



GOVERNMENT OF UGANDA
MINISTRY OF WATER, LANDS AND ENVIRONMENT

INAUGURAL MEETING OF THE
URBAN WATER REFORM
IMPLEMENTATION TECHNICAL COMMITTEE

Grand Imperial Hotel, Kampala
January 30th, 2004

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SECTION I: ITC MEETING PROGRAMME

**REFORM OF THE URBAN WATER AND SANITATION SUB-SECTOR
IMPLEMENTATION TECHNICAL COMMITTEE INAUGURAL MEETING ON
FRIDAY JANUARY 30, 2004
PROGRAMME OF EVENTS**

TIME	EVENT	RESPONSIBLE PERSON
8:00-9:00	Arrival and Registration of invited guests	
9:00 - 9:40	Sector Performance Overview/ Context of the Reforms	Mr. Patrick Kabungira Director, DWD
	Questions and Clarifications	
9:40 -10:20	Key Issues and Challenges in Reforming the Urban Water Sub- Sector	Mr. Emmanuel Nyirinkindi, Director, URU
	Questions and Clarifications	
10:20 -11:00	Performance of NWSC and the short term Performance Enhancement Initiatives	Dr. William Muhairwe, MD, NWSC
	Questions and Clarifications	
11:00 - 11:30	Tea/Coffee/Break	
11:30 -12:00	Discussion and Adoption of Terms of Reference for the Implementation Technical Committee	Eng. Ephraim Kisembo
12:00-13:00	Presentation of Draft Implementation Plan Discussion and Adoption of Key Planned Activities for the Period January- October 2004	Eng. Ephraim Kisembo, Rev. Steven Shalita
13:00 - 14:00	Lunch/Break with Ministerial delegate	
14:00 - 14:30	Summary of the day's deliberations	PS, MWLE
14:30 - 15:00	Minister of State makes remarks and officially inaugurates the ITC	Hon. Mrs Maria Mutagamba, MoS
17:00 -	Goodwill Reception	

Secretariat and Support Services: Suzette Mudeshi, Winfred Nabakiibi and Felix Twino
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SECTION II: MINUTES OF THE ITC INAUGURATION MEETING

**Minutes of the Inaugural Urban Water and Sanitation Sector Reform
Implementation Technical Committee (ITC) held on Friday, 30th January 2004 at
Grand Imperial Hotel, Kampala.**

In Attendance:

	NAME	POSITION	ORGANISATION
1.	Hon. Maria Mutagamba	Minister of State for Water	MWLE
2.	Eng. Ephraim Kisembo	Reform Coordinator	MWLE – DWD
3.	Mr. Jochen Rudolph	Chief Technical Advisor	MWLE – GTZ
4.	Rev. Steven Shalita	Communication Expert	MWLE – GTZ
5.	Mr. S.L. Okec	Chairman of the Board	NWSC
6.	Dr. William Muhairwe	Managing Director	NWSC
7.	Eng. Charles Odonga	Chief Manager Engineering Services	NWSC
8.	Mr. Gabriel Opio	Board Member	NWSC
9.	Ms. Susan Mauve	Technical Advisor	NWSC – GTZ
10.	Eng. S. Bomukama	Commissioner Water Supply	DWD
11.	Eng. P. Kagoro	Ass/Commissioner Water Supply	DWD
12.	Eng. Dominic Kavutse	Principal Engineer	DWD
13.	Mr. Samuel Amule	Ass/Comm. – Urban Inspectorate	MOLG
14.	Mr. Andrew Kizza	Principal Inspector	MOLG
15.	Ms. Harriet Tukamushaba	State Attorney	MJCA
16.	Ms. Yunia Musaazi	Rep. Chairman	UWASNET

Min 1: Opening of Meeting

The meeting started at about 10.30am due to the late arrival of most participants. Eng. Ephraim Kisembo facilitated the proceedings.

Min 2. Sector Overview/ Context of the Reforms

The Ag. Director, DWD/ Commissioner Water Supply Division/DWD, Eng. S. Bomukama made the first presentation giving an overview of the water sector and the context of the reforms. The Ag. Director clarified that there are currently 59 Water Authorities 40 of which are being operated by 8 private operators.

The Director's presentation highlighted the UWSS reform recommendations and the proposed institutional framework, that were born out of studies completed in 2001 by Consult 4. He however said that the situation on the ground has changed and that there were new developments in the sector that needed to be viewed in the context of Cabinet's recommendations passed on Wednesday, October 1st 2003 i.e. Separation of core functions, asset management, enhanced PSP in operations and regulation. He said these developments would have to be taken into account as the roadmap for reform in the urban water sub-sector is being defined.

Response to the Director's presentation:

1. There were concerns raised about PSP options i.e. that the lease may no longer be viable or desirable (This is to be addressed with new studies)

2. Concern was raised about decentralization – whether local government has the capacity to oversee the Water Authorities in such a manner that would ensure they perform
3. Questions concerning the name and role of Implementation Technical Committee (ITC) and links to the Sector Working Group and Thematic Group for Urban Water Sector e.g. Does the ITC implement policy or guide and formulate policy?
4. Concerns over \$900 million investment needed in rural WSS in 15 years which led to the suggestion that donors must be involved in the ITC to help address the funding gap

Min 3. Presentation on NWSC

Eng. Charles Odonga, Chief Manager Engineering Services in NWSC, made a presentation on behalf of the MD, NWSC titled “Performance of NWSC and Short Term Performance Enhancement Initiatives.” The paper concentrated on the internal reforms within NWSC, objectives and management of programs, PSP and other commercialization activities and the major achievements of the Corporation. Eng. Odongo emphasized that there was need to consolidate the financial and operating gains and transform NWSC’s operating arm into a proven, on-going viable business/commercialized concern. He also underscored that the current internal reforms in NWSC must continue to be consistent with the wider UWSS reform strategy.

Response to NWSC’s presentation:

1. There were some concerns about the accuracy of NWSC’s coverage figures in urban areas. It was suggested that there needs to be a uniform criteria for assessing coverage in the whole UWSS
2. There was a feeling that some of the highlighted NWSC achievements were over-reported and they needed to come up with new products such as on-line networked payment options of bills
3. It was suggested that some good analysis be made of financial performance figures for both NWSC and other towns in the urban water sector

Min 4. Discussion and Adoption of Terms of Reference for the Implementation Technical Committee

Members already had the draft TOR circulated to them before the meeting and some had read through while others were given some time to read through and the following comments were given:

1. Suggestions were made to change name from Implementation Technical Committee (ITC) to something that reflects the tasks that are to be accomplished by the committee. Particularly members wished that the title brought out the fact that their deliberations as a committee will be able to influence the future direction of the reform process as opposed to being a “rubber-stamp” committee that only implements policies that are not up for discussion. One of the suggestions was that the ITC be renamed the “Reform Steering Committee.”
2. Under Background and Objectives, it was suggested that the number of towns shouldn’t be spelt out since they will keep changing as small towns graduate into

large towns and rural centers graduate into urban centers. In view of the cabinet approval which allows for exploration of different PSP options, it was also recommended that all references to a "lease contract" be replaced with "performance and adherence to policy on behalf of government"

3. Para 1 – It was suggested that the para starting "Local Government" read as follows: "Local governments will hold the assets in small towns in trust for the central government." It was further suggested that the small towns be defined (in terms of population and/or gazetting)
4. Para 2 - It was suggested that the Technical Regulation be left to the ministry through DWD and not "DWD/AHA". AHA was accordingly deleted.
5. Under Policy Guidance, Para 1, it was suggested that "the Minister of State for Finance in Charge of Privatization" be replaced with "the Minister of Finance, Planning and Economic Development."
6. Para 2 under policy guidance was amended to start as follows: "The ITC will be responsible for guiding, reviewing and coordinating of reform..."
7. It was suggested that a sentence be added to para 2 of the Policy Guidance stating: "The committee will also monitor the investment program to ensure it's on target."
8. It was recommended that the link between the committee and the Water Sector Working Group be articulated
9. The term "privatization of NWSC operations" was replaced with "enhanced Private Sector Participation in NWSC operations"
10. Under the composition of the ITC, it was suggested that there be included a donor representative however it was further suggested that if a donor is needed for discussion on specific issues they will be co-opted as provided by the TOR

Following these amendments and discussions, the reform secretariat was charged with making the necessary amendments and harmonize them with the tasks. The Reform secretariat will then circulate the amended TOR for the ITC to all members for final comments and approval.

Min.5 Minister's Inauguration Remarks

Hon. Maria Mutagamba thanked all members present for showing genuine concern for this important cause. She apologized that the Minister of Water, Lands and Environment, Hon. Col. Kahinda Otafiire and the PS, MWLE could not make it to the meeting as they had an urgent meeting in Arusha. Hon. Mutagamba noted that reaching the convention of the ITC after a four year struggle was a great achievement. She thanked Development Partners for their continued support and emphasized the need to have stakeholder consultations in order to move the reforms forward with everybody, especially the consumers.

The Minister of State was however concerned that the ITC has not deliberated on sanitation activities. She also expressed disappointment that the Ministry of Finance, which is a major stakeholder, did not have any representation at the first ITC.

Hon. Mutagamba also expressed concern that NGOs and civil society groups are not doing enough in the water sector especially in the area of sanitation.

She inaugurated the UWSS Implementation Technical Committee at 1508 hours before departing for another important engagement.

Min.6 Key Planned Activities for the Period January – October 2004

The Reform Coordinator, Eng. Ephraim Kitembo presented the key planned activities for the next 10 months. He highlighted the need to urgently implement cabinet's recommendation and the Joint Sector review's undertakings on UWSS Reforms. He said it was urgent to procure a consultant using the fast track method to prepare two position papers on "Analysis and Evaluation of the Options for Private Sector Participation and the Separation of Functions in the Urban Water Sector." He said these papers need to be presented to the JSR in March and therefore procurement of a consultant would be done in a week's time. The TOR's for the consultant to do the study were adopted and the following was further suggested:

1. Members wanted to know whether we needed consultants to do this job and who would foot the bill? (They were informed that the German government had agreed to pay for the consultancy)
2. It was suggested and agreed that prior to Joint Technical Review at the End of March an additional ITC meeting be convened to review the two position papers
3. It was suggested that all means possible be explored to ensure the accelerated procurement of a consultant
4. It was suggested that a long list be provided to ITC members and that a smaller committee of officials from GTZ, URU, NWSC make a short-list ranking the consultants prior to contracting through KfW/GTZ

Communication Strategy:

The GTZ-RUWAS Communication Expert made a short presentation on the progress of the Communication Strategy with a timeline of activities. He said right now there was a stakeholder consultation going on among the major civil society groups especially those that had done studies related to PSP in the water sector. Within the first quarter of this year, a Public Opinion Survey, which will form a baseline for the communication strategy will be contracted out. He reported that NWSC was interested in co-financing the baseline study.

Comments

1. It was noted that if NWSC finances part of this study care should be taken to make it impartial (It was clarified that NWSC would not do the baseline but consultants would be hired to carry it out and they would not be aware of the funding arrangements. GTZ and MWLE would also contribute to the study)
2. It was inquired whether the Communication Strategy can be accelerated so that it's much earlier than September (Whereas this would be great, it was discouraged because the strategy can only be finalised after a proper roadmap for reforms has been agreed. The strategy therefore must rhyme with the broader reform efforts.)

Min.7 Final Recommendations

1. Regarding TOR for the two studies on Reform options and Separation of functions it was agreed that the long list of consultants be availed to all members on Monday 2nd February 2004 and responses be secured by Wednesday February 4th 2004.
2. It was agreed that the working committee sits together and agrees on the ranking by Friday 6th February 2004.
3. It was further recommended that the consultant(s) be engaged in the second week of February but not later than 13th February 2004.
4. It was acknowledged that this was a very tight timeline but it was necessary if we are to get the job done.
5. NWSC expressed urgency in executing this saying they would not be available in the week following. It was agreed that they do their ranking and short-listing at the same time so that they present their full comments by Wednesday.

Min.9 Closing

The Chairman of the Board, NWSC, Mr. Okec thanked members present especially the development partners for showing such enthusiasm towards the reforms. He emphasized the need to work together in harmony especially ensuring that all stakeholders move together in the reform process. He thanked the organisers of the ITC and expressed confidence that the reforms would move forward in a desired manner. He adjourned the meeting and invited members to a cocktail reception thereafter.

SECTION III: TOR - ITC

**IMPLEMENTATION OF THE URBAN WATER AND SANITATION
SUB- SECTOR REFORMS**

***TERMS OF REFERENCE
FOR THE
IMPLEMENTATION TECHNICAL COMMITTEE (ITC)***

BACKGROUND AND OBJECTIVE;

The Government of Uganda through the Ministry of Water, Lands and Environment has initiated the reforms in the Urban Water and Sanitation Sub-Sector following a comprehensive review of the policy, legal institutional framework of the sub-sector which was conducted in 1999 —2000. The reforms are intended to ensure that services are provided with increased performance and cost effectiveness, while at the same time decreasing government's financial and management burden.

On October 1st 2003, the Urban Water and Sanitation Reform Strategy was approved by Cabinet. Its key recommendations are summarised as follows:

1. Enhanced private Sector Participation in the delivery of services in the Urban Water Sector through either a Management Contract, Lease contract or a Concession Contract, as may be most cost effective and sustainable at any one time.
2. Public ownership of assets under an Asset Holding Authority and
3. Establishment of an independent regulatory framework.

Responsibility for service provision in those towns, which are not within the group covered by the enhanced Private Sector Participation, will continue to be vested in Local Governments through the Water Authorities, which are required to enter into performance contracts with the Ministry of Water, Lands and Environment. The performance contracts specify roles and responsibilities, standards to be met and conditions for accessing Government subsidy. Local Government may continue to employ private Water Operators to manage the systems on their behalf.

All assets will remain in public ownership. 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 on behalf of government.

Local Governments will hold assets in the small towns in Trust on behalf of Central Government. As the towns' populations grow or they become gazetted they may graduate into the group of large towns and their assets may be transferred to the AHA.

With the significant involvement of the private sector an independent regulatory system 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 delegated to the Ministry of Water, Lands and Environment through the Directorate of Water Development. This regulation will be primarily exercised through the contracts which will incorporate the standards of the relevant agencies e.g. Water Quality, Environment, Public health, etc.

POLICY GUIDANCE:

In order to ensure that the reforms are implemented in a structured and coordinated manner, the Minister of Water, Lands and Environment, in agreement with the Minister of Finance, Planning and Economic Development has appointed the Urban Water Reform Implementation Technical Committee (ITC).

The ITC is responsible for guiding, reviewing and coordinating the reform activities in the Urban Water and Sanitation Sector and in particular for steering the realization of enhanced private sector participation for NWSC and other towns to be included under this arrangement as well as the establishment of an Asset Holding Authority and a Regulatory system. It will also monitor the sector's investment program.

The Implementation Technical Committee and the Water Sector Working Group will harmonize their activities relating to the Urban Water Sector Reform.

The Urban Water Reform Implementation Technical Committee will comprise the following officials:

1. Permanent Secretary, Ministry of Water, Lands and Environment (or Representative) - Chairman
2. Permanent Secretary, Ministry of Finance, Planning and Economic Development (or Representative) — Co-Chairman
3. Permanent Secretary, Ministry of Local Government
4. Representative from Ministry of Justice and Constitutional Affairs
5. Member of Board, NWSC
6. Managing Director, NWSC
7. Director, DWD
8. Director, Utility Reform Unit
9. Commissioner responsible for Urban Water Supply, DWD

SECTION IV:

TERMS OF REFERENCE

**For the
Analysis and Evaluation of the Options
for Private Sector Participation
and
the Separation of Functions
in the Urban Water Sector**

10. Representative of Non-Governmental Organization

11. Regulator and Asset Holding Authority once they have been appointed

The Urban Water Reform Implementation Unit and the Utility Reform Unit will jointly be the Secretariat. The committee may co-opt any other member of relevance to the issues being discussed.

The ITC will work within the framework of the Urban Water Supply and Sanitation Reform Strategy and any subsequent amendments agreed upon by the committee. The members of the ITC will assure the concurrence of their respective ministries and institutions on policy matters that will be decided by the ITC. The committee will work cognisant of the government objectives for reform and divestiture as set under the PERD Statute, 1993 and its amendments and schedules.

TASKS / RESPONSIBILITIES:

The ITC will among other things be responsible for the following:

1. Review for conclusiveness the scope of work for the ITC.
2. Provide overall policy guidance in the implementation of the reforms.
3. Review and agree on the reform implementation activity plan.
4. Review and agree on the mode of Private Sector Participation as well as the regulatory and institutional arrangements.
5. Review and approve the TOR for all assignments mandated by the ITC.
6. Monitor and review the activities and outputs of consultants engaged in the reform process as stipulated in their TOR.
7. Seek concurrence from respective ministries and other represented institutions for findings and recommendations arrived at during its work that will enhance the implementation of the reform recommendations.
8. Periodically review and evaluate the ITC's work plan and deliverables to ensure the process is on track. Reschedule or amend work plan where necessary.
9. Review and consider all relevant submissions made by various stakeholders in the course of the Reform Process.

REPORTING:

The ITC will through the chairman and co-chairman report to the Ministry of Water, Lands and Environment and the Ministry of Economic Planning and Development respectively. It will seek DRIC authorisation on aspects provided for in the PERD Statute, 1993 and its amendments, especially those related to NWSC and the enhanced PSP arrangement. For the towns outside the enhanced PSP arrangement, the Committee

will seek authorisation from the relevant organs in the Ministry of Water Lands and Environment.

DURATION:

The Committee's mandate will continue throughout the acquisition process of an enhanced PSP arrangement for NWSC and additional towns to its conclusion unless otherwise advised by the Minister of Water, Lands and Environment and the Minister of Finance, Planning and Economic Development.

MEETINGS:

The ITC will meet regularly depending on the availability of business. The ITC will draw up a tentative schedule of their intended meetings for the first six months, which will be updated when the need arises.

GOVERNMENT OF UGANDA
MINISTRY OF WATER, LANDS AND ENVIRONMENT
URBAN WATER REFORM IMPLEMENTATION TECHNICAL COMMITTEE

FINAL DRAFT TERMS OF REFERENCE

For the
Analysis and Evaluation of the Options
for Private Sector Participation
and
the Separation of Functions
(Regulation, Asset Management/Investment, Operation)
in the Urban Water Sector

1. BACKGROUND

The Government of Uganda through the Ministry of Water Lands & Environment (MWLE) and in consultation with line ministries, Local Governments and Development Partners is reforming the Urban Water and Sanitation sub-sector to address the challenges of delivering equitable, affordable, sustainable and high quality services to the urban population. The reform initiatives are a direct contribution towards reaching the goals of the Ugandan Poverty Eradication Action Plan in that they enhance the quality of life of the poor and that they contribute towards rapid and sustainable economic growth and structural transformation. Furthermore they contribute towards reaching the Government of Uganda's commitment to the Millennium Development Goals to halve by the year 2015 the proportion of people without access to safe water and sanitation facilities.

The reform initiatives are aimed at achieving the following objectives:

- Increasing access to water and sanitation services in the urban areas with the target of achieving full coverage by the year 2015.
- Establishing a clear separation of the sector's core functions of regulation, asset management/investments and operations.
- Developing or/and strengthening the legal, institutional and regulatory framework in the urban water and sanitation sub-sector which will enhance efficiency and cost effectiveness in the delivery of services
- Improving operational and financial performances of water and sewerage utilities through the promotion of private sector participation in the delivery of services.
- Developing and implementing pro-poor strategies for providing affordable and sustainable access to water and sanitation facilities and services for the urban poor.
- Decreasing the financial and management burden on Government of providing water and sanitation services.

Following a comprehensive review of the urban water and sanitation sub-sector which was undertaken from 1999 to 2000, the reform strategy containing specific proposals for reforming the sub-sector and the investment plans were prepared. These reform recommendations which were recently approved by Cabinet provide for:-

- Private Sector Participation in the delivery of services in the urban water sector through either a Management Contract, Lease Contract or a Concession Contract, as may be most cost effective and sustainable at any one time.
- Public ownership of assets under an Asset Holding Authority for the large towns and Local Governments for the small towns.
- Establishment of an independent regulatory framework.

During the Joint Sector Review by the Government of Uganda and its Development Partners of September 2003 agreed on a number of policy actions aimed at continuing and accelerating the implementation of the Urban Water Reform process. It is against this background that the MWLE is calling for a Consultant to assist in providing a practical framework to enhance the provision of water and sewerage services within the urban centers of Uganda.

2. OBJECTIVES

The objectives of this assignment are to assist the Government of Uganda through the Urban Water Reform Implementation Committee in:-

- (a) Analyzing and evaluating the options for Private Sector Participation in service delivery in the Urban Water and Sanitation Sub-Sector focusing on the large towns.
- (b) Analyzing and evaluating the separation of the core functions of operations & management, asset management & investment and regulation.
- (c) Preparation of an action plan based on (a) & (b) above.

3. SCOPE OF WORK

The scope of work for the assignment will include:

- (a) Designing a financial model to assess the costs and benefits of various PSP options based on assumptions regarding the number of towns included in the PSP option, quality of service provision, level of service fees, availability and costs of financing and other factors as to be determined in consultation with the client.
- (b) Defining and evaluating possible PSP options against the current NWSC reform initiatives, specifically the Internally Delegated Area Management Contracts (IDAMC's).
- (c) Evaluating the outcomes of PSP-solutions to date (specifically the NWSC- OSUL enhanced Management Contract) and other local private sector initiatives in the urban water and sanitation sector with regards to technical, administrative, financial and legal issues.
- (d) Giving an analytical overview on the international market situation for PSP contracts in the Water and Sanitation industry in developing countries and emerging economies with a special focus on Africa.
- (e) Carrying out an assessment of the market interest from the international water industry on the proposed PSP options, obtain feedback from those companies with experience in operating WSS utilities in developing countries and assess their interest in doing business in Uganda which if successful will culminate into a short-list of prospective water operators.
- (f) Carrying out a review of all legal texts currently related to the provision of the public WS service in Uganda with the goal of identifying discrepancies and inconsistencies if any and suggesting

amendments.

- (g) Preparing a proposal on the process and practicability of all matters relating to the separation of core functions in the urban water sector (i.e. operations & management, asset management & investment and regulation) and to recommend on the future institutional set-up for the sector.
- (h) Preparing an Action Plan for the implementation of the selected and proposed PSP-option in WSS operations and the implementation of the process of separation of the core functions regulations, asset management/investments and operations with particular emphasis on the required financial and manpower inputs as well as a realistic time schedule for implementation.

4. OUTPUT

The anticipated outputs are:

- (a) Position Paper on a proposed PSP options
- (b) Position Paper on the separation of the core functions in the Urban Water Sub-Sector
- (c) Information Document for International and National Operators
- (d) Action Plan for the implementation of (a) & (b) above.

5. CONSULTANCY REQUIREMENT

The assignment will be carried out over a period of three months by a consultant or a consultancy team with expertise in urban water management and operation issues, preferably with relevant experience in Africa and with a particular knowledge of International PSP trends in the sector.

6. REPORTING

The consultant will report to the Reform Implementation Technical Committee (ITC) through the Reform Implementation Unit of the Ministry of Water, Lands and Environment, Kampala. 5 copies of the reports will be submitted to the Reform Implementation Unit, Ministry of Water, Lands and Environment, Kampala) as well as to GTZ (2 copies, Kampala) and KfW (2 copies, Frankfurt/Germany), all in English. The time-schedule for draft reports and final reports is given in the table below.

The client's contact person and coordinator on a day-to-day basis is:

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The consultant shall involve the active participation of the following institutions and contact persons:

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The Consultant is expected to issue the following reports to the Implementation Technical Committee:

Activity	Report	Timing
Options for PSP in the Water Sector	Position Paper on PSP options with regards to financial needs, quality of service and costs of service based on a financial model assessing the costs and benefits of various PSP options	Draft by March 15 th , 2004, Final Report by April 19 th .
Market Testing	Information Document for International and National Operators	Draft by April 19 th , 2004, Final report by May 17 th , 2004
Analysis and evaluation of the separation of operations, asset management/investment, and regulation	Position Paper on separation of functions, i.e. operations & management, asset management & investment and regulation	Draft by March 15 th , 2004, Final Report by April 19 th .
Road Map for Reform	Action Plan for implementation of agreed reform options	Draft by April 19 th , 2004, Final report by May 17 th , 2004

Annex to the Terms of Reference

List of Documents to be made Available to the Consultants by the Government of Uganda

1. The Water Statute, (1995).
2. The National Water Policy (1999).
3. The National Water and Sewerage Statute (1995).
4. The Urban Water Supply and Sanitation Sub-sector reform Paper and Supporting Reports.
5. Local Government Act (1997)
6. National Environment Statute (1995)
7. Public Health Act, Cap 269.
8. The PERD Statute (1993) and its amendments.
9. The Urban Water and Sanitation Reform Strategy (2003)
10. Consult4 study (2000)
11. Water Sector Uganda (2003)
12. NWSC – GoU Performance Contract (2003)
13. NWSC Corporate Plan (2003)
14. NWSC Final Accounts of Financial Years 1999/2000, 2000/2001, 2001/2002, 2002/2003

All other documents, legislation or studies that will be relevant to the assignment and are held in GoU offices and will be availed to the Consultants.

SECTION V: PRESENTATIONS AND PHOTO DOCUMENTATION

- ANNEX A: DIRECTOR'S PRESENTATION (DWD)**
- ANNEX B: URU – WATER KEY ISSUES**
- ANNEX C: NWSC PRESENTATION**
- ANNEX D: RUWAS – KEY PLANNED ACTIVITIES**
- ANNEX E: PHOTO DOCUMENTATION**

Overview of the Water Sector/Context of the Reforms

Presentation by the Director, Directorate of Water Development at the Inaugural Meeting of the Urban Water Reform Implementation Technical Committee

**Grand Imperial Hotel, Kampala
January 30th 2004**

1

Government Priority Area

Water and Sanitation contributes to the achievement of Governments Poverty Reduction efforts in relation to:-

- Pillar 3 - Increased income to the poor
- Pillar 4 – Improved quality of life of the poor

2

Four Sub-Sectors of the Water Sector

- *Rural Water and Sanitation Services*
- *Urban Water and Sanitation Services*
- *Water for Production*
- *Water Resources Management*

3

Key Sector Goals

- Provision of sustainable safe water supply and sanitation facilities to all the population by 2015.
- Promotion of coordinated, integrated and sustainable water resources management.
- Development of water supply for agricultural production

4

Responsible Institutions

- **Ministry of Water, Lands and Environment**

Initiating national policies and setting national standards and priorities for water development and management. Two institutions carry out the work:-

- **Directorate of Water Development**

Lead Government Agency on water matters responsible for managing water resources, coordinating and regulating all sector activities and providing support to local governments and other service providers

- **National Water and Sewerage Corporation**

Autonomous parastatal entity responsible for the delivery of water and sewerage services in 15 large urban centers

- **Ministry of Finance, Planning and Economic Development**

Mobilization and allocation of funds and coordination of Development Partners

- **Ministry of Health**

Hygiene promotion and household sanitation

5

Responsible Institutions cont'd

- **Ministry of Local Government**

Implementing, operating and maintaining water supply and sanitation facilities in their area of jurisdiction

- **Ministry of Agriculture, Animal Industry and Fisheries**

Dealing with aspects of Water for Production

- **Ministry of Education and Sports**

Hygiene promotion and sanitation in schools

- **Ministry of Gender, Labour and Social Development**

Gender responsive development and community mobilization

6

Key Challenges Facing the Sector

- Low service coverage and limited access
- Poor management and inadequate sustainability of facilities and services
- Inadequate performance monitoring
- Inadequate sanitation strategy
- Inadequate financial resources
- Inadequate institutional and regulatory framework to promote best practices

7

The Reform of the Water Sector

Reform Objective

- To ensure that services are provided and managed with increased performance and cost effectiveness and to decrease the Government's burden while maintaining the Government's commitment to equitable and sustainable water provision and sanitation services.

8

The Water Sector Reform Process

Expected Benefits

- **Increased service coverage and improved access**
- **Effective institutional framework with appropriate incentives.**
- **Sustainable and cost effective services and facilities, professionally managed with increased performance.**
- **Increased Private Sector Participation with improved investment and operational efficiency.**
- **Mobilization of private capital for investment and reduced Government subsidies**

9

The Water Sector Reform Process

- ❖ **Reform strategies and investment plans have been developed for the Rural and Urban water and Sanitation sub-sector after detailed sector review studies and extensive consultations.**
- ❖ **Reform strategies and investment plans for the Water for Production and Water Resources Management are under preparation.**

10

Rural Water and Sanitation Reform Strategy

- Adopt Sector Wide Approach to Planning (SWAP)
- Apply Demand responsive approaches
- Promote Integrated Development
- Promote Private sector participation
- Strengthen Community Based Maintenance System (CBMS)
- Put In Place a user friendly Management Information Systems (MIS)
- Standardize hand pumps
- Undertake effective Monitoring and Evaluation at all levels
- Promote Sanitation Improvements
- Required Financial Resources, about US\$ 900 up to year 2015

11

Urban Water and Sanitation Reform Recommendations

A reform study was completed in January 2001. In a wide consultative process key recommendations were agreed upon

- Separation of institutional responsibilities to enhance accountability and efficiency in the sector
- Public ownership of assets under an Asset Holding Authority for the Large Towns and by Local Governments for the Small Towns
- Single Lease Contract for up to 33 large towns with International Private Operator
- Management contracts for small towns with local private operators
- Establishment of an independent regulatory framework.
- Financial requirements, about US\$ 390 million

12

Developments in the Sector After the Reform Studies

- International market for PSP projects like the one envisaged for the urban WSS in Uganda has undergone profound changes.
- More experience gained with managing private operators.
- More realistic about expectations from the private operators.
- The performance of the urban WSS has registered remarkable improvement over the past years since the reform programme was initiated e.g. management contracts with PO for the small towns, Performance Contract with NWSC, Innovative APC, IDMS, etc within NWSC.
- The procurement of the Transaction Advisory Team for the lease engagement for the large town grouping was delayed by IGG intervention.

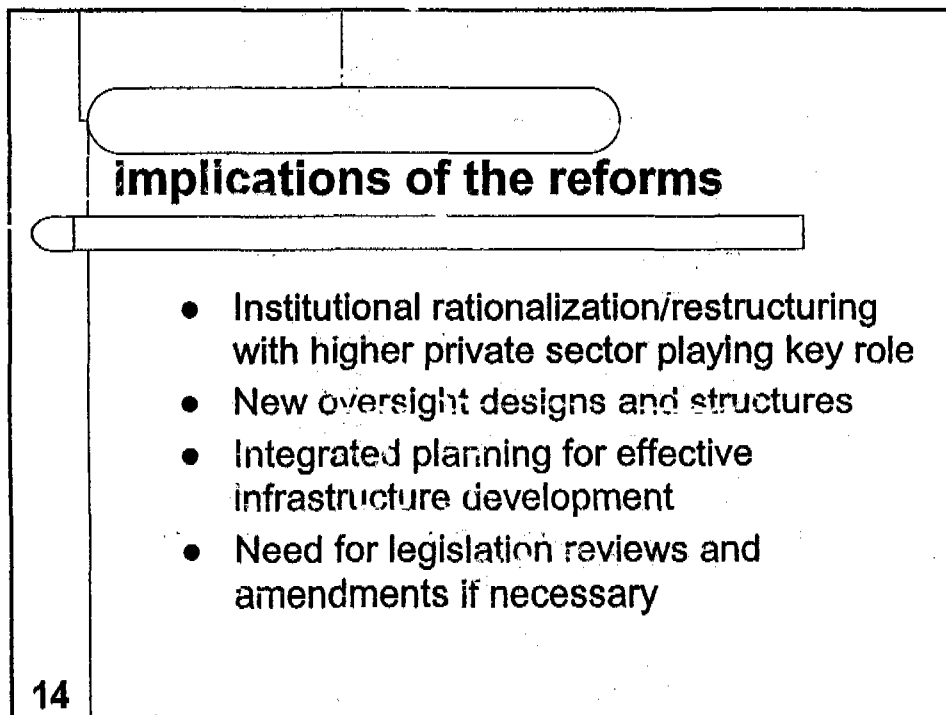
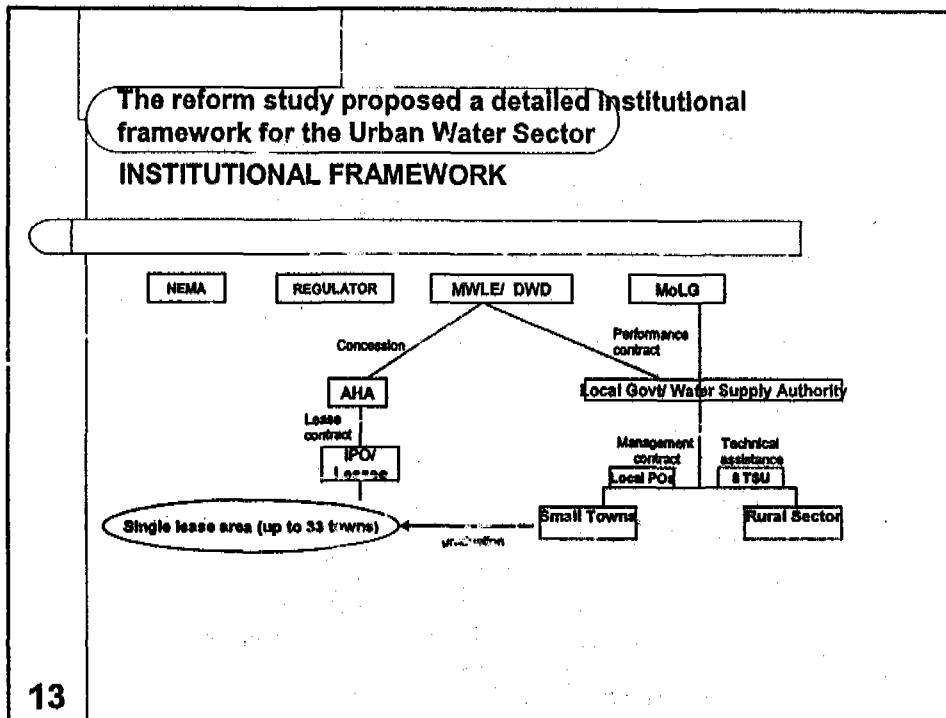
We need to take into account these developments as we define the road map for reforming the urban water sub-sector

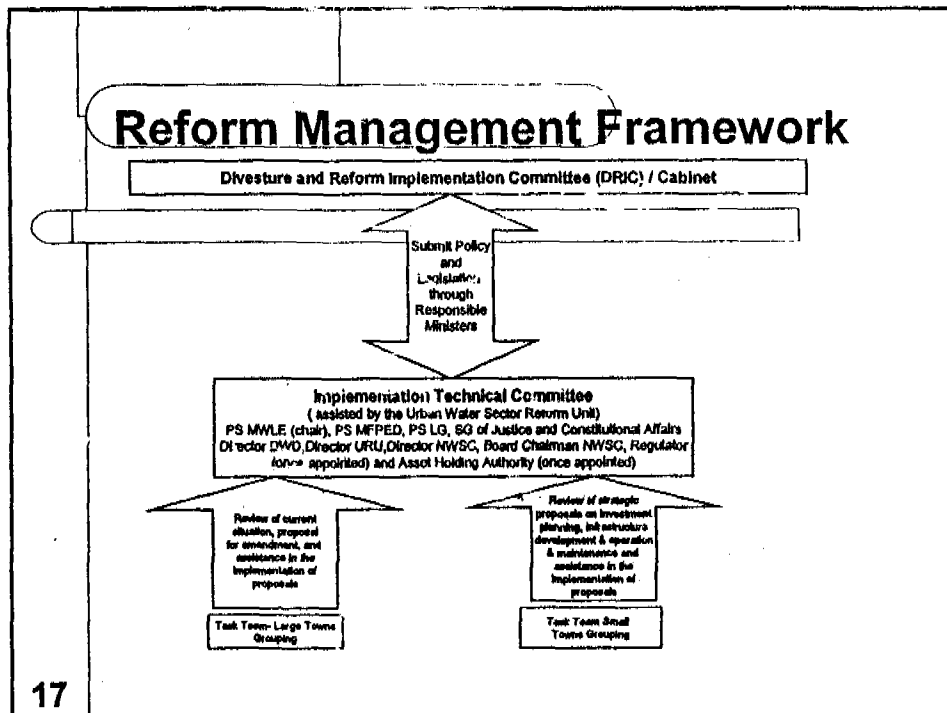
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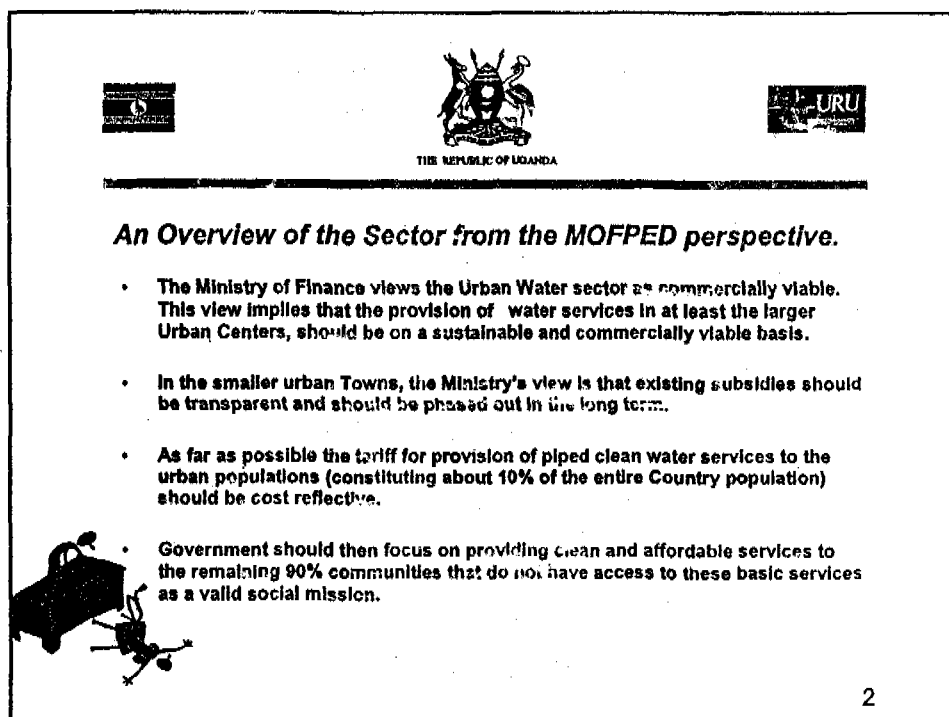
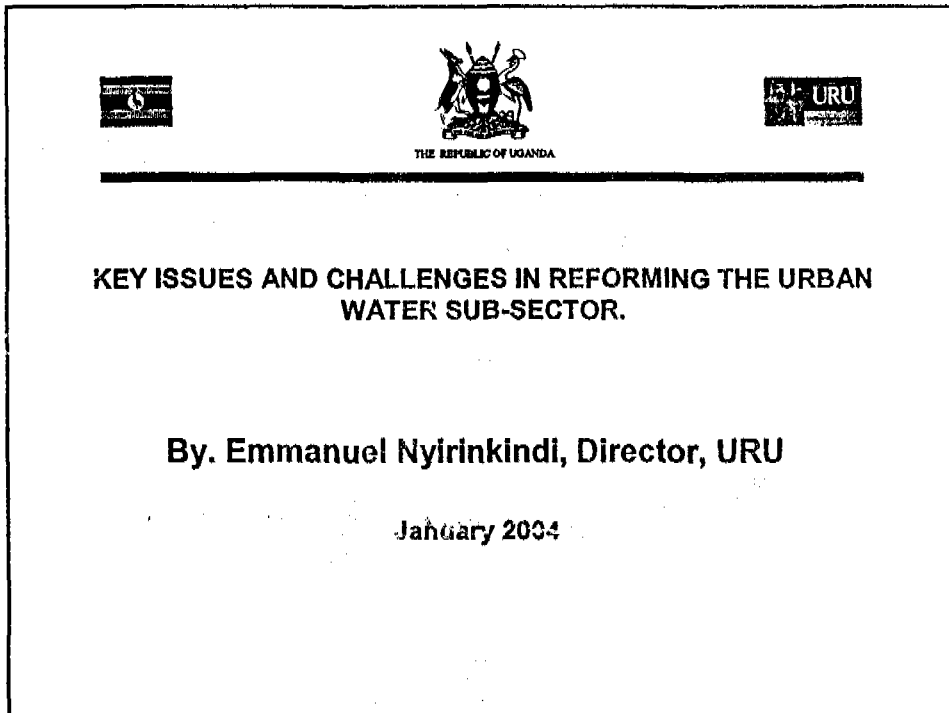
Implementation Issues


- Strategic decision on the separation of the core functions of asset management/investment, operations and regulation
- Analysis and evaluation of options for enhanced PSP options, including market testing
- Mobilization of financial resources to implement the reforms

16










THE REPUBLIC OF UGANDA

A Few Facts about the Urban Water Sector.

- NWSC remains the largest Public Sector key player in providing water and water borne sanitation services in Urban centers.
- In 1999 the Corporation was on the verge of collapse, it was highly illiquid, lacked resources to maintain services and could not meet its debt service obligations.
- GoU intervened and has been supporting NWSC to the current position where the Corporation can now meet its operating costs.
- However NWSC still cannot meet its debt obligations. Currently the total debt stock is about 135 bn with an annual obligation of close to Ushs 15bn per annum.

3




THE REPUBLIC OF UGANDA

Key Intervention areas In the operations of NWSC

What have been the Key Intervention Areas in the Operations of NWSC?

- GoU has had to forego its debt service flows from the Corporation since 1999.
- In addition GoU, has had to financially assist NWSC to restructure its operations to achieve a sustainable level of costs.
- The corporation was encouraged to embrace PSP to increase efficiency.
- A Government Performance Contract underpinning the Commercialization of the operations of NWSC was signed between the Ministry of Finance, the Corporation and the Line Ministry.

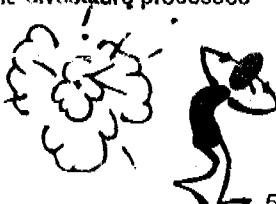
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THE REPUBLIC OF UGANDA

Risks Associated with Utility Reforms

- Delays in decision-making due to poor coordination of utility sector reform between the Privatisation Unit and Line Ministries.
- Lack of clear delineation of responsibilities between policy-makers and regulators.
- Delays in enacting new legislation.
- Delays caused by undue interference in the divestiture processes by other government organs (e.g. IGG)




5




THE REPUBLIC OF UGANDA

Loss of momentum in implementation of Reforms.



- In April 2003 GoU was at the point of signing a contract for Transaction Advisory services with PA Consult of USA to provide consulting services in the implementation of the Lease Contract for the Larger Urban Grouping, when one of the losing bidders PWC lodged a formal complaint to the IGG who subsequently intervened and requested that the procurement process be halted.



6



THE REPUBLIC OF UGANDA





Loss of momentum in Implementation of Reforms.



*The IGG is yet to issue his final report on the matter.
The delay caused by the intervention of the IGG means that;*

- GoU may need to re-tender the contract, which is the least attractive option given the urgency of reforms in the sector.
- Even if the IGG was to clear the matter, the availability of the evaluated individuals under the PA bid is now in question.
- New developments in the international Water operator markets seem to indicate that there is need to review the recommended PSP option.
- Need to put in place an alternative implementation framework to effect the agreed institutional arrangements that are necessary for operations in the sector. (The AHA, the Regulator and the Operating Company).
- More recently the pulling out of Ondeo services (U) Ltd in the provision of Management Services in the Kampala area, points to the need of putting in place more stringent monitoring mechanisms to monitor Performance in NWSC.

7




THE REPUBLIC OF UGANDA

Major Challenges (Common to all Utilities)

- Delayed implementation of utility reforms vis-à-vis increased stakeholder and donor expectations and availability of funds.
- Development of a coherent regulatory and Institutional framework for utilities.
- Balancing the commercial requirements of utility operators with the needs of the poor.
- Securing broad stakeholder consensus for utility reform strategies.
- Securing political consensus and consistency for reform frameworks and implementation strategies.



8



THE REPUBLIC OF UGANDA

***Specific Issues and Challenges in the sector.***

- Current Institutional arrangements in the sector do not allow for sustainable services to be provided in the Urban Water Sector.
- There is a limit to the level of subsidies that MoFPED can provide to NWSC for operations that can otherwise be regarded as commercially viable. GoU needs to focus on the 90% population that require more decent sources of clean water.
- Urgent need to Consolidate achievements so far made by NWSC and ensure that operations are sustainable. There is need to strengthen the performance monitoring mechanisms of NWSC to ensure continued financial sustainability.
- In order to regain the lost momentum, there is need to re-package the Transaction advisory services assignment by splitting and accelerating the reforms based on the possible available funding sources



PERFORMANCE OF NWSC

and

the short-term performance enhancement initiatives



A Paper presented at the inaugural meeting of the Implementation Technical Committee for the Reform of the Urban Water and Sanitation Sector, 30th January, 2003

Presented By: Dr. Muhairwe

1

- Introduction
- Back ground to Internal Reforms
- Internal Reforms
- Objectives of Programmes
- PSP. Other Commercialization Activities
- Management of Programmes
- Achievements
- Way Forward



2



NWSC History


- ◆ National Water and Sewerage Corporation (NWSC) is a Ugandan Parastatal set up in 1972
- ◆ It is responsible for the provision of water supply and sewerage services in fifteen (15) towns of Uganda.
- ◆ Operations have grown from 3 operational towns in 1972 to 15 towns at present

3



- ◆ 1972 : Kampala, Entebbe, Jinja
- ◆ 1988: Mbale, Tororo, Masaka, Mbarara (after the Seven Towns Water and Sanitation Project World Bank)
- ◆ 1991: Gulu, Lira (after ADB Rehabilitation)
- ◆ 1997: Kasese Fort Portal (After KfW rehabilitation)
- ◆ 1999: Kabale (before KfW funded rehabilitation)
- ◆ 2002: Bushenyi (fulfilment of President's Manifesto)
- ◆ 2003: Arua, Soroti (fulfilment of President's Manifesto)

4




Mission Statement

To be a Customer oriented infrastructure organisation providing reliable and good quality water and sewerage services in a cost effective manner.

"The Customer is King and the reason we exist"


5



Background


- ◆ The period 1988 - 1998 saw a lot of investments in the rehabilitation and expansion of water and sewerage services in the NWSC
- ◆ However, by 1998, the performance of the NWSC was unsatisfactory as exemplified by:
 - high UFW at 60%
 - 60% collection efficiency
 - 35 staff per 1000 connections
 - Debt age of 429 days
 - Only three of the areas or towns breaking even.
- ◆ The Corporation therefore came under pressure to improve its performance.

6



- ◆ New Board and Management put in place 1998, tasked to turnaround the Corporation
- ◆ Adopted long term and short-term strategies
 - Adopted a Three year Corporate Plan which outlined three year Strategic Goals.
 - Adopted Short Term Enhancement Programmes as a means of accelerating the achievement of the Strategic Goals
 - Signed a Performance Contract with the GoU in 2000.
- ◆ Strategies Adopted to improve NWSC Performance

7




IN-HOUSE PERFORMANCE IMPROVEMENT PROGRAMMES

- ◆ 100-Days Programme (Feb 1999-May 1999)
- ◆ SEREP I & II (August 1999-August 2000)
- ◆ Area Performance Contracts I,II, III (Sept 2000- Nov 2003)
- ◆ Support Services Contracts I & II (Dec 2000-Nov 2002)
- ◆ STRETCH OUT Programme including One Minute Management Concept - 2003
- ◆ Internally Delegated Management Contracts (IDAMC's) 2003

Details on NWSC Website: www.nwsc.co.ug

8



100 Days

- ◆ Focused on reversing the operational & financial inefficiencies


SEREP

- ◆ Aimed at restoring customer confidence in NWSC operations and thus service enhancement

Area & Service Performance Contracts

- ◆ Aimed at break-even (covering all cash operation costs) of areas by empowering managers and giving them autonomy to take decisions.

9




Stretch Out Programme

- ◆ Aimed at improving cash operating margins in Areas by reducing bureaucracy, increasing speed, simplicity, worker involvement, and instilling self confidence

Internally Delegated Area Management Contracts


- ◆ Aimed at further devolution of powers to the Areas by increasing Area Team accountability and apportioning risk to the Areas through a Performance based pay mechanism

10



- ❖ Outsourced non-core activities e.g. guard services, grass cutting
- ❖ Kampala Revenue Improvement Project (KRIP): 1998 - 2001, Under Gauff J.B.G
- ❖ Kampala Water Supply and Sewerage Area Management Contract: 2002 - 2004: ONDEC Services.
- ❖ Tariff Review
 - Reduced connection/reconnection fees
 - Tariff Indexation against Inflation
- ❖ Strengthened Management Information System
- ❖ Staff rationalisation (Reducing staff & increasing productivity)

11



- ❖ Used SMART criteria to set targets
- ❖ Participation, change ownership, collective decision making and balanced bottom-up and top down approaches were employed
- ❖ Regular Monitoring, Evaluation and Reviews were employed
- ❖ Use of well structure Performance-based incentives
 - ❖ Bonus
 - ❖ Trophies
 - ❖ Cash prizes
- ❖ Use of disincentives for non-performance (penalties)

12

KEY ATTRIBUTES OF PROGRESS

- ◆ Progressive empowerment of Workers
- ◆ Staff involvement at all levels
- ◆ Devolution of power from the centre (headquarters) to Areas
- ◆ Increased Customer Focus
- ◆ Commercial orientation of operations and incorporation of PSP ideals of efficiency.

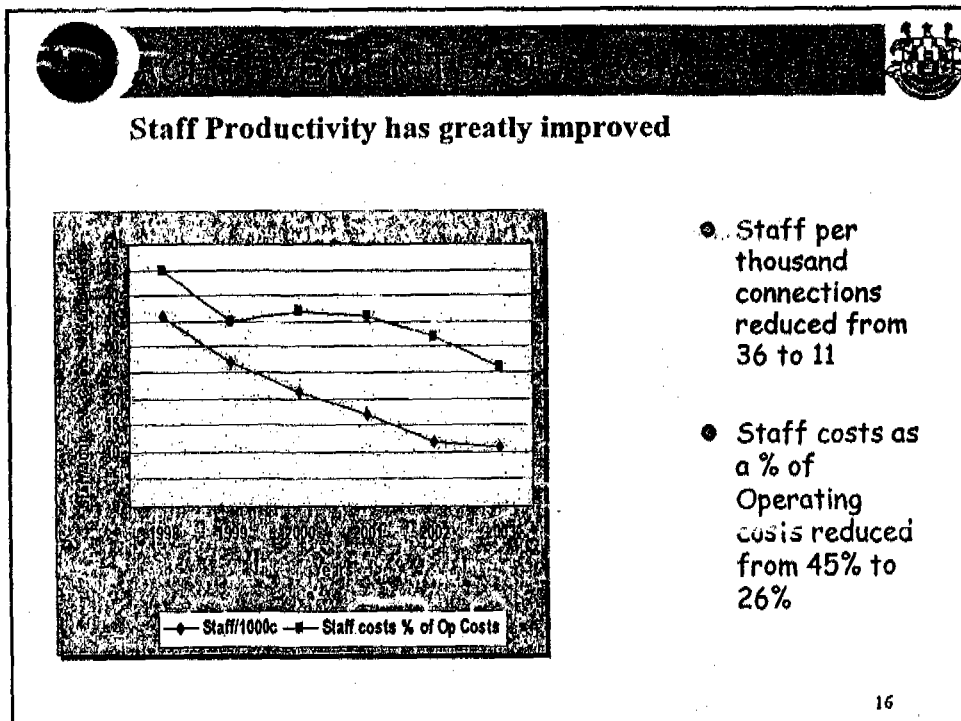
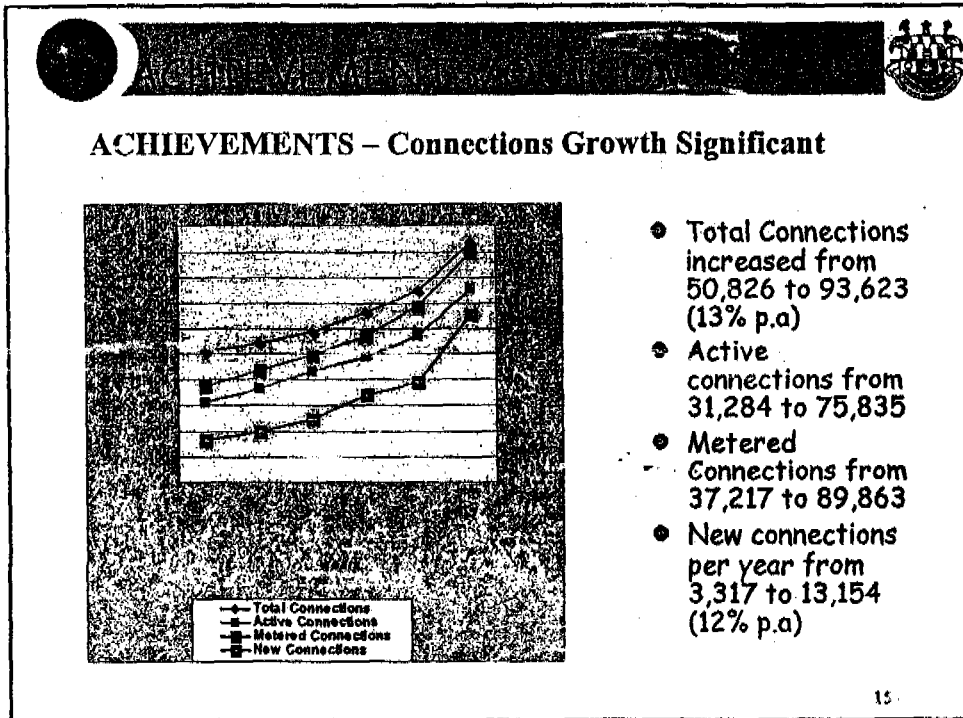
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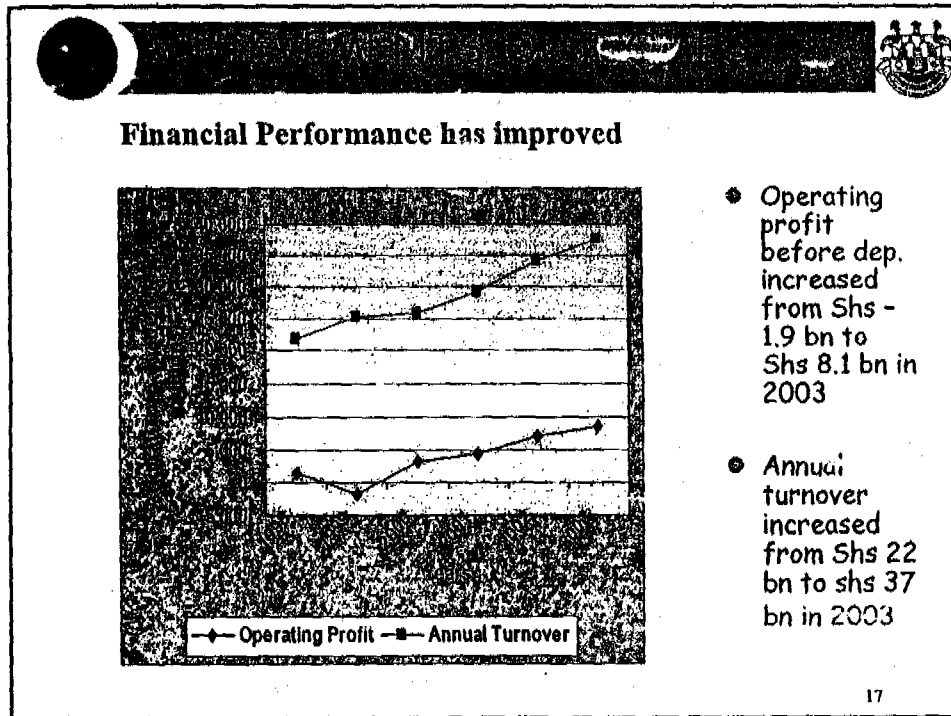
ACHIEVEMENTS – UfW and Collection Efficiency

Year	UfW (%)	Collection Efficiency (%)
1998	51	60
2003	39	95


- ◆ UfW reduced from 51% in 1998 to 39% in 2003
 - Kampala from 55% to 40%
 - Other Areas from 43% to 21%
- ◆ Collection Efficiency increased from 60% in 1998 to 95% in 2003

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- 2nd Performance Contract with Government (2003 - 2006).
 - Internal Delegated Management Contracts (IDAMC'S) aimed at further consolidating gains of autonomy and harnessing benefits akin to PSP using local manpower and resources.
- 18



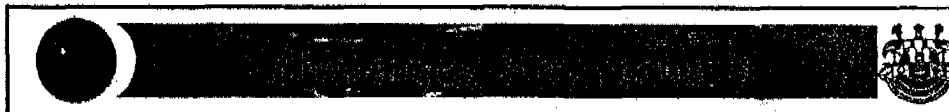
- ⊕ NWSC's response to the need to further consolidate operations at Area Level.
- ⊕ Characterised by precise contract design, increased autonomy to Area Management, increased Team accountability, and Performance based pay.
- ⊕ Strategy in line with wider sector reform tenets of increased PSP management and separation of asset holding and/or regulatory roles from operations management.

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- ⊕ Obligations of Operator include:
 - ▣ Safeguard, use, maintain and control assets, provide O&M management services, carry out rehabilitations and extension of systems and bill/collect revenues.
- ⊕ Obligations of Head Office include:
 - ▣ Set tariffs, rates, charges, pay management fees, monitor evaluate performance, provide general strategic guidance, and carry out major capital works


20



The challenges/way forward are:

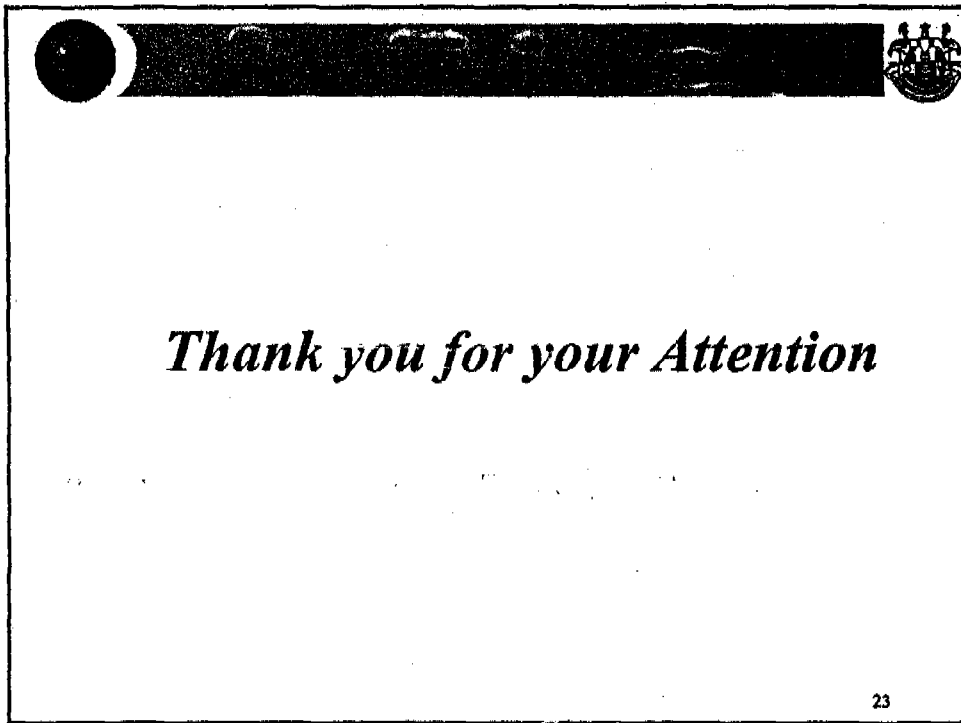
- to consolidate the financial and operating gains and transform the NWSC (its' operating arm) into a proven on-going viable business / commercialized concern
- to ensure that the internal reforms in NWSC continue to be consistent and in harmony with the wider urban WSS reform strategy .

21



- Over the last five years, the NWSC has clearly shown a turn around in its operational and financial performance
- Management and staff of NWSC have embraced change aimed at establishing a track record of enhanced Performance in preparation for any future wider sector reform.

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Thank you for your Attention

**Reform of the Urban Water and Sanitation
Sub-Sector**

**Key Planned Activities for the Period
February 2004 to October 2004**

**Implementation Technical Committee
Inaugural Meeting
January 30, 2004**

**During the Joint Sector Review in September 2003 Government of Uganda and
Development Partners agreed on an Undertaking to "Accelerate the Implementation
of the institutional reform process in the urban WSS sector"**

Nr.	Activity	Output Verification	Who	When
1	Inauguration of the Reform Implementation Technical Committee (ITC)	Establishment of ITC	MWLE	October 2003
2	Analyse and evaluate the separation of the core functions regulation, asset management/investments and operations	Position paper on separation of functions	MWLE / ITC (with support from URU, Development Partners)	March 2004 (Water Sector Technical Review (WSTR))
3	Analyse and evaluate options for enhanced PSP (market testing and private operators' procurement process)	Position paper on selected option	MOFPED / URU MWLE / ITC	March 2004 (WSTR)
4	Select and decide upon proposals (action 2,3) and prepare an action plan for implementation	Decision on implementation strategy	MWLE / ITC / MOFPED / URU	March 2004 (WSTR)
		Road map for implementation	MWLE / ITC / MOFPED / URU	September 2004

In consultation with URU, NWSC and DPs the Reform Implementation Unit within the MWLE has drafted terms of reference for two position papers to inform the decisions of the Implementation Technical Committee

TITLE

“Analysis and Evaluation of the Options for Private Sector Participation and the Separation of Functions in the Urban Water Sector”

The objectives of this assignment are to assist the Government of Uganda through the Urban Water Reform Implementation Committee in:-

OBJECTIVES

1. Analyzing and evaluating the options for Private Sector Participation in service delivery in the Urban Water and Sanitation Sub-Sector focusing on the large towns.
2. Analyzing and evaluating the separation of the core functions of operations & management, asset management & investment and regulation.
3. Preparation of an action plan based on 1 & 2 above.

Water Reform 04/02/2004

The Scope of Work of the two proposed position papers includes seven areas of analysis

SCOPE of WORK

1. Designing a financial model to assess the costs and benefits of various PSP options based on assumptions regarding the number of towns included in the PSP option, quality of service provision, level of service fees, availability and costs of financing and other factors as to be determined in consultation with the client.
2. Defining and evaluating possible PSP options against the current NWSC reform initiatives, specifically the Internal Delegated Management Contracts (IDAMC's).
3. Evaluating the outcomes of PSP-solutions to date (specifically the NWSC- OSUL enhanced Management Contract) and other local private sector initiatives in the urban water and sanitation sector with regards to technical, administrative, financial and legal issues.
4. Giving an analytical overview on the International market situation for P+S contracts in the Water and Sanitation industry in developing countries and emerging economies with a special focus on Africa.
5. Carrying out an assessment of the market interest from the international water industry on the proposed PSP options, obtain feedback from those companies with experience in operating WSS utilities in developing countries and assess their interest in doing business in Uganda which if successful will culminate into a short-list of prospective water operators.
6. Carrying out a review of all legal texts currently related to the provision of the public WSS service in Uganda with the goal of identifying discrepancies and inconsistencies if any and suggesting amendments.
7. Preparation of a proposal on the process and practicability of all matters relating to the separation of core functions in the urban water sector (i.e. operations & management, asset management & investment and regulation) and to recommend on the future institutional set-up for the sector.

Water Reform 04/02/2004

The expected outputs of the assignment are two position papers, on information memorandum to potential bidders and an implementation plan

OUTPUTS

- a) Position Paper on proposed PSP options
- b) Position Paper on the separation of the core functions in the Urban Water Sub-Sector
- c) Information Document for International and National Operators
- d) Action Plan for the implementation of a.) & b.) above.

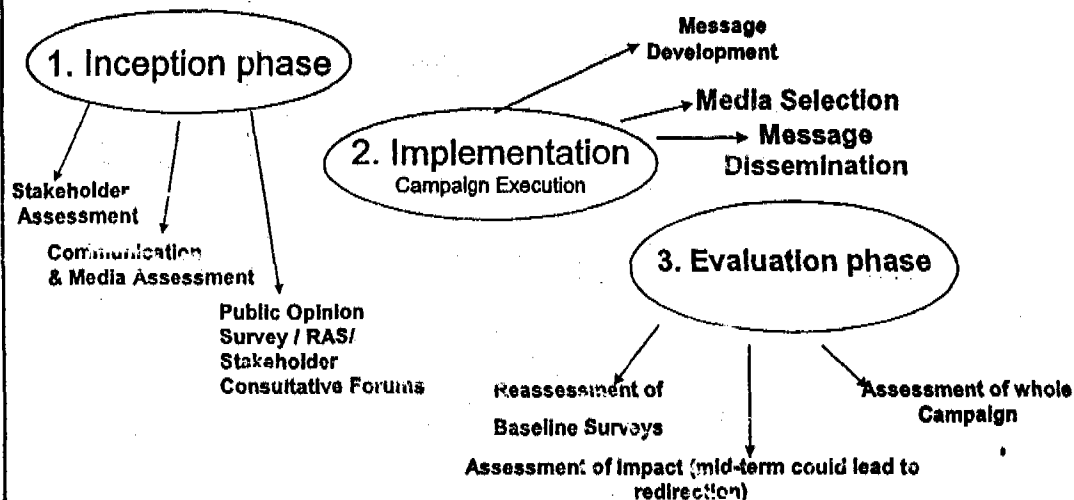
The Implementation Technical Committee will guide the process and decide on the preferred PSP option and the detailed sector structure and will report back to Cabinet

TIMELINE

Jan	Inauguration of ITC, Agreement on TOR for ITC, Agreement on TOR for Position Papers
Feb	Consulting Input into Position Papers "PSP options" and "Separation of Core Functions"
Mar	Draft Position Papers on "PSP options" and "Separation of Core Functions", Discussion during Technical Review
Apr	Draft Information Document for Operators and Draft Action Plan for implementation
May	ITC meeting to discuss findings, Final documents (position papers/ information documents and action plan for implementation)
Jun	Market testing, information workshop for interested private operators and collection of their views and comments
Jul	Compilation of results of Market Testing
Aug	ITC meeting to discuss the results of market testing
Sep	Joint Sector Review, discussion of implementation plan with Development Partners
Oct	ITC meeting deciding on future reform implementation, Reporting to Cabinet seeking approval for implementation of proposed PSP option and sector structure

PROPOSED STAGES OF FORMULATING AN URBAN WSS COMMUNICATION STRATEGY

We are currently undertaking a stakeholder consultation process and will make a formal public opinion (PO) /rapid assessment survey (RAS) to provide a baseline for designing an informed communication strategy. In the meantime we have established the major stakeholder segments and are in the early stages of a formative assessment mainly comprising desk research and meeting major civil society groups that have done studies on the water sector.

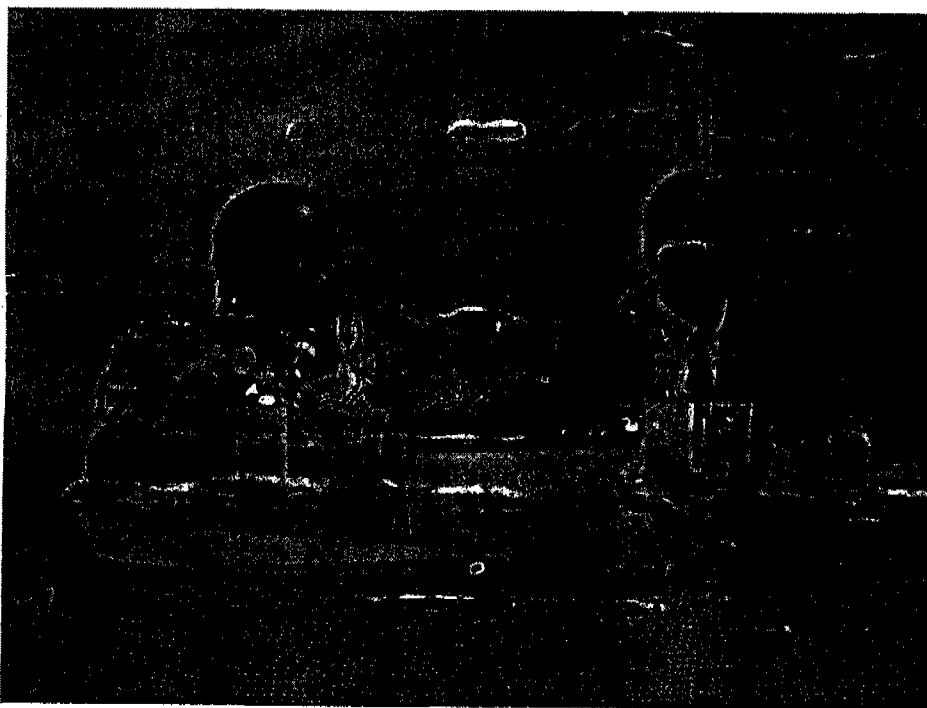


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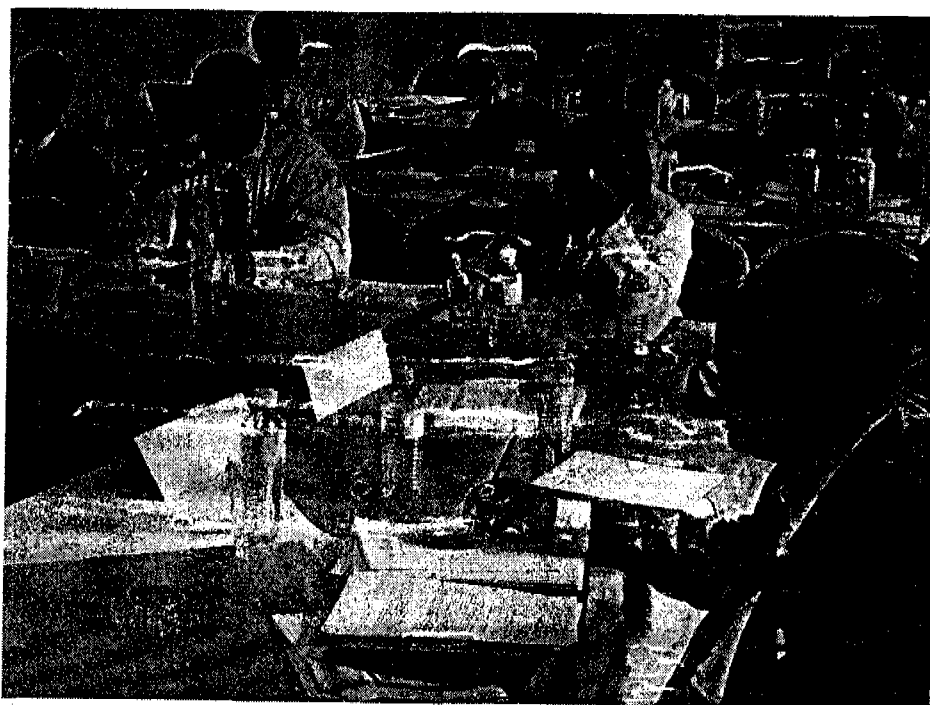
Communication Strategy Timeline

Q1 2004 Jan-March	Q2 2004 April - June	Q3 2004 July – Sept	Q4 2004 Oct-Dec	Q1 2005 Jan-March	Q2 2005 April-June
Stakeholder Consultations	Formative Research	Consultative Forums	Strategy Formulation	Strategy Adoption	Campaign Execution
<ul style="list-style-type: none"> -Civil Society Groups -Analysis of Independent stakeholder UWSS Studies -Bid out Formative Research 	<ul style="list-style-type: none"> - Public Opinion Survey - Rapid Assessment Survey 	<ul style="list-style-type: none"> -Presentation of research -Stakeholder workshops 	<ul style="list-style-type: none"> -Compilation of views -Writing of draft strategy -Audience segmentation and message matrix 	<ul style="list-style-type: none"> - Presentation of draft comm. Strategy -Incorporation of comments – presentation of Strategy 	<ul style="list-style-type: none"> -Message Development - Message Testing -Material development -Media Booking -Stakeholder meetings

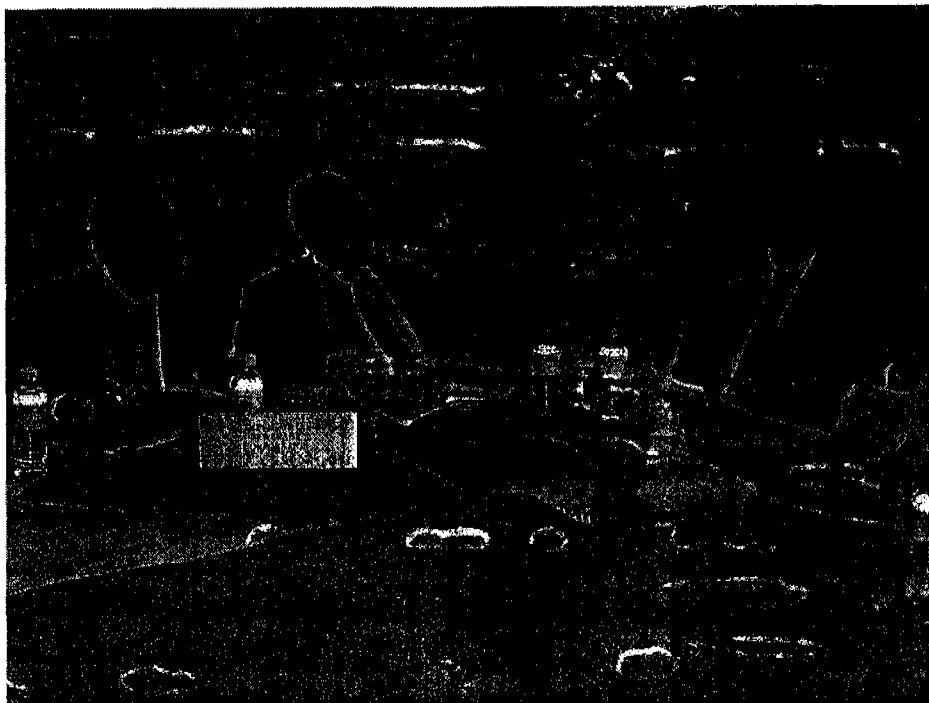
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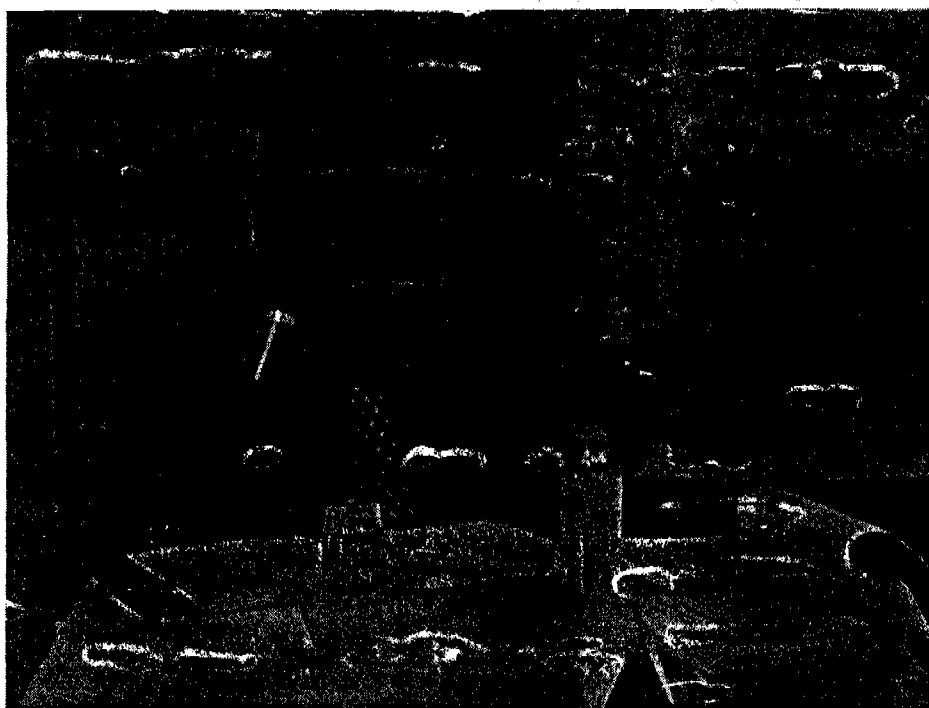
Hon. Maria Mutagamba making her Inaugural Speech to the ITC. Next to her is Eng. S. Bomukama, Commisioner Water Supply Department – DWD.



Members of the ITC pondering the issues at hand .



Two Members of the Board of Directors and Manager Operations of NWSC during deliberations.



Eng. Ephraim Kisebho, Reform Coordinator moderating the discussion.