



Using private operators in small town water supplies, Uganda

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Private operators have been managing the water supply of 23 small towns in Uganda for approximately 18 months. This article finds out whether water users – including the poor – have benefited, and whether the system is likely to be sustainable.

The apparent failure of governments and public agencies to supply adequate water has led to the promotion of private sector participation by those same governments, keen to reduce their burden of obligations. Recently, the focus of the private sector has turned towards small town water supply, which has often been neglected. This process recently started in Uganda where the central government is attempting to move small towns away from full public sector management towards private sector participation after some attempts at community management.

The role of PPP

In 1994, with the objective of improving water supply and sanitation services, the Government of Uganda and the World Bank identified 63 small towns to participate in the Small Towns Water Supply and Sanitation Project (STWSP). The new water systems, developed with funding from government and donors, were intended to be operated and maintained by the communities. However the subsequent central government drive towards privatization, before the community-managed concept had been proved or disproved, resulted in 23 of the towns involved now being managed under two-year private operation and maintenance contracts. The primary objective of the contracts is to develop the systems with cost recovery to a point of self-sustainability. Each private operator is paid a fee for management, water sales, billing, pipe network, maintenance and new connections.

There was not a complete hand over of responsibilities to the private sector. Each town taking part in the STWSP was required to set up a Water Supply and Sewerage Authority Board (Water Authority) to exercise management control and regulation of the operations by the private operator on behalf of the Town Council (which remains in control of the systems). The relationship between the various stakeholders in

each town is illustrated in Figure 1.

In June 2002 five small towns involved in the STWSP with private operation and maintenance contracts were visited in order to assess the performance of the PPP. Kalebu Ltd had been serving two of the towns, and WSS Services Ltd had been serving three of the towns, none of them for more than one year. Both of these companies are Ugandan owned and managed.

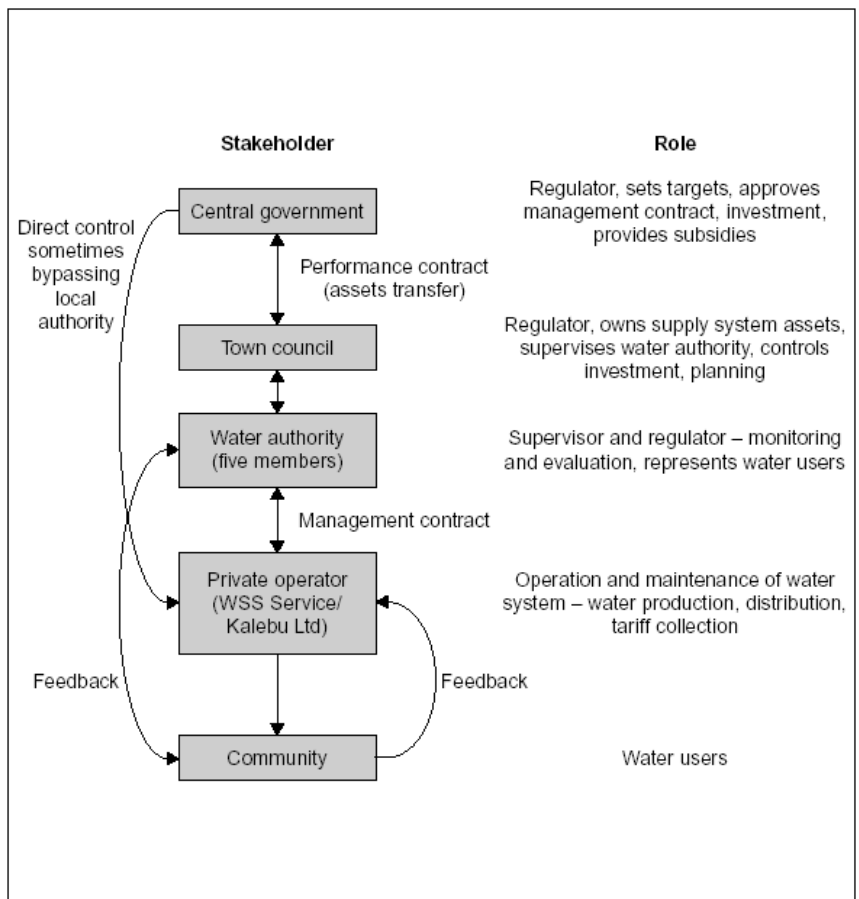


Figure 1 Stakeholder relationships

privatization

The study, recognizing that it is perhaps too early to come to definite conclusions, involved the examination of the management contracts and the private operator business plans. There was consultation with local stakeholders, including the operator; local government; the water authority, some water users as well as standpost attendants in each of the towns.

The private operators

Kalebu Ltd is currently under contract to operate and maintain the water systems of a total of five small towns; However, the community is currently still operating the system in one of these towns as they do not want to hand it over to a private operator. Six staff members are employed in each of the towns with two management staff in the central office in Entebbe. During this study the towns of Luwero and Lugazi were visited, which have been served for six months and one year respectively. In both of the towns water

‘There have been great changes over the past year, the quality is improving, the number of people per tap has reduced, even the cost has reduced’ – Water user, Lyantonde

is drawn from groundwater wells and distributed to metered household connections and standposts.

From the performance shown in Table 1 it appears that coverage is still limited, with water sales averaging just

3.6 litres per capita per day in Luwero and 4 litres per person per day in Lugazi.

WSS Services (U) Limited is a consulting firm with 30 full-time staff (22 water supply operatives) with a current turnover of US\$150 000 per year, 75 per cent of this coming from water supply operations. *WSS Services* is currently under contract to operate and maintain the water systems of the six small towns, however, the Church of Uganda is currently still operating the system that they built in one of the towns. During this study the towns of Lyantonde, Rakai and Kalisizo were visited, each of which had been served by *WSS Services* for one year. Lyantonde, Kalisizo and Rakai have all had a piped water supply system since mid-2000. Water is treated and fed by gravity to metered household connections and standposts. In Lyantonde and Rakai water is sourced from surface water, in Kalisizo it is sourced from springs. The current state of water services in the three towns operated by *WSS Services* is shown in Table 2. Water use appears to be higher than for the *Kalebu* towns, with average daily per capita consumption of 13 litres, 5.7 litres and 5.8 litres respectively. The water tariffs are higher in Lyantonde and Rakai, as extra chemicals are needed to treat the poorer quality surface water. Even with these tariffs the systems are operating at a loss. Although Tables 1 and 2 show tariffs collected greater than management fees paid in the cases of Lyantonde and Lugazi, these costs do not include system depreciation costs and interest on loans.

Service delivery and management efficiency

According to the four stakeholders in each of the towns (town council, water authority, private operator and consumers), water quality and delivery, consumer relations and management efficiency have improved under the PPP. The town council, town engineering departments and DWD perform regular quality assurance checks to ensure that the specified standards are being met. The general feeling communicated by the users was that they had confidence in the private operators who have responded quickly and efficiently to breakdowns or problems. As a result the users tend to approach the operatives in the field with feedback instead of going through the official communication channel of the authority. Interviews with the town councils

‘It’s a good service, the quality is good, water is very clean, and available 24 hours a day’ – Water user, Luwero

and the operator indicated that management and operational efficiency has also improved under the partnerships; billing efficiency in all five towns is now at 90 per cent, meaning that revenue for maintenance and operation of the system is available.

Provision for marginalized groups

The management contract is a useful tool allowing the government to remain in control of the outputs of the PPP. This is achieved through incentives, the setting of water tariffs and control of investment. However, the contracts do not oblige the private operator to supply poorer and peri-urban areas. These areas tend to be neglected because they are not cost effective to serve due to low population densities and income. Neither does the contract recognize the role of the independent vendors who supply these areas.

Due to management and production efficiencies, the price of standpost water has fallen under the partnerships from US\$2.88 per m³ to US\$1.44 and US\$0.95 per m³ in Luwero and Lugazi respectively, and from US\$5.75 per m³

Table 1 Kalebu water supply data (June 2002)

	Luwero	Lugazi
Population	20 000	35 000
Household connections	256	151
Stand posts	5	5
Average water sold per month (m ³)	2 159	4 219
Household water tariff (US\$ per m ³)	0.57	0.57
Standposts water tariff (US\$ per m ³)	1.44	0.95
Town council’s operating ratio (tariffs collected/management fees paid to private operator)	0.70	1.31
Average monthly management fees paid to private operator (US\$)	1 766	1 841
Average monthly tariffs collected (US\$)	1 242	2 427
Private operator’s monthly expenditure (US\$)	1 443	1 402

Table 2 WSS services water supply data

	Lyantonde	Kalisizo	Rakai
Population	6 000	10 000	5 000
Household connections	195	181	105
Standposts	11	7	5
Average water sold per month (m ³)	2 333	1 709	867
Household water tariff (US\$ per m ³)	0.86	0.67	0.86
Standposts water tariff (US\$ per m ³)	1.44	1.44	1.44
Town council's operating ratio (tariffs collected/management fees paid to private operator)	1.09	(Unknown)	0.60
Average monthly management fees paid to private operator (US\$)	1841.20	(Unknown)	1265.82
Average monthly tariffs collected (US\$)	2 013	1 150	747
Private operator's monthly expenditure (US\$)	1 237	747	978

to US\$1.44 in Lyantonde. Although the standpost water tariffs have fallen, they are on average US\$0.63 more expensive per unit cost of water (almost double) than that from household connections. The poorer groups cannot afford the US\$29 connection fee for household connection and, as indicated in Tables 1 and 2, the number of people presumed to be served per standpost in each town is high.

Some people cannot afford the water from the standpost and use untreated sources. Untreated borehole water is sold in the hard-to-reach peri-urban areas by vendors at the same price as the treated standpost water. Generally vendors also sell treated water from household connections at US\$2.8 per m³. In Lyantonde, Lugazi and Luwero there are some shallow wells and boreholes where water can be obtained free of charge. However, in collaboration with the local government, both private operators plan to phase out the use of these in order to encourage people to use the piped water system. This would mean that due to the introduction of tariffs for borehole water, the independent vendors would have to charge more per water unit to the poorer and peri-urban areas, or they would be forced to sell poorer quality water from surface sources. Recognizing the role that these independent vendors are playing, and encouraging them to carry on supplying the poorer and peri-urban areas, may be

more successful than for the private operator to attempt to serve these areas themselves. This could be facilitated through regulation and co-ordination with the private operator.

Conflicts between stakeholders

It seems that the main limitation to the PPP in Luwero and Lugazi is lack

The poor who use the standposts pay a tariff almost double the household connection water tariff

of education, communication and the time for all four stakeholders to clarify terms, roles and responsibilities. Although both private operators went through the same process when the management contracts were signed, the local stakeholders in Luwero and Lugazi felt that they were bypassed by central government during the process. This has led to strained relationships between the local government and Kalebu Ltd. In Lugazi, there was initial resentment from the community who were originally operating the system. In Luwero, the local government does not feel ownership of the system and the resultant lack of support towards Kalebu is still making operations difficult.

Conclusion

The primary goal of the PPP is financial sustainability. So far the private operators have only reached this goal in Lyantonde and Lugazi. The main obstacle to this is low water sales, as a result of low household incomes and high water tariffs. The household water and standpost tariffs shown in Tables 1 and 2 are both higher than average Ugandan tariffs of US\$0.48/m³,¹ but this is to be expected since in small towns the same economies of scale as those of larger systems cannot be achieved.

In conclusion, it must be remembered that Lyantonde, Rakai, Kalisizo and Lugazi have only been under private operation and maintenance for 12 months, and Luwero for only 6 months, so there are many future opportunities for changes in service, good or bad.

However, in these apparently early days (though in fact half-way through several of the contracts) the private operators appear to be having a positive impact in terms of efficiency, value for money, quality, service delivery, customer care, and financial sustainability.

There is a need now to undertake a survey of the communities to identify unfulfilled demand and ability to pay for treated water. When all the local stakeholders, including the currently unserved population, have come together to clarify their individual roles and objectives, the management contracts should be revised for subsequent contracts, particularly to ensure adequate provision for the poor and peri-urban areas.

Reference

- 1 World Water Vision (1999) 'The poor pay much more for water . . . use much less – often contaminated', Press Release, Thursday, August 5, Washington DC.

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