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Highlights of NWSC reform from 1988—2011

Year	Context	Key features of reform methodology	Resources	Analysis of results
1988-1998	<ul style="list-style-type: none"> High un-accounted- for-water, high arrears, wasteful labour costs, unsustainable operations in several towns Large mostly donor driven investments made into the urban water and sewerage sector emphasizing hardware at the expense of commercial and financial management of services. 	<ul style="list-style-type: none"> 1995 NWSC Act gives autonomy (with ministerial approval) to NWSC to set tariffs 1995 NWSC Act required utility to cover all costs including debt service, depreciation and return on investment 	<p>World Bank channeled over \$100million worth of resources to the urban water and sewerage sector.</p> <p>This resulted in extensive establishment of functional extraction infrastructure for the relatively abundant raw water supply</p>	<p>Approach to finance smaller scale rehabilitation of distribution systems from NWSC cash flow proved problematic in light of weak financial management and the requirement to finance debt incurred from investments.</p>
1998-2001	<ul style="list-style-type: none"> New Managing Director took up office in 1999 and introduced a series of reforms (Stretch, 1-minute manager etc.) First external management contract between NWSC and foreign firm (KRIP) for Kampala 	<p><u>Kampala Revenue Improvement Project (KRIP 1998-2001):</u> H. P. Gauff Ingenieure (Germany) was invited to submit a technical and financial proposal for management of Kampala operations, excluding production and sewage treatment. Objectives of the contract included improvements in billing</p>	<ul style="list-style-type: none"> Gauff was to contribute up to UGX 1BN (US\$800,000) to NWSC budget Gauff compensation included UGX 9,048Million (US\$ 7.3 Million) with 2,073 for the transition years and 2,531, 2,284 and 2,196 in each subsequent financial year 	<p>Soon after signing, new MD asked for re-negotiation of the contract on the premise that NWSC interest was not well accommodated. Changes included reduction in Gauff financial return by 27% (as a tradeoff Gauff was no longer required to invest its own funds); NWSC had the right to reject any</p>

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		and revenue collection, reduce arrears and bad debts, improve distribution O& M , expand water supply coverage, establish MIS etc.	<ul style="list-style-type: none"> Gauff would be paid bonus based on 25% share in surplus improvement. Gauff was to provide senior professional staff 	<p>Gauff staff, and collection account would be operated exclusively by NWSC (unlike previously where Gauff and NWSC were joint signatories).</p> <p>Contract revisions indicated the stressed relationship between NWSC and Gauff. Neither party was interested in renew after the contract expired</p>
2001-2002	<ul style="list-style-type: none"> NWSC signed a 3-year performance contract with Government with specific targets for billing, collection efficiency and new connections Qualitative targets were set for systems improvement, capital budgeting, incentive payment of up to 25% of the senior managers' salary Performance contract review committee consisting of officials from the ministries of finance and that of water evaluated performance every quarter 	<ul style="list-style-type: none"> Two sets of multiple internal performance contracts outside Kampala—Area Performance Contracts (APCs), Two Interim performance¹ contract for Kampala based on targets set in KRIP whilst procurement process for new management contract for Kampala was being undertaken 	<ul style="list-style-type: none"> Internal managers were asked to submit business plans outlining targets and resources required. These were competitively assessed on merit 	<p>Results were not always positive but incremental experience gave the NWSC managers the confidence to adapt models to suit their context</p>

¹ Management Contract is defined as that given to a private operator whilst a performance contract is given to internal managers/staff of the utility

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	<p>and recommended rewards.</p> <ul style="list-style-type: none"> NWSC gained experience working with private operators, through the construction of local turnkey systems and providing operator licenses to individuals to operate stand pipes and kiosks 			
2002-2004	<ul style="list-style-type: none"> ONDEO SERVICES UGANDA LTD (OSUL) 2002-2004 (France): contracted after protracted procurement process. In 2003, APCs were modified to become Internally Delegated Area Management Contracts (IDAMCs) for other towns 		<p>In the first year, OSUL asked for re-negotiation to increase management fees to cater for increased cost of operations, foreign staff expenses, forex losses etc. Although management fees were slightly increased, independent management firm found claims to be invalid.</p>	<p>Unlike with the KRIP contract, both parties wanted contract extension but broke down because parties would not agree on the management fee issue.</p> <p>NWSC felt that it had a feasible option in the IDAMC which had proved to be successful in other towns. All it required was to sign an IDAMC with the Kampala Office.</p>
2004--2011	<ul style="list-style-type: none"> Review of IDAMCs (I, II and III), and contractual framework 	<p>IDAMCs have proved successful and have taken root in many NWSC towns (Kampala, Jinja, Entebbe, Kasese Fort Portal etc.)</p>	<p>Business managers develop business plan which are selected competitively on merit</p>	<p>Contractual framework continuously refined to improve model.</p>

Key lessons from reform on enterprise performance

Looking at the reform period itself from 1998 to 2004, NWSC financial and technical performance was impressive. Real output increased at a compound annual average rate of 8.7% and real Return on Capital was at 24.6 % while technical efficiency increased from 47.7% to 61.8% and collection efficiency improved from 60% to essentially 100%. Labour productivity soared as the number of workers was almost halved, but retained employees benefitted from significantly higher wages and benefits. Consumers benefited as well. New connections grew at an average compound rate of 27.2%. However, it is important to note that performance had been improving rapidly, even before the reforms. Therefore whilst the reforms were successful, the primary causal factor pre-dates the reforms.

It is also important to note that collection efficiency jumped from 72% to 100% in the first year of KRIP, and there was acceleration in new connections. However some of these gains (in a causal sense) are attributed to other factors including a new government policy of paying debts in the case of collections and a drop in connection charges from 400,000 UGX to 20,000 UGX for new connections. Neither of these were due to privatization. In addition there were no increased in outputs or changes in employment and labour wages and benefits all of which remained the responsibility of NWSC. In fact performance improved by similar magnitudes under private management contracts and public performance contracts in Kampala, and also performance contracts outside Kampala. Privatization did not fail, but there were comparable achievement without it.

Achievements recorded under privatization included:

- Increased billing efficiency (defined as the ratio of water billed to water produced)
- Collections improved
- Arrears were reduced
- New connections were made
- The ratio of UfW : water produced reduced
- Extension of piped water mains were made

However as noted about, there were similar gains in most service areas and these appeared 3-years before privatization and the 4-years after the first management contract.

NWSC performed just as well under public performance contracts as with private management. Some success can also be attributed to changes following from the new NWSC Law. The limited degree of delegation inherent in any management contract and exacerbated by the exclusion of production from the contract could have minimized the impact of private management. The short duration of both contracts may have minimized operator incentives to undertake long-term change.

A management contract is one of the most basic forms of privatization, in the sense that the least risk and responsibility are transferred to the private sector. However, in the case of NWSC this model also helped deliver some shock to the system that unlocked a lot of potential in terms of NWSC's development and continuous refinement of public sector performance contracts (APCs and IDAMCs).