, 2001). 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 are delivered by water departments of town councils, private operators of management contracts with the town boards, or by water user associations.

Only 12% of the total urban population have house connections, totalling 47,000 connections. The water supply situation is worse in small towns, where only 1,400 house connections exist. Although small towns contain 12% of the total urban population, they have only 3% of the total water connections in the sub-sector (Consult 4 et al, 2001). Low investment levels and more depressed income levels in the small towns mainly explain this disproportion in service levels. Owing to the low service coverage and poor operational efficiency in most towns, the Government of Uganda commissioned a study for urban water sub-sector reform in 1998, with the objective of achieving universal service coverage, sustainability of service delivery, and affordability for the poor, while considering water as a social and economic good.

The reform study recommended a single private operator under an enhanced lease contract for service provision in the larger 33 towns, and the remaining smaller towns to be managed by private operators and water users' associations through management contracts. Subsequently, the Government of Uganda sourced funds from international agencies to finance the rehabilitation of the water supply infrastruc-

ture, in order to provide a reasonable level of service. Reform proposals for the management of 46 small towns' water supply are already being piloted in 23 small towns. WSS Services (U) Ltd, a local water/sanitation consulting firm put in a bid for and won management contracts to deliver water services to six of the small towns. The private operator has managed these towns since July 2001. This paper provides a brief overview of the progress made, challenges encountered, lessons learnt by the private operator, and suggests the way forward for achieving the global millennium goals on water supply and sanitation services.

### Framework for the management contracts

The transitional process for introducing public private partnerships in delivery of service in small towns was managed by the Directorate of Water Development, a technical arm of Ministry of Water, Lands and Environment which is responsible for policy issues concerning water resources management in the country. Various stakeholders in the town councils were sensitised and helped to form town council water authorities. The board members were composed of the following officials from the council:

- The Town Clerk
- The Chairperson of Social Services Committee in the town council
- A representative of domestic consumers
- A representative of institutional consumers

Under the contractual framework, the Ministry of Water, Lands and Environment appointed the town councils as urban water and sewerage authorities, through a performance contract. The town council in turn appointed a water board, which owned the assets, set the tariff, and oversaw the operation of the services. The water authority subsequently entered into renewable two-year management contracts with local private operators, who were given a mandate to manage the technical, commercial and financial operations of the water and sewerage services. Under the management contract, the contracting company is not expected to undertake any commercial risk. The company is however expected to pre-finance all the operations of the water supply system on a monthly basis. Revenue collected is banked in an escrow account ( a special ring-fenced account) whose co-signatories are the Town Clerk and an officer of the contracting company, in principle ring-

fencing the revenues. Monthly management fees due to the contracting company are then paid from this account.

The management fee is computed as follows:

- Base fee – negotiated and fixed at the beginning of the contract, to cover the company’s fixed costs (in Uganda Shillings month)
- Billing fee, based on how many bills have been delivered in the month (in Uganda Shillings per connection per month)
- Water sales fee, pegged according to how much water has been paid for in the month (in Uganda Shillings per cubic meter paid for per month)
- Pipe network maintenance fee (Uganda Shillings per kilometre per month)
- New connection fee (Uganda Shillings per new connection made)

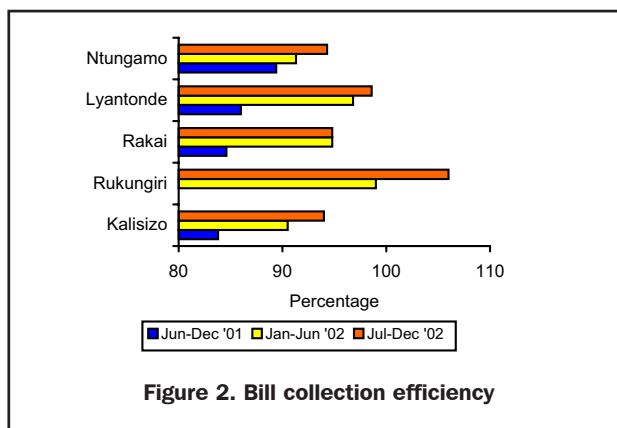
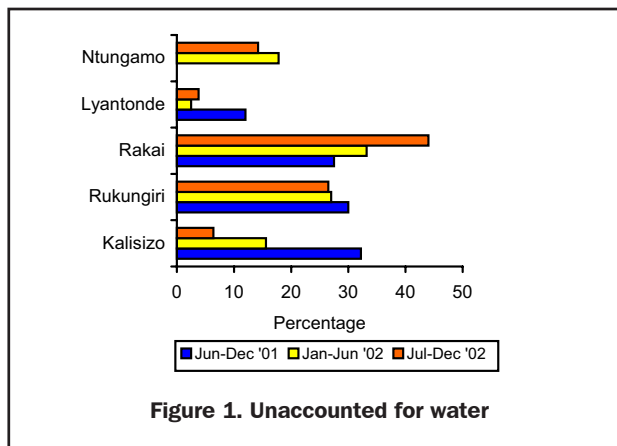
**Performance trends**

Figures 1 and 2 show the trends in unaccounted-for-water and bill collection efficiency since WSS Services (U) Ltd took over the management of water services in the five small towns. Figure 1 shows that Unaccounted-For-Water (UFW) in four of the five towns reduced. The inferior pipe materials used, coupled with poor workmanship during the construction phase, explains the steady increase in UFW figures in Rakai. Currently, district metering and leak detection operations are in progress, to isolate and carry out remedial actions. However, the overall UFW for all the five towns has reduced from 23% in July 2001, to 19% in December 2002. It is predicated that with the installation of more service meters, the components of administrative losses will be reduced further. Figure 2 shows that the Bill Collection Efficiency trend is on the increase for all the towns. In some instances, bill collection efficiency is higher than 100%, catering for collection of arrears for previous months.

Other notable improvements in performance indicators are:

- Reliability of water services has improved drastically, and twenty-four hour supply is available in most towns when power is stable.
- The number of water quality samples increased from nil to an average of at least twenty per month per service area. Additionally, at least 90% of the samples taken conformed to WHO standards.
- Customer care is being emphasized among the company’s frontline staff. A study conducted among the customers in July 2002 showed an increase in customer satisfaction (Price, 2002).
- Routine preventive maintenance is carried out, and reaction to plant breakdown has reduced, due to the flexibility of company operations as compared to municipal council bureaucracy. The company has initiated technical interventions in some systems to boost production capacity in Kalisizo, Rukungiri and Lyantonde.

- Most service towns have improved their financial position, from the condition of operational deficit to a point of breakeven and beyond. Only the service town of Rakai is still being run on a cross-subsidy level, mainly due to the high unaccounted-for water.



**Constraints**

The company has faced challenges and constraints in the period of operations, as summarised below:

- The government did not do enough sensitisation of major stakeholders in the operating towns. Many of the town council officials view WSS Services (U) Ltd with suspicion, and some members of the former water users associations consider the company as a competitor that unfairly took away their business.
- In the design of the water treatment and reticulation systems, only the conventional technologies were considered, which have low capacity to accelerate services to the urban poor.
- The government has not lived up to its promise of providing capital funds to enable expansion of the reticulation network to cover other parts of the towns. Higher coverage would bring direct benefits to the unserved, and lead to higher economies of scale.
- The government has not provided funds for subsidising connection charges. Household contributions of US\$30

were collected from over 300 prospective customers about two years ago. This situation has negatively affected the company's drive for customer satisfaction.

- Many residents in the small towns have a depressed income level, hence a low ability to pay for water services. There is therefore a limit to how much water households could consume and be able to pay for the services.
- The company is constrained by the scope of the management contract to carry out some of its cherished goals, such as provision of incentives to the low-income sections of society.
- A few of the town water authorities have not paid the management fees promptly, which has resulted in arrears totalling to US\$42,000 as of December 2002. These arrears in part are as a result of low collection efficiency achieved during the initial period of operation. For such a scenario, the management contract provides for subsidies from the central government.
- The roles of different stakeholders are not well articulated, and arbitration matters are not well spelt out in the management contracts.
- The management contract has no provision for managing sewerage services in the service towns. WSS Services (U) Ltd considers this a serious shortcoming, because these towns are growing into larger urban centres, and wastewater treatment is becoming a more significant issue.

### Suggested way forward

Policy changes in the water and sanitation sector are vital if Uganda is to make significant progress towards achieving the global millennium development goals of halving the proportion of people without access to adequate service levels of water and sanitation by the year 2015. It is however important that prescribed changes make a significant impact, through increased service coverage to the poor. Public private partnerships can only accelerate service coverage to the urban poor if this is a goal cherished by the policy makers, and if service to the urban poor is emphasized in the contractual framework. The following recommendations, which could be incorporated in the current management contracts, are aimed at increasing service coverage to the residents of small towns, the majority of whom earn small incomes:

1. The government should incorporate service extension to the urban poor as a major strategy and carry out the following:
  - a. Revise management contracts to include clauses that emphasize services to the urban poor
  - b. Provide incentives to the local water boards and private operators for accelerating services to the urban poor
  - c. Streamline the mechanism for provision of subsidies to small towns, with an earmarked proportion to

fund expansion to the low-income communities in small towns. These subsidies should, however, be on a sliding scale, in line with recommendations of the sector reform study.

- d. Reinforce the regulatory framework to emphasise provision of services to the urban poor.
2. The core competence of most private operators appointed to deliver services to small towns is in the engineering field, which is vital for technical operations in the water treatment and distribution systems. However, bearing in mind that the urban poor form the majority of the un-served in Uganda's small towns, partnership with intermediary organisations with social skills will ensure that software issues of service provision and expansion are handled efficiently and effectively. Examples of such intermediary organisations are NGOs and CBOs who have vast experience in dealing with and serving the urban poor.
3. As a transitional measure to accelerate services to the un-served, partnerships with small scale independent service providers should be formalised, so that they supply services to the fringe areas. The partnerships could deal with issues such as organisation, financing, empowerment and regulation of small-scale independent service providers.
4. Service providers in small towns could take advantage of the fewer numbers of customers to provide differentiated, and almost personalised services, inclusive of the urban poor. WSS Services has applied this approach and it has improved the company's revenue dramatically.

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