Discussion paper

WaterAid

The changing meaning of reforms in Uganda:

Grappling with privatisation as public water services improve

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Public services in poor countries are almost always written off as inefficient, resistant to reform, and prone to wasting precious resources. In water and sanitation services, despite substantial investments in public utilities, coverage or service levels often fail to improve as expected. This is a key reason why development banks and aid donors tend to favour the private sector takeover of public services: a profit-maximising private company, by its very nature, will almost always try to reduce inefficiency and improve coverage. In 1998, Uganda implemented water sector reforms that reduced the roles of state bodies while increasing private sector involvement. Significant achievements were made, but one key observation that this case study will demonstrate is how the supposed efficiency of the private sector has been overrated. Instead, what Uganda's experience shows is that it is improved governance capacity and radical improvements in public sector performance that institutionalises and embeds discipline and efficiency in the water sector. This paper therefore argues that an alternative public sector-driven model of reform, where private sector involvement 'evolves' as government capacity improves, is more appropriate and necessary for a country like Uganda which is poor, where markets and infrastructure are underdeveloped, and where water and sanitation services provision still remain to be commercially unviable. In the process of implementing 'internal reforms' in its main public water utility, Uganda demonstrates the possibilities of what can be achieved by a reforming and efficiency-driven public sector. Improvements achieved through this alternative model could be more sustainable, and is a better approach especially in meeting Millennium Development Goals.

Introduction

Like most Sub-Saharan African countries, Uganda is in a constant state of struggle to reduce poverty levels and increase its ability to deal with the associated economic, social and political problems of being a highly-indebted poor country (HIPC). But unlike many of the HIPC countries, Uganda is increasingly being noticed for showing signs of progress. In 1997, it became the first country to qualify for debt relief after it came out with its Poverty Eradication Action Programme (PEAP). By 1998, a Poverty Action Fund (PAF) was introduced by donors (World Bank, Sept 2002: 54). In 2000, PEAP was revised to become Uganda's interim Poverty Reduction Strategy Paper which not only increased resources but also qualitatively changed donor confidence in the country (Calaguas and O'Connell, March 2003). Not only was PAF increased from US$20 million in 1998 to US$130 million by 2001, the World Bank also decided to give the country fresh new loans worth US$150 million a year through the Poverty Reduction Support Credit (PRSC), now on its third year (WB, Sept 2002: 54 and WB PRSC-3).

The dramatic increase in resources came as Uganda firmly established and implemented its commitment to reforms. These reforms, in turn, have translated into quite impressive results, as exemplified by improvements in the water sector.[1] In three years from 1998 to 2001, village-level water and sanitation projects funded through the PAF connected nearly one million rural Ugandans to a safe water source (Ministry of Finance, 2001). Similarly, PRSC funds, 20% of which are allocated to water and sanitation, are being geared to deliver an annual target of 3500 new rural water points and 900 new public, institutional and school sanitation systems to benefit around 950,000 Ugandans each year and move the country closer to its Millennium Development Goals commitments (WB PSRC-3, March 2003). According to the Directorate of Water Development (DWD), performance in the past years has been in line with meeting PEAP targets (WB, May 2003: 22).

The increase in donor resources, particularly for water and sanitation, came through not only because the needed institutional and policy environment were established, but more importantly, because government increased its own national budget allocations for water and sanitation by over ten-fold (Wood, 2000). From 1997, government's contribution increased from US$2 million to about US$20 million, and has remained between 2.4 to 2.8% of the annual national budget (WSP, 2002: 6). Alongside, new institutional frameworks defining stakeholder roles were established. Decentralisation of responsibilities and funding, despite the initial difficulties, were continued and implemented. Co-ordinating bodies were instituted to clear out problem areas. Sector reform studies were conducted to better inform decision-making, along with monitoring and evaluation mechanisms such as the financial tracking and value-for-money studies. Overall, a Sector-Wide Approach to planning (SWAP) was adopted, to among others, place government rather than donors in the driver's seat. Venues for engagement with civil society were opened up -- the Uganda Water and Sanitation Network (UWASNET), a network of NGOs with 130 paid-up members has been invited to technical committees overlooking reform options (MWLE, Sept 2002). Finally, the most remarkable achievement so far has been the transformation of the highly inefficient National Water and Sewerage Corporation (NWSC), which was on the brink of collapse in 1998, into a now profit-making autonomous state body (WB PSRC-3, March 2003).

Undoubtedly, the government and its various water bodies deserve praise for these achievements. But the curious thing is that very few seem to be taking notice; and of those who do, not all are impressed. Among nongovernment organisations (NGOs) like the Development Network of Indigenous Voluntary Associations (DENIVA), there is more scepticism than recognition that Uganda's government has moved the country forward in terms of water reform. Much of the scepticism is fuelled by concerns over an underlying principle guiding the reform framework – i.e. to decrease the role of government to unburden the state of many of its responsibilities while increasing private sector involvement. The sceptics are not convinced that this provides the best possible framework for reforms, and are particularly worried by what is seen as a commercialised, profit-driven approach. In the water sector, there is growing concern that projects delivered through the private sector are not sustainable and leaves many gaps in ensuring the poor's access to safe water and adequate sanitation.

Also, another reason perhaps why Uganda's water sector reforms have not received the attention it deserves is that these have not been achieved without acrimony. For example, there was a period when the biggest critic of the NWSC was the Directorate of Water Development (DWD) itself. Doubts were expressed as to whether the

[1] By "water sector" we mean to include urban and rural water supply and sanitation services; water resources management; and water for production (agriculture, rural industries, recreation, etc.)

internal reforms at NWSC were really working (DWD, 2001: 4-5). Although they have managed to keep their differences to a manageable level, officials from both bodies confirm the "periods of difficulty" of working with the other. At the same time this was happening, there was also considerable scepticism on whether the decentralisation of water sector responsibilities to the district governments was working. Numerous issues were cited, including loss of efficiency, lack of district capacity, corruption and unclear lines of coordination between national and local bodies (See for example, Barungi, et.al. 2002). Overall, it appears that since the reforms were being implemented under considerable pressure from critics within and outside government, achievements may have been glossed over when they were made.

The crucial issue now is to take stock of what has indeed been achieved, and to assess whether the current underlying reform framework remains valid. If considerable progress has indeed been made, this needs to be acknowledged and analysed, and the lessons noted so it can inform discussions on water sector reforms elsewhere. What appears is that Uganda's experience in improving its water sector is an interesting case study on the changing meaning of reforms – success in implementing reforms creates pressure to change the reform framework itself.

At the moment, "the Government of Uganda remains firmly committed to the privatisation process" (MWLE, Sept 2002: 4). This commitment to privatisation is an integral component of a water reform policy that is meant "to ensure that the water sector services are provided and managed with increased performance and cost effectiveness, and to decrease the government's burden while maintaining government commitment to sustainability and equitable development" (ibid. 9). But as Uganda becomes more successful, particularly in improving public sector efficiency, there emerge greater basis for the country to reconsider this overall water reform policy. At the very least, there is now more reason to continue with internal public sector reforms while adopting a more 'evolutionary' rather than enforced approach in contracting the private sector.

Last March 2003, UK-based organisations WaterAid and Tearfund released a report that concluded that the heavy promotion of private sector participation has often led to failure in addressing other more fundamental issues that are essential for water sector reform (Gutierrez, et. al. 2003)[2]. Uganda appears to be addressing those fundamental issues, hence its achievements today, but at the same time remains firmly committed to forms of privatisation. Thus, there are two main questions that this paper aims to answer:

- Given the improvements in the water sector in Uganda that has demonstrated the possibilities of what can be delivered by a reforming and efficiency-oriented public authority, is there a case for reviewing existing policy on the role of the state and the private sector in the country?
- Is the Uganda water sector experience showing us ways of how that dynamic balance between public and private sector roles can be managed and developed?

Our answer to both these questions is that indeed the Ugandan experience provides a case for reviewing existing policy on the role of the state and the private sector, while it provides important insights into how the balance between public and private roles can be managed and developed. The following sections of this report will develop this argument further.

[2] This report is available at http://www.wateraid.org/site/in_depth/current_research/157.asp

Overview of water sector reforms in Uganda

Uganda is one of the least served countries in the world by water and sanitation services. In June 1996 before the reforms were implemented, it is estimated that only 37.6% of rural households are covered by some form of water supply services, while only half are covered in urban areas (Cong and Arebahona, June 2002: 3-5). Government defines access to a water source as a household being located within 500 meters of a hand-pump, well, spring or standpipe in rural areas; and within 200 meters in urban areas, and able to access a minimum of 20 litres per day (Wood, 2000:12).

Water sector reform policy in Uganda emerged over a number of years. One of the key first steps was that the government early on formally recognised that the lack of access to safe water, adequate sanitation and health services is a prime cause and consequence of poverty. No less than the Constitution of Uganda (1995) provided, among others, that it is the responsibility of the State to fulfil the fundamental rights of all Ugandans to education, health services and clean and safe water. When the Millennium Development Goals were adopted, the United Nations set for itself the target of halving the proportion of people without access to water by 2015[3]. Uganda doubled the targets for itself – it committed to connecting 100% of all households to a safe water source and adequate sanitation by 2015. Water sector reforms therefore is seen by government as one of the instruments needed for its campaign on poverty reduction (Wood, 2000). In comparison, other HIPC countries have not identified water and sanitation as a priority in their poverty-reduction strategy papers (PRSPs) (Calaguas and O'Connell, March 2003).

Given such commitments, Uganda went on to develop what can be characterised as a measured and studied water sector reform policy. With the constitutional provision on the right to water in place, a number of legislation and policies were passed and implemented, although some measures are not yet fully operational at the local government level (MWLE, Sept 2002: 4). For example, the Water Statute (1995) laid the objectives of promoting the rational management and use of water; the provision of safe and sufficient supply of water for domestic purposes; and the orderly development and use of water resources for purposes other than domestic use. The NWSC Statute (1995) was mainly about the reorganisation of the NWSC into an autonomous corporate body with institutional as well as financial autonomy from other bodies of government. The Local Government Act (1997) transferred most water sector responsibilities from central government to district and town councils. And then in 1999, the National Water Policy was adopted on the principle that water is to be managed as an economic and social good. These water-specific policies and legislation are components that build up and extend the country's general poverty reduction strategy. Furthermore, specific sub-sector reform studies were conducted to guide decision-making in four areas: rural water supply and sanitation; urban water supply and sanitation; water resources management; and water for production. The studies present an analysis of the problem, the reform framework and a set of options to consider. Out of these studies came out corresponding outlines of more detailed strategies on rural water sector reform, urban water sector reform, water resources management, and water for production development (ibid.). While many problems have been noted in the implementation of this policy and legal framework – such as loss of efficiency during devolution of functions from central to weaker local governments – overall, it lays down a sound basis for a government trying to take control and drive the process forward.

As a further measure of government commitment to the reforms, national budget allocations for water and sanitation was increased ten-fold by 1998. As a result, the already existing Poverty Action Fund (PAF), a donor grant approved through the World Bank's debt relief program, was further complemented by fresh new concessionary loans through the Poverty Reduction Support Credit. PAF was increased from US$20 million in 1998 to US$130 million in 2001, by which time an additional US$150 million came through the PRSC-1 (WB, Sept 2002: 54 and WB PRSC-3).

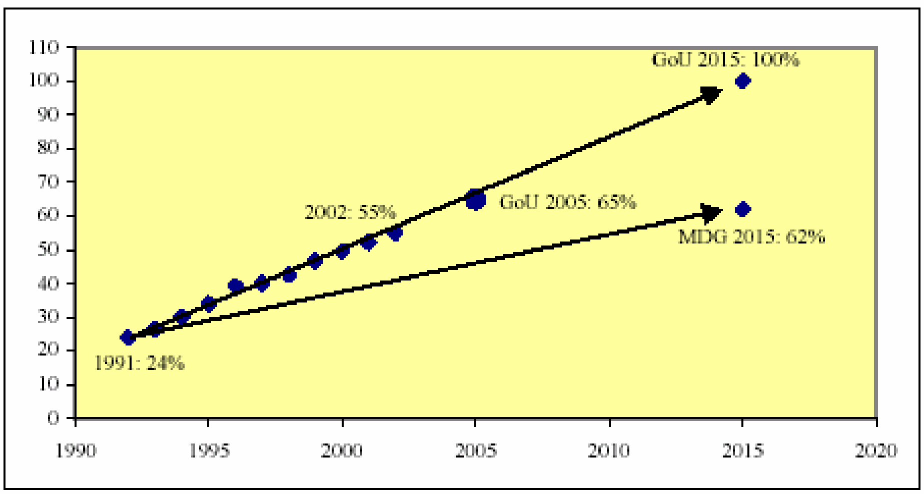
Alongside this dramatic increase in resources, the government "is now on the brink of Sector Wide Approach to Planning (SWAP) implementation that will pave the way for sustained delivery of water and sanitation services in the country" (WB PSRC-3, Mar 2003: 1). SWAP is described as a mechanism where government and donors agree on a strategy to focus on and improve sector performance. Instead of project-based approaches, comprehensive sector-wide programmes are developed, including a sectoral investment plan. Donors and

[3] The Millennium Development Goals were adopted in a United Nations General Assembly resolution in 2000. In 2002 at the World Summit on Social Development in Johannesburg, a target to halve the proportion with access to adequate sanitation was included as well.

government coordinate the funding of these programmes (MWLE, Sept 2002: 12; WSP: 2002: 3-4). SWAP however, must be distinguished from budget support – which places government to be in full control and driving the process. While SWAP provides government with the flexibility in allocating resources according to its own strategic objectives and priorities, donors still maintain a great measure of control of the funds. However, because government systems are used, SWAP builds up public sector capacity. Thus what happens is that all key players can harmonise strategies for dealing with the problems of the water sector; there is a defined institutional framework for all stakeholders to work in; and there is improved monitoring, transparency and reporting, as well as sustainability of services (MWLE, Sept 2002: 12). SWAP is accepted even by NGOs critical of government as a positive innovation in public administration (Interview, Rugambwa).

The new resources along with the reforms appear to have gathered momentum. The officially set target of the PRSC-supported programs is to construct in the rural areas around 3500 water points and 900 sanitation systems each year, thus providing somewhere around 950,000 Ugandans with a safe water source and adequate sanitation. This would enable the country to meet its target MDG commitments by 2015. Whether the targets are met would be validated through household surveys, and the World Bank is confident that the country is on track to meet these targets, despite being seemingly ambitious. Figure 1 below shows that past performance has been on line with PEAP targets:

Figure 8: Rural Access to Safe Water in Uganda, 1991-2001.



Source: DWD, Ministry of Water, Lands and Environment.

In the urban areas, the results are even more impressive. The National Water and Sewerage Corporation, responsible for the 15 largest cities in the country, has been transformed in just over five years from being a highly inefficient, underperforming and loss-making body to a healthy and financially sustainable public corporation. Service coverage improved from 50% in 1998 to 60% in 2001; unaccounted for water was reduced from 51% in 1998 to 40% in 2001, and to about 32% in 2003. Billing and collection was improved from about 71% in 1998 to 92% in 2003. Water production increased by about 50%. Staff costs were 65% of total operating costs in 1998 -- this was reduced to a remarkable 35% in December 2002. A sensitive issue – the retrenchment of excess staff – went on relatively smoothly without the massive protests that usually accompany such a move. NWSC Staff was reduced from a high of 1850 in June 1998 to 889 in December 2002, and to nearly 750 by 2003 (Muhairwe, 2003: 11-12 and interview). In 2003, for the first time in its history, NWSC was forecast to produce operating profit (WB PSRC-3: 29). Even critics of government are happy with the improvements NWSC has achieved (interviews).

However, there still are a lot of difficulties. In fiscal year 2002 to 2003 for example, only 1048 new water systems and 173 new public, school, and institutional sanitation systems have been constructed (WB PSRC-3, March 2003: 12). The new water systems are below the targeted 3500 each year for water and 900 for sanitation, but this still constitute a significant improvement when compared to the performance of other HIPC countries.

Progress in the PRSCs is monitored through benchmarks “developed through a consultative process.” There are six milestones are identified for rural WSS:

a) Endorsement of SWAP
b) Ministry of Local Government and MWLE agree on structure and staffing needs of District Water Offices;
c) Ministry of Public Service approves and initiates the reorganisation plan for DWD;
d) Technical Support Units assist district expand the introduction of new environmental and gender screening of sub-projects;
e) MWLE/DWD prepares a framework paper for private-sector based maintenance services; and
f) implementation of a training program for community extension workers in districts and sub-counties.

For small towns and NWSC-managed towns, there are five milestones:

a) implementation of long-term management strategy and implementation of an investment plan for small-town WSS;
b) Appointment of transaction advisor for the privatisation of NWSC operations;
c) Initiation of detailed designs of urban water supply and sewerage master plan for Kampala and other large towns;
d) MFPED and NWSC reach an agreement on arrears owed to NWSC; and
e) NWSC develops a simplified water tariff structure to include pro-poor connection policy and safe water tariff for the poor.

These milestones fit into the overall goal of water sector reform policy in Uganda "to ensure that the water sector services are provided and managed with increased performance and cost effectiveness, and to decrease the government's burden while maintaining government commitment to sustainability and equitable development" (MWLE, Sept 2002: 9). They also fit generally into the rural and urban water sector reform strategies.

Within this policy and legal framework, there emerges a way of thinking that is central in shaping the reform framework. This 'way of thinking' is characterised by the following:

- *Downsizing of the relevant public bodies.* In rural water provision, the role of the Directorate of Water Development has changed from that of a direct provider of services to a facilitator, supervisor and monitor of the services. This meant that DWD will not construct water points, and instead private contractors will, through tender processes managed by local governments (Republic of Uganda, 1999a). A reorganisation is now under way to reflect the strategic change in the role of the DWD. In urban water provision, NWSC is being scaled down by the introduction of leases and management contracts that provide for private companies to take over a significant portion of the core operations of the utility. NWSC staff has been dramatically reduced from 1800 to 750 (Interview, Muhairwe).

- *Private sector contracting on a wide scale in rural and urban areas.* In rural areas, a multitude of village-level water supply and sanitation projects are awarded by district governments to private contractors through hundreds of tenders throughout the country. For urban areas, the proposal is to group 30-35 larger towns with a population of more than 15,000 to be managed by a private sector operator under a single lease contract for a ten year period (MWLE, Sept 2002: 10). Towns under NWSC management today have sub-contracted both core and non-core (security, maintenance, etc.) functions to the private sector. For example, when leaks are reported, it is private contractors not NWSC staff who are dispatched to do the repairs. In Kampala, an enhanced management contract has been signed with the French firm Ondeo. In revenue terms, about 70% of NWSC is already under private operation and management (WB PRSC-3).

- *Introduction of capital cost contributions and cost recovery mechanisms.* The idea in general is to manage sectoral investments in a manner that would allow for the investments to be recovered, or to generate revenues that can be re-invested for sustaining the systems. In rural areas, the emphasis is for communities to pay up to 10% of capital costs of small-scale projects, in order to build a 'sense of ownership' over a project. Some districts are known to have instituted local revenue collection for some water projects. In urban areas, the plan is to restructure the NWSC's tariff rates – increase domestic rates to cover operation and maintenance costs, adopt a single tariff for commercial users, provide a life-line tariff for poor households, and provide a revolving fund to subsidise connection fees for poor households (WB PRSC-3).

In sum, Uganda has made great progress in setting up an institutional and policy environment to create the necessary reforms that deliver the required products in water and sanitation service delivery. The achievements in the NWSC are most impressive. These provide sufficient reason to celebrate – it is important to acknowledge that there indeed has been progress. However, because these achievements have been made guided by a 'way of thinking' that has increasingly become controversial, there is some reason to do a more critical assessment of the reforms.

NGO Reactions to the Water Sector Reforms

The way of thinking emphasising a decrease in the role of the state while increasing private sector involvement has become controversial because of many unexpected outcomes. These range from what appears as the premature scaling down of important government bodies, to the delivery of projects with doubtful sustainability.

For example, the downsizing of the DWD may have been premature especially in far flung rural areas, where there is little local government capacity and no local private sector contractors who can take over DWD's task of service provision. Much is also to be desired in the quality of private sector contracting on a wide scale when there is little local government capacity to supervise and monitor projects implemented by private contractors. It has been estimated that as much 40% of these projects have broken down in some areas, and could not easily be repaired because of the lack of community institutions and capacity to take charge of operation and maintenance. At the rate the small-scale water projects are breaking down and if nothing is done about it, Uganda may find itself in an even worst position by 2015. Other issues are being raised on the contracting process – e.g. that decentralisation also 'decentralised' corruption, making dealing with it more difficult; that the reforms failed to consider local 'absorptive capacities' in making full use of the funds that are distributed; or that it has led to a 'bonanza' mentality of spending the money fast, with little or no account for the sustainability of the projects being implemented (See for example Carter et al, 2003).

A report finished by WaterAid-Uganda in 2002, which was based on an assessment of private sector contracting of rural water projects in four districts in 2001, welcomed the reforms but questioned the sustainability of water and sanitation projects funded by PAF and other donor grants. The report raised the problem of measuring progress based on the measurement of physical projects alone, pointing out that water projects constructed by private contractors are likely to fail because of poor quality of work and doubtful technical competence of the contractors. There were problems with government supervision of the projects; problems with follow-up; and the lack of transparency in selective tendering. This likelihood of failure could be mitigated, if there is sufficient community involvement and appropriate levels of investment in community organising, education and training for the management of the water points. But these investments in 'software' are not prioritised, and donors as well as the local governments have not been as enthusiastic in allocating the necessary funding (Barungi, et. al., 2002).

Other NGOs raise more fundamental objections to the underlying reform framework. For example, the Development Network of Indigenous Voluntary Associations (DENIVA) and the Africa Women's Economic Policy Network (AWEPON) believe that the government's commitment to reduce the role of the state while increasing private sector involvement is simply an effort to please the donors, or to tell these resource-giving institutions what they want to hear (Interviews, Rugambwa and Eilor). As such, they consider the reform framework as a donor imposition on a poor country. A consultant working for the international NGO ActionAid, Georgina Angela Manyuru, said the reforms were "not an independent decision by government, it was pushed by the WB-IMF" (interview). Such views are held despite the government's own declaration, through its National Water Policy, that "the private sector is a viable resource needed to be tapped, especially in design and construction, operation and maintenance, training and capacity-building, and commercial services" (Republic of Uganda, 1999a). Manyuru stressed that Uganda "has no capacity to negotiate because the World Bank controls half the national budget." The fear therefore is that the drift towards greater private sector roles and a reduction in state roles is simply "the progressive transformation of Uganda's water services into full privatisation" (interview).

Furthermore, NGOs critical of the reform efforts are not impressed by the gains being made by the NWSC although they acknowledge that progress is being made. The gains are dismissed simply as "means to fatten the cow" so that the NWSC can be transformed into a viable commercial entity and therefore become more attractive to private investors. Elizabeth Eilor of AWEPON stresses the irony – Ugandans won't even be allowed to enjoy the benefits of improved public service for long because they start to perform well they are going to be sold or transferred to the private sector (interview).

UWASNET, however, a group of water-sector focused NGOs, offers a different analysis and attitude towards the reforms. There is acceptance within UWASNET that the government alone could not do the job of connecting all Ugandans to a safe drinking water source and adequate sanitation, and that efficiency in the sector can be achieved through certain forms of contracting with the private sector. They clarify that moves by government to engage the private sector are not about selling or fully privatising assets, but about promoting certain forms of PSP that can help Uganda achieve "some for all and not all for some" in water and sanitation provision. UWASNET sees NGOs as an institutional player that is there to ensure that the interests of the poor are considered. In the Kampala area for instance, they are concerned that the private operator hired to run the service until 2004, Ondeo, may not be interested in providing services in the slum areas. As such, UWASNET wants to be represented in the committee with oversight functions over the regulatory bodies to be set up (Interview, Nabunnya).

Expectedly, the groups raising fundamental objections to government policy are not happy with UWASNET's posture. UWASNET's access to the policy makers and presence in some technical committees is seen as nothing but a measure to legitimise the pro-private sector government-donor programmes, and not a real effort to provide a venue for pro-poor advocacy. UWASNET's involvement is also seen as the reason why government has started to treat NGOs as a non-profit private sector who can be contractors for some projects; hence, NGOs lose their ability to criticise or call government to account for its decisions. These groups do not expect UWASNET to objectively engage with government and donors, especially because the perception is that the DWD and the World Bank were instrumental and supported the formation of the network. Because UWASNET receives funding from donors, critics consider it as "blind to the real critical issues."

UWASNET policy officer Harriett Nabunnya explains however that the critics think this way because they are typically organisations engaged in many other important and wider issues. Some of these groups are engaged in land, agriculture, trade or debt issues. Hence, they have little time to understand or pay attention to the complexities of the water sector. There are also problems about organisational relations and getting each other on board. For example, it is not clear whether it should be UWASNET who should join the DENIVA which a network by itself, or whether it should be DENIVA who should join UWASNET. The bottom line, asserts Nabunnya, "when the issues are about water, it is us (UWASNET) who can not be left behind" (Interview, Nabunnya).

There is therefore a wide range of positions and no unanimity amongst NGOs towards Uganda's water sector reforms. However, the NGO positions, even those that are outrightly critical, raise important issues that could not simply be dismissed. There is a need for government to at least listen and consider these criticisms being raised.

Donor Reactions to the Water Sector Reforms

In contrast to NGOs, most donors regard the water sector reform framework as a done deal that needs to be given time to be implemented, not questioned and revised. This view is most particularly prominent among World Bank staff, but echoed as well by other consultants and academics who say "that the wheel could not always be reinvented every time questions are raised."

However, within this framework, most donors do recognise the need for some kind of NGO intervention especially in producing policy researches and positions that can improve the pace and quality of the reforms. While the reform framework and the strategy itself is clear, donors recognise a number of problem areas in its implementation that require more attention and even NGO intervention. Francis Ato Brown of the World Bank for example argues that since donors are already providing huge amounts of resources for program implementation, NGOs can make better use of their own resources not by 'competing' and putting up their own programme work, but instead do policy researches that can shape the design of the programmes as well as strengthen the pro-poor monitoring of projects. NGO resources are 'a drop in the bucket' compared to what the World Bank and the government can deliver; hence, Brown advises NGOs to focus instead on analysing specific issues that can impact on the design, management and monitoring of projects.

The pace of non-Bank and non-government intervention in the reform process has picked up a bit lately. For example, a Social Impact Assessment of the urban water reforms is now being undertaken by the economic consultancy Maxwell Stamp plc, in co-operation with the Water and Engineering Development Centre (WEDC) of Loughborough University, and funded by the United Kingdom's Department for International Development (DfID). The assessment will look at the likely impacts of changing prices and private sector operation of the urban water utilities on poor communities, and from there develop appropriate responses (Interview, Kenny). Earlier, WaterAid-Uganda undertook a research on the impact on the poor and issues around the private sector contracting of rural water and sanitation projects (See Barungi, et al, 2003). DfID has now also commissioned another research led by a team from Cranfield University to look into the development and capacity-building issues involving the local private sector in Uganda's rural areas (Carter, et.al, May 2003).

The position of most donors therefore is to keep and preserve the current reform framework, especially because despite the numerous problems that have emerged, positive results in general are being delivered. However, it is this very success – which demonstrate what reforming and efficiency-oriented public authorities can deliver – which provide the very basis of the need to review that balance of public and private sector roles. To argue this further, the following section examines more closely the experience of the National Water and Sewerage Corporation.

NWSC - A reforming public corporation

The government-owned parastatal National Water and Sewerage Corporation was set up in 1972 under decree No. 34, and reorganised under the NWSC Statute (No. 7) in 1995. From three towns in 1972, it is now providing water and sewerage services to 15 towns, including the Kampala-Entebbe-Jinja area which is the industrial centre of Uganda (Muhairwe, 2003:2).

In 1998, NWSC was a typical, highly-inefficient parastatal in a developing country. It was in a bad operational and financial state, and was a big burden to government. It was managing about 51,000 connections of which 40% was inactive or disconnected. Of the active connections, it took the NWSC an average of 430 days before it can collect debts owed to it. Unaccounted for water (water lost through leaks, theft, and illegal connections) is high at 50%. As a result it was barely liquid, even when its very heavy debts to the Government of Uganda are excluded. For every 1000 connections, it had a staff of 35, which is way above the average ratio of 11 in most developing countries (WB PSRC-3: 40). It has become a joke that when NWSC goes to repair a leak, it sends up to seven people – some to prepare the coffee, some to prepare the food, some to set up the barriers, and only one person to actually do the repair work.

This high level of inefficiency was completely unacceptable, especially to donors who in the last ten years until 1998 "have made significant investments of over US$ 100 million in the urban water and sewerage sector (Muhairwe, March 2003: 3)." As the World Bank noted, "These investments have contributed immensely in rehabilitating the existing infrastructure under NWSC management; unfortunately, these investments have not been matched with the necessary efficient commercial and financial management capacity that can ensure the delivery of sustainable services in the medium to the long-term (ibid, 3)." For World Bank staff who are responsible for ensuring that resources are properly used and not wasted in countries they are allocated to, private sector participation became the key reform option that was "expected to introduce the commercial and financial discipline required to turn the situation around (WB PSRC-3: 40)."

The government's response was to initiate an overhaul of NWSC. In late 1998, it appointed Ugandan management expert William Tsimwa Muhairwe to take over NWSC. Muhairwe used to work for the East Africa Steel Corporation, and then went on to finish a PhD in industrial management in a German university. When he returned, he became a public servant as deputy and later acting executive director of the Uganda Investment Authority (interview, Muhairwe). Initially an 'outsider' to the water sector, Muhairwe was handpicked to turn the NWSC around from more than 25 years of inefficiency.

Muhairwe implemented a series of internal reform measures based on textbook management principles. A SWOT (strengths-weakness-opportunities-threats) analysis was first made in 1998. NWSC was found as having a sound infrastructure, abundant raw water and a competent senior management team; and as operating under a good and enabling water legislative framework that provided relatively good organisational autonomy. However, in its operational areas, service was found to be commercially unviable – only the towns of Kampala, Entebbe and Jinja were breaking even. It was owed over Ushs 30 billion (US$15 million) in arrears, which has an average age of 14 months. There were high staff costs, accounting for 64% of operations with irrational and costly welfare schemes. Muhairwe for example found one secretary with 16 relatives claiming health benefits from

NWSC. There was a running monthly deficit of Ushs 348 million (US$174,000) due to poor billing and collection. Water leakages and spillages were rampant. There was also poor organisational behaviour as manifested by tardiness at work, corruption, and lack of hygiene and cleanliness in pump houses and water treatment units (Muhairwe, 2003: 3-5). The SWOT analysis showed that NWSC problems were institutionally-related, and not a result of externalities (like physical water scarcity). The results of the SWOT analysis consolidated Muhairwe's view that what was needed primarily were internal reforms within the corporation.

On February 1999, Muhairwe implemented the first in a series of internal reform measures in the NWSC. This was called the "One-Hundred Days Programme." Its main objective was to rectify the financial irregularities in NWSC within 100 days. During this time, the new management team of NWSC identified the five key performance areas on where they intended to achieve substantial results:

- Water production and sewerage
- Water distribution
- Customer care services
- Revenue generation
- Cost reduction

The 100-days programme was followed immediately by the Service and Revenue Enhancement Programmes (SEREP) 1 and 2. Whereas the one-hundred days programme focused on financial reforms, the main focus of SEREP was the restoration of customer confidence and service enhancement. Muhairwe took certain non-conventional measures to build the momentum and establish the seriousness of the commitment for these reforms. For example, he published his mobile phone and home phone number in the newspaper so consumers can call him directly if they encounter problems with NWSC's service or with any of its employees. By the end of the SEREP programmes in August 2000, the customer base has increased and the towns that were at least breaking grew from three to six. The revenues earned were re-invested to extend the water mains by an additional 20.5 kilometres (Muhairwe, 2003: 6).

However, despite these initial gains, sections of government were "not convinced that the NWSC was moving in the direction that customers and government wants it to move." As Muhairwe explained, "there was clear doubt about what we were doing" (interview). For example, as observed by some NGO staff, the DWD was sceptical of the claims of improvement that Muhairwe was making. These views circulated within government, and evidently, also amongst donors, even as Muhairwe's reforms came to be increasingly noticed by the public and the media.

While bureaucratic or professional jealousies may have fuelled some of the doubts and scepticism, there was an objective condition that the improvements resulting from the internal reforms were not enough to cover the massive debts that the NWSC owed. The accrued principals of these loans amount to over Ushs 80 billion (US$ 40 million), of which Ushs 49 billion (US$ 24.5 million) is owed to the IDA of the World Bank; Ushs 28 billion (US$ 14 million) is owed to the Austrian government; and Ushs 3 billion (US$ 1.5 million) is owed to the French government (WB PSRC-3: 31). The total debt servicing alone is estimated at Ushs 13 billion (US$ 6.5 million) per year, which "equates to nearly 60% of NWSC's projected total core operating expenses, excluding depreciation, for fiscal year 2002-2003" (ibid.).

Muhairwe admitted that the NWSC on its own could not improve financial viability, especially if the government "would insist that we pay back the loans that government has invested in the NWSC" (interview). NWSC negotiated for those loans to be frozen, as it tries to achieve full operational efficiency. What resulted from these negotiations was an innovation in public administration and the first of its kind in Uganda – the signing of a "performance contract" between the government and a parastatal. The performance contract -- signed by the NWSC and the Ministry of Finance, Planning and Economic Development (MFPED) – imposed obligations on both parties. For the NWSC, it committed to maintain the internal reforms in its five key performance areas, improve further and be more innovative. For the MFPED, the obligations were to freeze the loans, and commit to pay NWSC charges for water and sanitation services provided to government bodies. A system of rewards and incentives were put in place for the NWSC. NWSC staff were exempted from civil service laws on salaries, hence they could earn up to 50% more than their counterparts in the bureaucracy. There were also incentive cash bonuses – up to 25% of salaries if performance targets are met. But on the other hand, NWSC employees would also be exempt from certain civil service law protection. Employees from the field worker up to Muhairwe can be fired summarily if they fail to meet their targets. As Muhairwe summarised, "there was real pressure on all of us, and it was a real contract binding on all of us. Every step of the way our jobs were on the line" (interview).

To operationalise the main NWSC-MFPED performance contract, smaller Area Performance Contracts (APCs) and Support Services Contracts (SSCs) were implemented from October 2000. These were signed between NWSC Headquarters on one hand and the Area Managers and Heads of Service Departments on the other. These contracts increased the autonomy of the areas and the support departments, and brought about major improvements in billing, revenue collection, arrears reduction and cost reduction, and in reducing unaccounted for water. It also created more confidence and a fuller sense of control on operations amongst the Area Managers and the Heads of the Support Services Departments. From December 2001, the second round of APCs and SSCs were implemented, which were basically an enhancement of the previous contracts. More key performance areas were introduced, like the reduction of suppressed accounts. Also, the incentive structures were redesigned according to SMART (strategic, measurable, achievable, realistic and timely) criteria to enhance staff motivation. Finally, lessons on reducing the performance constraints experienced in the implementation of APC-1 and SSC-1 were implemented (Muhairwe, 2003: 6-7).

The Area Performance Contracts have now been followed by the "Stretch-Out Programme". It aims to reduce the bureaucracy, increase the speed of work and provide for greater worker involvement. In other words, it aims to stretch out what can be achieved from the 'smart' targets. It creates rolling business plans and is a modified form of area performance contracts.

NWSC has further carried out other 'commercialisation activities'. These are the indexation of tariff to inflation, and the development of a more effective management information system. NWSC has so far refrained from introducing huge tariff increases. According to the World Bank, the only other avenue that the NWSC can meet debt servicing capability while meeting its performance contract obligations is to increase tariff (WB PSRC-3: 32). But Muhairwe is sensitive to the political implications of tariff increases, "If I now agree to the proposed tariff schemes and raise domestic prices, people will accuse me of taking money from the poor to give it to the rich" (interview). Hence, the only initial steps taken was to raise tariff along inflation levels, to ensure that the value of the present tariff does not erode, and to develop management information systems that will provide NWSC with more information necessary for the delicate handling and management of the inevitable tariff increases.

From the outset, NWSC and the government realised the need to engage the private sector in its operations. As such, to complement the internal reforms undertaken, the NWSC engaged the private sector, initially in its non-core activities (like grass cutting, building maintenance, vehicle repairs and guard services), then eventually in its core functions as well. The privatisation framework was already well in place before Muhairwe's appointment. A management contract was signed with the German company HP Gauff Ingenieure Gmbh to implement the Kampala Revenue Improvement Programme (KRIP), which ran from December 1997 to June 2001 (Kayaga and Onek, 1998: 2). KRIP was a services improvement contract for water production, and customer base and revenue generation. Because Kampala was the biggest and most profitable area and because the other towns were not performing well, the city delivered up to 69% of total NWSC revenues (ibid.).

Muhairwe however is not impressed by the performance of Gauff. This is corroborated by some donor staff who agree that much was to be desired in the performance of the German firm, but attribute this poor performance to the fact that there was no competitive tendering in the award of the KRIP contract. This disappointment is the reason why NWSC allowed the contract to expire in June 2001 without discussing any chance of extension or renegotiation of a new contract.

Under the KRIP contract, Gauff was expected to first develop the existing Geographical Information System (GIS) and billing system into a user-friendly, customer-oriented Management Information System. It was to improve and install the hardware and software for the billing system; improve the water meter reading and billing procedures, as well as the system for analysis and monitoring of receipts; develop better methods for analysis and collection of accumulated arrears; and enhance customer care activities. Furthermore, KRIP was also expected to cover all the supply zones with bulk metering and carry out pressure monitoring in all the zones; to complete the process of interconnections between high and low levels, and between the various zones; to reduce water losses on the communication pipes by replacing connecting ferrules by saddle pieces; and to enhance quality control through standardization of materials. Other tasks include the improvement of waste monitoring and control procedures; rationalisation of water tanker supply points; updating of records and maps; improvement of routine maintenance procedures; reduction of reaction times of breakdown maintenance by setting up and facilitating a 24-hour emergency repair gang; and increasing the rate of new house connections to about 3000 per annum. To carry out these tasks, Gauff set up an independent locally registered company comprising of senior professional staff to be assisted by a team of short-term experts, legal advisors and auditors. They are remunerated by appropriate basic management fees paid in monthly instalments, as well as incentive fees that depend on surplus funds realized over and above the projected NWSC revenue growth rate during the project period. (Kayaga and Onek, 1998: 2)

Despite the detailed requirements in the contract, Gauff in NWSC's opinion failed to meet expectations. NWSC mobilised a team to take over KRIP after the contract expired, and ran the program efficiently for eight months. In February 2002, in compliance with national policies on private sector participation, NWSC signed a new but enhanced management contract with the French firm Ondeo, which will run until February 2004.

Asked whether NWSC has the capacity to do the work on its own without contracting international private companies, Muhairwe pointed out that a Price Waterhouse Cooper audit report showed that the NWSC team did much better than Gauff in the eight months before a new contract was signed with Ondeo (interview). "It is a question of policy," he maintains, "we can not say PSP is bad even before we have tried it." Muhairwe clarifies that Gauff brought about some improvements, given the circumstances they were in. When the NWSC team took over, they improved on where Gauff left. Now Ondeo has come, and it is "building on what (NWSC) did in those eight months."

Muhairwe explains that policy-wise, Uganda and the NWSC is on the right track as far as PSP is concerned. The key, he says, is for the private sector and the public sector to work together with a system of controls and counterchecks in place. "If you leave the international private sector alone," he says, "you are in trouble, just as if you leave the public sector alone without any controls, you are also in trouble". He summarises that the appropriate mixture of public and private services delivery, with appropriate controls in place, "make it possible for us to perform well at the current period". In the case of the NWSC areas, Muhairwe explains that these are small areas that need just about 10-20 people to do the job. "Give them the proper incentives and they will be able to do it," which may be much better than bringing somebody else from the outside under some kind of private sector contract to do the job. Yet still, Muhairwe is even looking towards certain forms of private sector contracting to be fully delegated to the area managers. "I don't rule out transforming NWSC's area management into proper management contracts. I think what is needed is to be able to carefully find that balance – that proper mix of public and private that can deliver the maximum efficiency we need" (interview).

Muhairwe's approach to PSP can therefore be described as straightforward and practical. The bottom line he says is that significant improvements are first made in public sector efficiency. Because the area performance contracts are performing well, the NWSC can now make a real choice when considering some form of private sector contracting. It can ask an international operator how much it will cost for it to manage a particular town or set of towns. If that operator's costs are higher, the NWSC can turn them down and then rely on the public area managers who are doing a better job. If the private operator says it can deliver at a lower cost but with certain subsidies provided by government, the NWSC can it turn it down as well and argue that government should subsidise the NWSC, not the international operator. But on the other hand, if the "international private operator can clearly deliver at lower costs and with more efficiency than we can ever do", Muhairwe emphasises that there is no reason why they should reject such an arrangement. My goal is simple, says Muhairwe, "If the public utility fails, then please get rid of it quickly and get someone else who can do it better. If the private sector fails, then please get rid of it as well and then get somebody else who can do it better"(interview).

Today, there is no more dispute about NWSC's success. The World Bank itself has said that the NWSC "has achieved a remarkable turnaround of its financial and operational situation, and at the same time, expand its services to new customers at a fast rate. It is reasonable to expect that NWSC will not only produce operating profit but will also fully cover its depreciation costs within the current financial year" (WB PRSC-3: 29).

The World Bank's Assessment of the NWSC

NWSC's improvements and successes are being watched closely by the World Bank. At the recent World Bank Water Week last March 4-6, 2003 in Washington DC, William Muhairwe was asked to make a presentation before Bank staff and partners on the NWSC's "improvement of performance through internal reforms by the public sector." Some discussions are therefore taking place within the Bank on how to view Uganda's experience. However, it appears that discussions taking place will not go the extent of reviewing the overall policy framework. In the open forum following Muhairwe's presentation, the World Bank's

William Kingdom explained that private sector participation is needed to preserve the gains that have been made by the NWSC in Uganda. Within Uganda, some observers believe that there is wariness from country-based World Bank staff on the implications of NWSC's success, as this may mean another 're-invention of the wheel' in the hard-gained water sector reforms in the country.

Expectedly, Muhairwe has prepared a Cabinet memo recommending that the internal reforms be allowed to continue. This memo, in effect, calls for some kind of fundamental review of at least Uganda's urban water sector reform policy. The memo was prepared as a briefing and set of recommendations for the Cabinet when the performance contract lapsed on 23 June 2003. One clear implication is to postpone or change the PSP options in urban water sector reforms that have been carefully crafted over the years. Muhairwe emphasises though that this recommendation is more about capturing, preserving, maintaining and enhancing efficiency, and is not necessarily a rejection of private sector participation. He points out that with current internal reforms being implemented, over 70% of NWSC operations (in revenue terms) are already under private sector management. This growth of delegating tasks to private companies under enhanced management contracts has not caused any alarm, because the contracting is clearly under NWSC's control. "People know that in Kampala," he points out, "it is Muhairwe and not the French (Ondeo) who is in control. What we are looking for is a continuation and enhancement of the reforms, not its destruction. If the management contracts are performing well, especially in the small towns under DWD control, then by all means continue and enhance it" (interview).

This move to change or review the reform framework is apparently causing concern among donor staff in Uganda. For example, the World Bank's Francis Ato Brown maintains there is nothing wrong with the current reform framework. Brown appears apprehensive that moves to review the policy may be jumped on by global campaigners against privatisation and lead to a distortion of the real reform issues that need to be dealt with. In the aide memoire, prepared largely by Brown, a warning is raised that while the NWSC is on the brink of operational sustainability, it now faces new challenges. "The danger is that NWSC could become a victim of its own success by over-reaching its growth capacity and plunging it back to the problems it suffered in 1998/99 – lack of liquidity, lack of resources for maintenance, and unmanageable debt levels" (ibid.). The aide memoire went on to discuss a number of recommendations that deal with the 'real' reform issues facing the NWSC:

- *Keep track of expenses*. NWSC is headed towards an operating profit and would become a fully viable commercial entity, provided that the government keeps the NWSC debts frozen. NWSC should closely monitor its performance in the second half of fiscal year 2003-2004, including putting measures to control expenses to improve the financial situation (WB PRSC-3: 21).

- *Government should settle its arrears to the NWSC.* The NWSC's core revenues, core operating revenues, fixed costs, and variable costs continue to improve. However, a key area of improvement is the settlement of government arrears, which as of December 2002 was at Ushs 7.2 billion (US$ 3.6 million). The Ministry of Defence, Uganda Police and Uganda Prisons were the major defaulters in fiscal years 2000-2002, but they have largely paid up this year. So the build up in arrears in the current financial year appears to be a result of under-provisioning by the MFPED (WB PRSC-3: 21). A new memorandum of understanding has now been signed between NWSC and the MFPED regarding the payment of these arrears (Muhairwe interview).

- *Write off or freeze the debt.* There is now enough data and information to show that the NWSC debt should either be written off or indefinitely frozen by the government to enable the utility to be viable and continue to improve gradually at a sustainable rate (WB PRSC-3: 21).

- *Revise/Increase the tariff structure.* In order to keep a fully sustainable growth, NWSC needs to revise its tariff structure. Domestic rates are currently below operations and maintenance cost and are heavily cross-subsidised by the more expensive commercial charges. The proposal is to increase domestic rates closer to operations and maintenance cost. This increase because much more important because the expansion of domestic customers far outstrips the expansion of commercial customers. Another proposal is to have a single, instead of current three different commercial rates. Overall these should provide for an average increase from the current Ushs 1,037 (US$ 0.52) per cubic meter to Ushs 1,645 (US$ 0.82), or a more than 50% average increase.

- *Institute pro-poor measures to deal with the tariff increases.* To protect the poor from the impact of the tariff increases, a minimum lifeline tariff for the poor should be developed. More investments should also be put into standpipes. For poor households who want individual connections, a revolving fund to subsidise connection charges should be set up and improved.

- *A new performance agreement.* The current NWSC-MFPED performance contract will expire in June 2003. The key consideration at this time is the maintenance of viability and the control of investment at a rate that will not jeopardise viability.

- *Development of monitoring indicators for continued improvements and sustainable growth.* This would include indicators for operational improvements (staffing ratio and unaccounted for water); sustainable growth and service coverage (new connections per year, reduction of inactive accounts, reduction in build-up of arrears); and determination of limits for sustainable growth (investments should only be made with money from operating profits, not new loans).

The three most important and potentially most controversial recommendations from the donors as specified in the aide memoire are: a) the implementation of PSP in the large urban towns; b) putting limits on investments so NWSC will not overstretch itself; and c) revision in tariff structure to increase domestic rates.

Under the urban water sector reform strategy, four different PSP options are proposed for consideration. First is an "Alliance Management Contracting Model" where a restructured NWSC forms an alliance (by means of a management contract) with one or two operators to create a single entity that will manage all of Uganda's 78 urban towns. The second alternative is to have a single lease for all 78 towns. The third alternative is to have a lease for the 33 large towns that are commercially viable, while setting up a new Water and Sanitation Development Agency (WSDA) to manage the 45 other smaller towns. The fourth alternative is to have a concession for the 7 towns in the Kampala-Entebbe-Jinja area, while setting the up WSDA to manage the rest of the 71 towns (DWD, 2001: 6-9). (See Table below)

PSP Options Being Considered for Uganda

	Alliance Contracting Model for all 78 urban towns	Single lease for all 78 urban towns	Single lease for 33 large towns	Concession for Kampala-Entebbe-Jinja area
Who runs the utility	NWSC-Private Sector Alliance through a management contract	A private operator selected through competitive tendering	A private operator for the 33 large towns; a public WSDA for the 45 small towns	A private operator for the concession area; a public WSDA for the 71 towns
Who owns the assets	NWSC or an 'asset holding authority'	NWSC or an 'asset holding authority'	NWSC; asset-holding authority; and WSDA	NWSC; asset-holding authority; and WSDA

Muhairwe, with his draft Cabinet memo, in effect is recommending a fifth option – which is to continue with the current internal reforms while adopting an 'evolutionary' approach to private sector contracting in the other towns. This fifth approach is essentially calling for the continued expansion and implementation of the area management contracts. As services improve in these areas, area managers will be in a better position to judge whether employing the services of a private operator will be less costly. If so, then a form of PSP contracting will be adopted. If the private operator can operate but only with infusions of subsidy from government, then the NWSC will argue for a status quo – provide the subsidies to NWSC area managers instead subject to internal controls and the adoption of performance targets.

Muhairwe, while championing this fifth option, emphasises that he is a public servant who will implement whatever is decided by the authorities above him. If the Cabinet, the respective ministries, the DWD and the donors will consider the option he is proposing, he promises to make it succeed. If they instruct him to go the other way, he vows to also "put in as much effort as possible to make sure that something desirable for the population is done." Nevertheless, a number of points were voiced out by Muhairwe to support his position against some of the donor recommendations:

- The four PSP options were developed from an urban water reform strategy completed in 2000, and since then, significant changes have taken place. Hence, there is a need to reconsider the options in light of what has been achieved since. The key changes that have taken place are the improvements achieved by the area performance contracts, which puts NWSC in a different but better position to consider which option is most applicable for a given town.

- There is no way that any country or parastatal engaged in water services can do away with cross-subsidisation. What NWSC is doing now is to get money from the towns that are making surpluses and invest them in those that are failing. Even multinationals do this – their profitable operations subsidise the unprofitable ones. In principle, therefore, donor recommendations on water tariff reforms that move away from cross-subsidisation is not likely to work.

- The present tariff system is not unfair. Domestic users are not complaining; small-scale commercial users are not complaining. It is the big water users that are complaining – like the hotels, fish industries, water-based factories or beverage companies. Water may be relatively expensive for them, but this forms part of their responsibility as a business. Nevertheless, the NWSC has addressed their complaints by giving the huge water users a discount. In the NWSC's own tariff review, it is considering reducing the imbalances, but Muhairwe is careful not to present drastic measures. "We don't want to do it as a revolution," he says, "we want to introduce the changes gradually like in an evolution."

- NWSC has significantly reduced household connection fees from Ushs 150,000 (US$75) to Ushs 50,000 (US$25) in order to be more accessible to the poor. In the urban poor areas, NWSC is looking at investing more in standpipes and developing systems for payment. NWSC still needs to develop the management information systems that will enable it to decide on the various pro-poor measures.

It is likely that World Bank and other donor staff will pose objections to the changes in urban water reforms that the NWSC is recommending. These objections are not without valid and well-argued reasons. For example, the reason why donor staff want domestic rates to increase and move closer to operations and cost is because domestic connections are rapidly expanding more than commercial connections. Unless domestic rates are increased, the present cross-subsidisation by commercial rates may not suffice.

Effective 1 July 2003, a new tariff structure was implemented (see table below). The increases are basically an implementation of the indexation of tariff to inflation -- water rates are increased by as much as the inflation level so that the water tariff so as not to lose its value. High-use industrial users, or those who use more than 1500 cubic meters per month, were given a 7% discount on top of an exemption from the 6% inflation increase. This new tariff structure will bring an increase in revenue from Ushs 32.3 billion (US$16.15 million) in 2003 to Ushs 33.6 billion (US$16.8 million) in 2004.

Type of consumer	Old rate/ per cubic meter	New rate / per cubic meter	Percentage increase
Public standpipe	Ushs 424 (US$0.21)	Ushs 449 (US$0.22)	5.6%
Domestic user	Ushs 654 (US$0.33)	Ushs 693 (US$0.35)	5.6%
Commercial user (below 55 cu.m/month)	Ushs 806 (US$0.40)	Ushs 854 (US$0.43)	5.6%

It appears that Muhairwe's approach of very measured instead of drastic increases is prevailing at the moment. But even this can become controversial. A group of MPs have demanded cuts after the increases were announced. The MPs also criticised Muhairwe for announcing 9,000 new connections but not disclosing publicly that as much as 17,000 disconnections may have been made. It appears that water sector reform is indeed a struggle to be waged and won on many fronts.

Conclusion

A review of water sector performance in Uganda reveals that great progress has been achieved in setting up an institutional and policy environment that creates the necessary reforms and delivers clear products in water and sanitation delivery. The Ugandan government first recognised that the lack of access to safe water and adequate sanitation is a prime cause and consequence of poverty. It then made the commitment, through provisions in the Constitution and a succession of laws, to recognise access to water as a right, and went on to map out the various policy instruments needed to carry out this commitment. National budget allocations for water and sanitation were increased ten-fold; decentralisation policies were enforced; co-ordinating bodies were organised to clear out problem areas; sector reform studies were conducted. And so on.

The results have been impressive. In rural areas, access to safe water has been on track in meeting the ambitious target to provide for all by 2015. In the urban areas, a remarkable turnaround was seen in the NWSC.

However, a controversial 'way of thinking' has structured these results – the policy of decreasing the role of the state while increasing private sector involvement in water services provision. This 'way of thinking' has led to the dramatic downsizing of the relevant public bodies, wide-scale private sector contracting in rural and urban areas, and to the introduction of capital cost contributions and cost recovery mechanisms. A range of criticisms have been raised against this 'way of thinking' pointing it that it does not provide the best possible framework for reforms.

The most important among these criticisms is the problem of the lack of sustainability of water sector projects delivered through this reform framework. While indeed physical water and sanitation coverage is dramatically improving, there is no evidence that they will be sustainable until 2015. Already, field investigations (e.g. Barungi et al, 2002) have shown that because of the emphasis of measuring targets only in terms of physical construction, the equally needed investments on 'software' and community mobilisation have been left aside. Only about 3% of the DWD's operating budget is allocated for community mobilisation (Interview, Cong). And because of the doubtful competence of private contractors which leads to poor quality of work, because of the insufficient capacity within local governments to supervise and monitor this process, and because of problems in the selective tendering process, as much as 40% of projects in some areas have broken down. At the rate the small-scale water projects are breaking down and if nothing is done about it, Uganda may find itself in an even worst position by 2015. The DWD and donors appear to be aware of the alarming break down rates – as shown by their efforts to implement financial tracking and value-for-money studies. But so far no strategic response appears to have been put in place to deal squarely with the problem.

The problem of sustainability of water projects points out that increased private sector involvement is overrated. Decreasing the role of the state and increasing private sector roles is justified on the basis that the private sector will bring the discipline necessary in keeping water services sustainable. But at the small-scale village project level in rural Uganda, increased private sector involvement in many instances brings more problems than it solves. What appears to be needed more than increased private sector involvement is to improve the governance capacity of district governments, particularly in carrying out devolved functions from central government offices. Governance capacity is more critical in ensuring that discipline and efficiency in water services are consolidated in the rural areas.

Even at a larger scale level in urban areas, private sector participation emerges as overrated as well. This overrating has become much more pronounced, now that radical improvements in public sector performances in the NWSC have been put in place. A three-year management contract put in place late 1997 involving a German engineering firm did not deliver the desired results. The contract was allowed to expire and was not renegotiated, after which a team from the NWSC took over for eight months. Audit reports showed how the NWSC team performed better in those eight months than the German contractors. However, instead of allowing the NWSC team to continue, the government policy of privatisation led to the signing of a new management contract in February 2002, this time with the French firm Ondeo, selected through a competitive bidding process. So far, NWSC is satisfied with Ondeo's performance.

But what is crucial here is not what Ondeo's performance is and will be, but the transformation of the NWSC into an efficient public utility. By becoming more efficient, NWSC raises the standards of performance dramatically. Ondeo will be judged not against an inefficient and loss-making body, but against a well-performing utility. If Ondeo or any other private sector company will want to continue to be involved in Uganda's water sector, they have to be able to do the job with comparable efficiency and at lower cost to that of the NWSC. Unless they can show this, there will be no reason for Uganda to go down the private sector route. It is better if the country will continue NWSC's internal reforms, and invest more efficiently in its own public utility.

What emerge therefore are two contrasting models of reforms. The current model, to which the government of Uganda remains committed to, involves the dramatic downsizing of public bodies; the introduction of capital cost contributions and cost recovery; and wide-scale private sector contracting. Much has been achieved using this model, but it suffers from the problem of lack of sustainability. An alternative model, which Uganda is in a very good position to develop, has as its central component the improvement of governance capacity, especially in the local areas that are commercially not viable. This model may include a certain amount of downsizing of public bodies as well, a large amount of private sector contracting, and the introduction of cost recovery mechanism and capital cost contributions. But the main difference is the focus on developing governance capacity, so that downsizing is undertaken not prematurely, that cost recovery is managed in a way that does not deny access to the poor, and that private sector involvement is evolutionary rather than enforced.

The alternative model emerges as more appropriate for Uganda. In the rural areas, it is clear that improved governance capacity rather than private sector participation is the crucial factor that brings about the discipline and efficiency needed in water and sanitation services. In urban areas, private sector participation can be intensely contentious especially if the public sector is weak.

Uganda's experience also shows how cross-subsidisation is inevitable especially in poor countries where most water and sanitation utilities or departments could not operate to even break even. Uganda's rural water sector can only be run by heavy subsidies from government and donor funding. Even in commercially-viable urban areas, cross-subsidies are needed to connect and maintain services for poor communities. Turning over only commercially-viable utilities to the private sector is anomalous, especially because it deprives poorer areas of the cross-subsidies it needs.

The justification provided for turning profitable and efficient areas to the private sector is to "preserve the efficiencies created." The fear it seems is that given a new set of managers or a new administration in Uganda, the performance of the NWSC can be reversed. A private sector regime has better chances of preserving these efficiencies. But it should be pointed out that it is the public sector, not the private sector, which created these efficiencies in the first place. The main point of Uganda's experience therefore is that what needs to be done is to preserve those conditions under public sector management that allowed the efficiencies to emerge.

The experience of Uganda's water sector reforms therefore provides sufficient basis for reviewing existing policy on the role of the state and the private sector. At the same time, it also provides important insights into how the balance between public and private roles can be managed and developed.

At the very least, what this study has shown is the need to reject the extremes. One extreme – the complete rejection of the PSP option (which is based largely on ideological grounds) – is self-defeating. There is clearly use and space for the private sector within reform efforts. The other extreme – completely relying on PSP as the panacea for water sector problems – is but another pipe dream. The very success and innovation of Uganda's reform program seems to have become the best argument against reducing government roles and increasing private sector involvement, at least at this current stage of the country's development. Re-engineering government to deliver reforms come out as the more critical first step needed. Private sector involvement will only work once this government restructuring and building of capacity has taken place. And Uganda's public water bodies have led the way in showing the public sector is equally capable, perhaps even better-positioned, to implement the reforms that are necessary to turn around inefficient, loss-making public utilities into income-generating ventures for the state. Uganda's experience in water sector reform appears to be changing the meaning of the typical neoliberal interpretation of 'reform.'

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