



Water and Sanitation Program

An international partnership to help the poor gain sustained access to improved water supply and sanitation services

Water and Sanitation Sector Reform in Uganda: A Government-Led Transformation

Africa Region



Water, sanitation and hygiene are vital components of sustainable development and the alleviation of poverty. Across Africa, political leaders and sector specialists are generating new momentum in these important areas. This Field Note, together with the others in the same series, constitutes a timely contribution to that work. It is intended principally to help politicians, leaders and professionals in their activities. As the Water Ambassador for Africa, invited by the African Development Bank and endorsed by the African Water Task Force and the African Ministerial Conference on Water (AMCOW), I commend it to your attention.

Salim Ahmed Salim
Water Ambassador for Africa

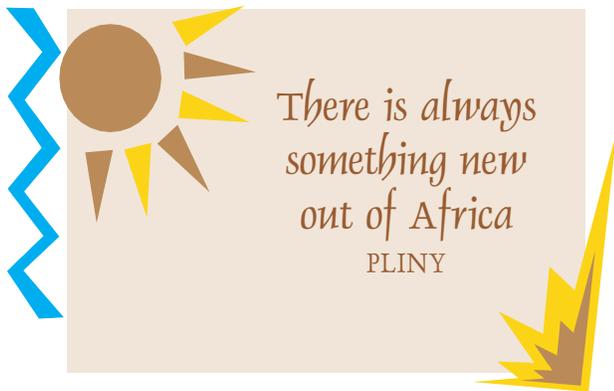


Summary

The Ugandan Government has been reforming the water and sanitation sector for the past four years. This reform promises much. It is intimately linked to the government's poverty alleviation plans, and financed largely by debt relief funds. The government has led from the front, building a high level of trust and consensus with its sector development partners and with civil society stakeholders, and initiating progressive and innovative reforms throughout the sector.

The reform process has involved a comprehensive assessment of the water and sanitation sector, including studies of the rural and urban sub-sectors, and preparation of action and investment plans. The key strategies to emerge from these assessments include more decentralised delivery of services, increased private-sector participation, and the need for a programmatic, sector-wide approach.

Many independent observers agree that it is the most dynamic and successful sector reform process in sub-Saharan Africa, with useful lessons for other countries. Yet, it is still too early to tell how effective the reforms will be in translating the good intentions into tangible improvements in water and sanitation services to benefit poor people.



Background

Uganda was devastated by prolonged conflict between 1971 and 1985. The fertile and once abundant nation emerged from this period with deep scars: the economy lay in ruins; institutions of excellence, such as the famous Makerere University, had collapsed; many skilled workers had fled overseas; infrastructure had fallen into disrepair; and most basic services were not functioning.

Since the end of the conflict in 1986, Uganda has made a remarkable recovery. The economy experienced a strong economic renaissance during the early 1990s, when effective reforms and increased coffee revenues¹ provided the impetus for impressive economic growth. The new government also committed itself to poverty alleviation, thus attracting plentiful support from external support

agencies. In the 1990s, average household incomes increased by 50%, annual GDP growth averaged over 6%, inflation fell from 42% to 6% and both investment and exports grew substantially, although the more recent decline in the price of coffee is a concern.

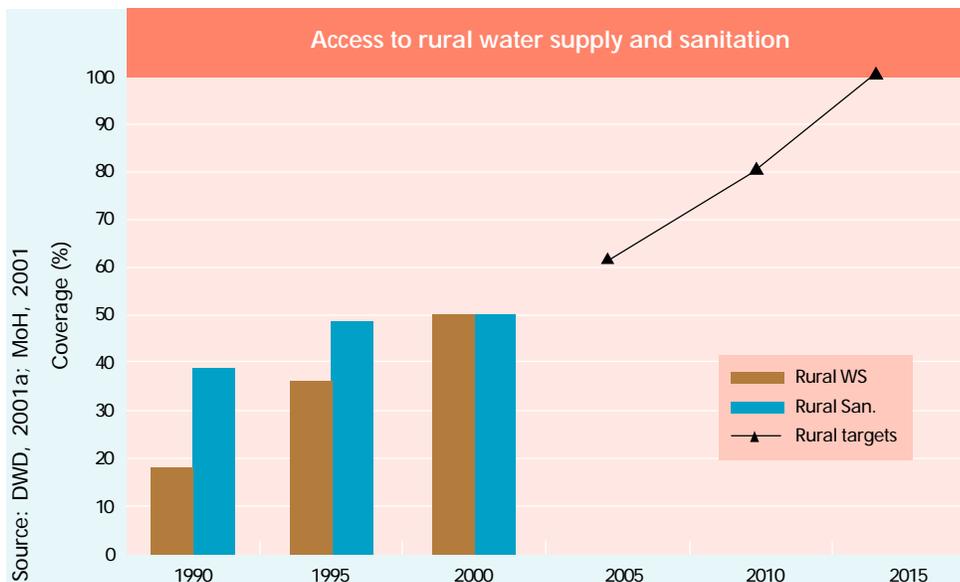
Despite these successes, average per capita income is only now approaching that previously achieved in 1970. Progress in social and human development has been modest. Basic services are inadequate, and Uganda's social indicators remain below average for sub-Saharan Africa. At present both the economy and people's livelihoods are dependent on agriculture² and most of Uganda's population, including 96% of those classed as poor, live in the rural areas.

Poverty reduction initiatives

The government has recognised that resource deficiencies and weaknesses in the delivery of basic services represented critical constraints to development. Therefore, national policy has been refocused on three key approaches:

- **Decentralisation** (devolution of power and authority to local authorities to improve access to and quality of basic services)
- **Privatisation** (unburdening the state of responsibility for 'commercially viable operations')
- **Poverty alleviation** (underpinning the economy and improving social development)

The application of these approaches has been informed by a series of iterative and participatory processes initiated by the government in the mid-1990s. The first product was the 1997 Poverty Eradication Action Plan (PEAP), a development framework that explicitly addressed the challenges of poverty alleviation, and was intended to guide the government and its development partners in policy, planning and resource allocation decisions. The PEAP



¹ Half of Uganda's export revenues come from coffee.

² Agriculture accounts for 43% of Uganda's GDP, and is the main source of livelihood for 80% of its population.

set out specific goals, including universal access to primary education, primary health care, and safe drinking water, and guaranteed political freedom and human rights.

The PEAP, revised in 2000, was used as the basis for the Uganda Poverty Reduction Strategy Paper (PRSP). The World Bank and IMF accepted that Paper and qualified Uganda for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

Reasons for water and sanitation sector reform

Substantial investments have been made in the provision of rural and urban water supply and sanitation services, most notably within the last decade. However, these investments have failed to improve coverage or service levels as extensively as expected, and at present less than 60% of the population has access to safe water supply or sanitation services. Furthermore, many rural facilities no longer function, and since decentralisation, local authorities have been struggling to operate and maintain urban systems.

The poor performance of previous investments illustrates the magnitude of the task implied by the PEAP targets, and recent sector reviews have identified further constraints to progress, including: insufficient sector funding; ineffective sector co-ordination; inadequate local capacity; inefficient resource use; and supply-driven project approaches.

Recognition of the challenges inherent in the ambitious PEAP targets, and the sector's structural constraints, made reform of the water and sanitation sector an urgent requirement. The subsequent allocation of a large share of the HIPC debt relief money to the water and sanitation sector, and the heightened scrutiny of the sector's performance that this allocation inevitably involved, was another factor driving the reform.

Process of water and sanitation sector reform

In 1998, the government demonstrated its commitment to reaching the PEAP targets by beginning the reform of the water and sanitation sector. The stated aims of the sector reform were: to ensure that water supply and sanitation services were provided with increased performance and cost effectiveness; and to reduce the government's financial burden without

compromising the provision of equitable and sustainable services.

The first step in the reform process was to strengthen the regulatory framework, and provide a basis for cost recovery,³ through the introduction of the 1999 National Water

Policy. Next came the development of a comprehensive sector strategy, based on sub-sector studies in the following areas:

- Rural Water Supply and Sanitation
- Urban Water Supply and Sanitation
- Water for Production
- Water Resources Management

The Rural and Urban studies were completed in 2000/01, and provided specific recommendations for the reform of these sub-sectors. The studies were also important in generating consensus on the importance of a sector-wide approach, as already adopted, with some success, by the Health and Education sectors.

Sector-wide approach

The move towards a sector-wide approach (SWAP) is perhaps the most radical of the reforms proposed. It follows recognition of the disadvantages of implementing development activities through discrete projects, and the problems associated with co-ordinating a sector that is still heavily dependent on external support. Previous activities were generally donor-driven, and were often piecemeal, with approaches varying depending on the actors involved. This caused duplication, inappropriate sequencing, and led to inefficiencies in the government system, thus reducing the benefits of investments and decreasing the sustainability of the water and sanitation services provided.

The SWAP concept involves a quantum change in the way the sector operates, and in the relationship between government and its development partners. There are two key elements to SWAP: the replacement of current project-based approaches with comprehensive sector-wide



³ The National Water Policy directs that users contribute 2-5% towards capital costs, and 100% of operation and maintenance costs.



A hand-dug well under construction using temporary caissoning.

programmes; and, a move to co-ordinated funding of water and sanitation provision through government budgets. SWAP will require strong leadership from the government, and a high level of trust by its development partners.

Reform of rural water supply and sanitation

The focus of the rural WSS sub-sector reform is on strengthening the decentralised provision of services. Central government is to co-ordinate the sector and facilitate technical assistance to local governments, while funds for rural WSS are to be channelled directly to district authorities, and the water and sanitation capabilities of the district authorities are to be substantially enlarged.

Demand-responsive and integrated approaches are to be introduced, based on community ownership and management of rural WSS facilities, with increased attention paid to hygiene promotion, gender awareness, and participatory planning. Operation and maintenance costs are to be borne by the users, with support for rehabilitation and major repairs from central and local government.

Clearly, these new approaches will require major increases in capacity, and operational adjustments, both in government and among user communities. During the transition phase, Technical Support Units are being established in each region. Their aim is to build local capacity and to encourage the adoption of new ideas, while ensuring a uniform application of national policies and sector approaches.

⁴ The Ministry of Health is the lead agency for household sanitation and hygiene promotion; sanitation in schools is covered by the Ministry of Education and Sports; sanitation in rural growth centres (and urban areas) falls under the Ministry of Water, Lands and Environment.

⁵ In rural growth centres, schools and government offices.

Another feature of the rural WSS sub-sector reform is the promotion of private-sector involvement in service delivery. District authorities are encouraged to develop and utilise local private-sector capacity for design, construction, and operation and maintenance of rural water supply and sanitation facilities and for the supply and distribution of spare parts and appropriate equipment.

A major output of the rural WSS sub-sector study was an investment plan for the period 2000-2015. This plan was developed by the Directorate of Water Development of the Ministry of Water, Lands and Environment, and separates investments for rural water supply from those for rural sanitation. This

is a significant point, reflecting both the complex institutional arrangements for the provision of rural sanitation,⁴ and government policy on latrine subsidies.

Government policy directs that the capital costs of household sanitation facilities be wholly met by individual households, i.e. that no latrine subsidy is provided. Therefore, the sanitation component of the rural WSS investment plan covers only provision of communal public latrines,⁵ sanitation promotion, and support to district programmes.

Reform of urban water supply and sanitation

Reform of the urban WSS sub-sector centres on the introduction of commercialised operations, chiefly through increased private sector participation. The sub-sector study recommended public-private partnership, whereby the public sector retains ownership of urban WSS assets, but private operators carry out service delivery. In practice, this has translated into slightly different approaches in 'large towns' and 'small towns'.

- **Large towns:** The strategy for the large town group, which will comprise some 30-35 towns with populations above 15,000, is to give responsibility for management of all urban WSS services to a single international private operator under a ten-year lease contract. The urban WSS assets involved will be vested in a wholly government-owned Asset Holding Authority, which will monitor the operator's performance, manage the leased assets, and plan future investments.

- **Small towns:** The strategy for the small towns group, which will comprise the 43-48 urban WSS systems not included in the lease group, is that both responsibility and ownership of the systems will remain with local governments, which will also be responsible for ensuring that the systems are managed on a commercial basis. To this end, service delivery will be contracted out, either to newly created local water and sanitation authorities, or to local private operators. Where possible, multiple systems will be consolidated in order to capture economies of scale in their management, and make the operation of the systems more attractive to private operators. In addition, a national urban water and sanitation development agency will be created to support local government and local WSS authorities in the provision of effective decentralised urban WSS services.

Private sector participation needs some form of regulation, and an independent regulatory institution will be created in Uganda. Its main duties will be to set tariffs, provide consumer protection, and resolve disputes between sector stakeholders.

Analysis of the sector reform

Main features of the reform process

Uganda is neither alone in pressing ahead with reform of its water and sanitation sector, nor unique in the reforms that it has proposed. Nevertheless, the sector reform process in Uganda stands out, in two main ways, from similar reforms under way in other African countries.

- Firstly, the reform process is being led by the Government of Uganda (GoU), rather than imposed from outside. The reforms were built on domestic development plans, and are being enacted through government channels. As a result, there is a genuine sense of ownership from those involved in the reforms, and this is driving a positive and energetic reform process.
- Secondly, the reforms were developed through an

unprecedented participatory process, with strong links to the PRSP process, and thus to the government's primary objective of poverty alleviation. This participatory process has been high quality, sustained and influential. It has brought civil society, NGOs, external support agencies and government together, leading to real partnerships and mutual understanding among sector stakeholders. It has also fostered the development of networks of policy advocates, such as the Uganda Water and Sanitation Network (UWASNET),⁶ and legitimised civil society's role in monitoring the use of poverty alleviation funds.

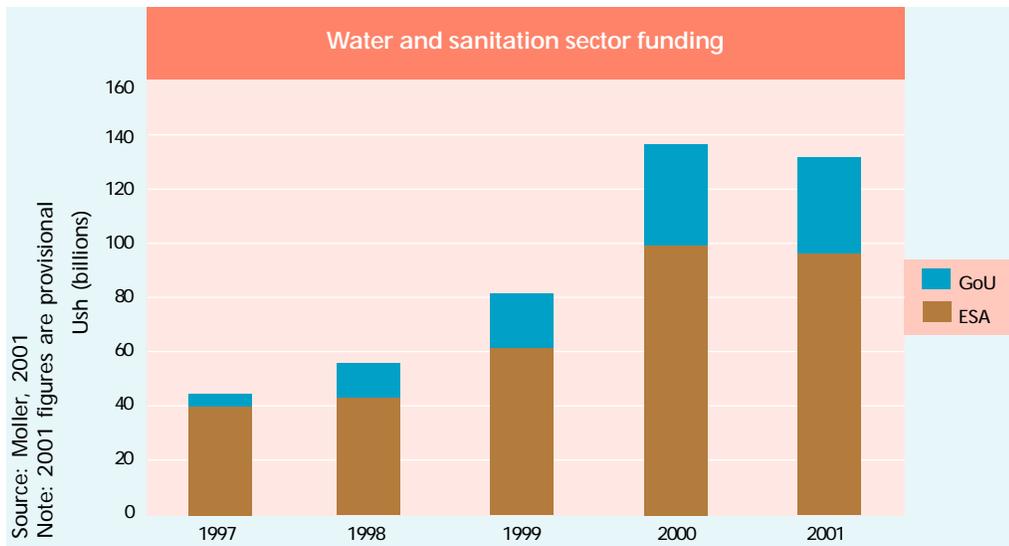
The evidence of these processes in action is manifold. There has been a large amount of activity in the sector in a very short time: sub-sector studies and strategy papers have been completed; memorandums of understanding have been signed; new co-ordination bodies are being initiated; substantial government arrears have been settled; and, more than half the districts have set up fully staffed District Water and Sanitation Teams.

Funding sector reform

The reform process has also raised the water and sanitation sector's profile, and increased confidence among its backers. As a result, funding to the sector has tripled over the last four years, with the largest



⁶ UWASNET is an umbrella organisation for NGOs and CBOs involved in water and sanitation activities in Uganda.



sector reforms gather momentum, there is an increasing need for government and its development partners to co-ordinate their efforts. A wide range of sector stakeholders were involved in the joint review, including five central ministries, representatives of local government, multi-lateral and bilateral agencies, and NGO representatives.

The Joint Sector Review was reported to

increase being in the government's contribution, up from US\$2 million to US\$20 million⁷ since 1997.

The sector reform process involves some major institutional transformations, which will take time to achieve. Despite this, progress in meeting PEAP sub-sector targets for 2001/02 has been good. In the urban WSS sub-sector, eight small towns have been operating under management contracts since mid-2001, and all but two are at or near full cost recovery for operation and maintenance.

Efforts are also being made to strengthen the operational and financial standing of the National Water and Sewerage Corporation (NWSC), in order to reduce its commercial risks and attract competitive lease bids when it is privatised. At present, the performance contract between NWSC and GoU appears to be driving operational improvements, including reductions in staffing, increased connection rates, and a turnaround from a loss of US\$1 million in 1999 to a profit of over US\$2 million in 2001. The reforms also contain some transparently pro-poor elements, such as the recent 60% reduction in the fee for connection to urban water supplies, the allocation of 30% of new water supply connections to poor households, and the proposed inclusion of a domestic discount in the revised water tariff.

The Joint Sector Review

Another measure of the success of the sector reform comes from the findings of the recent Joint Sector Review. This joint review was in line with the partnership principles of the PEAP, and recognises that as the

have resulted in 'resounding convergence' on the appropriateness of the sector-wide approach, and of the ongoing urban and rural sub-sector reforms. However, it also identified areas of concern, and proposed undertakings to address these shortcomings.

- The Joint Sector Review notes that the number of water points provided per year has not increased significantly over the last four years, despite the massive increases in sector funding. Similarly, operation and maintenance subsidies for rural water supplies remain high, yet approximately 30% of the facilities are non-functional.
- Sanitation provision is lagging behind water supply, thus threatening the expected health benefits of the major investments being made. In rural sanitation, the problems have been largely due to the involvement of three ministries in service provision. However, there are also structural reasons for the difference. Both investment in sanitation and its coverage targets are considerably lower than those for water supply. These shortfalls can be explained by the government's decision that household latrine construction will not be subsidised, and that, instead, government funds will be directed towards the less easily measured tasks of hygiene promotion and technical assistance. Unfortunately, this approach appears to have reduced the importance of, and attention to, sanitation in the sector reform process.
- The urban sub-sector is most affected by the reforms. At present, there is consensus that private sector participation will increase the efficiency of urban WSS service delivery in Uganda. However, it is less clear whether the urban WSS management models selected are optimal, or whether the level of risk associated with these models is acceptable, given the limited scope for change once the management contracts are in place. Specific concerns include the potential

⁷ Exchange Rate: US\$1 = Ush 1,750 (2001).

for genuine competition in the narrow market that exists in Uganda, and the possibility that the reforms will have negative impacts on small-scale independent providers of urban WSS services, especially those serving the poor.

Work in progress

The reform of the water and sanitation sector in Uganda is in its early days. Much of the reform process has still to be planned and implemented, and many of the processes are ongoing. Decentralised service provision is in its infancy, and it will be some time before the new institutions develop sufficient capacity to carry out their functions effectively.

The transition to SWAP has been hindered by the sector's relatively complex institutional environment, but it is now the main priority for the reforms. Key steps remaining include:

- Re-alignment of existing projects and programmes with SWAP principles
- Formal agreement that external assistance will be provided through budget support
- Revised modalities for funding
- Development of common rules, policies and accountability requirements
- Formulation of action plan (in 2002) and sector investment plan (by 2003)

The actions agreed by the government and its development partners at the Joint Sector Review address many of the problems identified above, and augur well for the future of the sector reform. The main actions were to: reassess sector targets; prioritise resources for sanitation and hygiene promotion; carry out tariff and pricing policy reviews; and ensure improved provision of services to the urban poor.

Lessons learned

Government leadership is crucial to success

Government-led reforms are always likely to be more effective than externally imposed ones. In this case, building the reforms on the GoU strategy for economic transformation and linking them to the PRSP process has engendered government ownership of the reform process, and made the GoU genuinely committed to leading rapid and effective change in the sector.

Effective sector reform requires broad ownership of the process

It is important that the sense of ownership and

responsibility for the sector reform extends beyond the government. This can be achieved by the sustained participation of sector stakeholders in the reform process. In Uganda, a wide-ranging group of stakeholders, including civil society organisations, has been involved throughout the planning, design and review of the reform process. This has resulted in strong convergence on policy, and mutually agreed undertakings to resolve problems quickly and move the process forward.

Effective sector reform attracts investment

Improved access to and delivery of basic services is central to poverty alleviation. A strong and effective water and sanitation sector is an attractive investment for both government and external support agencies. Total funding to the Ugandan water and sanitation sector has grown by an average of over 30% per annum since the sector reforms began. During the same period, government's increased commitment to the sector has been demonstrated by increases in its funding of 70% per annum.





An independent financial operator in the small towns sector.

Over-ambitious targets can reduce the effectiveness of sector reform

Target setting requires a balance between using ambitious targets to galvanise activity, and building confidence in the sector through incremental achievements and improvements. At present, the targets for the sector reform in Uganda appear over-ambitious, given the ongoing decentralisation process and the level of restructuring and

planning that remain to be completed. These targets reflect the high level of community need, but there is a risk that if the targets are unrealistic, community-based approaches might suffer and operation and maintenance might be neglected. This would reduce the sustainability of the WSS services provided, and lead to less effective sector reform.

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We are saddened to report the death of Monica Kunihira soon after the completion of this Field Note.

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The Water and Sanitation Program is an international partnership to help the poor gain sustained access to improved water supply and sanitation services. The Program's main funding partners are the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom; the United Nations Development Programme, and the World Bank.