

# THE REGULATION NEWSLETTER

## WATSAN UTILITY UPDATES



THE REPUBLIC OF UGANDA

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### Editorial

This newsletter has been prepared by the Water Utility Regulation Department of the Ministry of Water and Environment to provide WATSAN stakeholders with regulation issues in the water supply and sanitation service provision within the sector. It has initially been coined as "Regulation Newsletter: WATSAN Utility Updates" since the focal areas will be performance of different sector players in provision of WATSAN utility services.

The Editorial team appreciates all persons who made contributions to the content and form of this edition.

WURD  
Editorial Team

### Vision

*"To be the best government Regulator of water and sanitation services for the benefit of consumers, utilities and the environment"*

### Mission Statement

*"To ensure that effective regulation of water supply and sanitation services provision results in sustainable, reliable, affordable and non-discriminative service delivery to all Ugandans"*

## Compliance audits as a regulatory tool

One of the tools that can be employed to regulate utilities both at investment and operational levels is compliance auditing. This is a technical evaluation of the systems, methods, standards employed by the organization as compared to established industry best practices, standards and regulations.

Compliance auditing can be either internal or external and helps an organization to identify areas of weaknesses in their compliance processes and creates avenues for improvement. Invariably, guidance provided by a compliance audits helps reduce risk, while helping organizations to avoid potential problems arising from non-compliance.

To be effective, technical auditing should be applied throughout the project cycle from planning through procurement and implementation to evaluation of project impact. Currently the Water Utility Regulation Department has been co-opted to work alongside the Internal Audit Department to carry out the necessary technical compliance audit of projects being implemented by the Ministry of Water and Environment. The challenge at the moment is that the audit is still mostly covering the implementation stage of the projects. The department will work on building internal capacity to tackle audits at all stages of the project and extending to all operations of the ministry.

The Water Utility Regulation Department has carried out several audit activities covering WSDFs and Water for Production. The audits were technical in nature concentrating on infrastructure development in the said departments. The activity has to date covered selected projects under WSDF-C, and FIEFOC

project in the East, North and South Western regions under the Department of Water for Production.

The audit teams have interacted with project managers and pointed out areas of non-compliance and made suggestions, guidance and advice to help project management teams follow the required specifications to achieve sustainability in the projects they implement.

### A few field observations include:

- Construction activities were way behind schedule with project construction at an average of 20% progress against 80% of time elapsed.
- Resolution of PAPs issues is still outstanding in some project at a time when contractors are supposed to be in final stages of project implementation.
- Land acquisition and transfer of ownership to the project/ministry of water and environment remains a challenge in all projects including cases of projects completed and handed over to communities before the land acquisition process is completed.

Project management teams should consider stakeholder engagement and involvement right from project inception so as to avoid conflict during project implementation and at operation and maintenance level. The Water Utility Regulation Department as the designated technical auditor will be available to the projects at all times to have their input to ensure compliance and consequently providing for sustainable project implementation.

### WURD JOINS ESAWAS

*In March 2019, WURD joined the Eastern and Southern Africa Water and Sanitation Regulators Association (ESAWAS) as an Associate Member. This membership will see the Department benefit from Capacity Building, Resource mobilization, Regional Benchmarking among others.*



Recent Compliance Audit

## Compliance to valid Water Abstraction Permits by public water utilities

The Water Act, Cap 152 and Water Resources Regulations No.33/ 1998 provide a clear basis on which abstraction of water resources must be done. As such all public water utilities are required to adhere to this sector standard

In July 2018, the WURD partnered with the Water Resources Planning and Regulation Department (WRPR) to enforce compliance to validity of water abstraction permits by water utilities as required. Preliminary assessments painted a gleam picture of compliance levels. The level of compliance was estimated to be about 30% for all public water utilities and cases of un-renewed permits were observed to be frequent for most permit holders.

### Highlight of NWSC compliance level

NWSC Regions	Gazetted towns	Functional			Being Developed		Non functional		Old Submitted Applications		Newly Submitted Applications		Approved	
		Boreholes	Protected springs	SW	GW	SW	GW	SW	GW	SW	GW	SW	GW	SW
East and Northern	66	86	3	18	17	0	14	1	9	7	60	5	9?	
West and Southwestern	104	54	51	15	5	2	6	0	8	9	70	0	8?	
Central	66	87	2	10	2	0	1	0	2	6	58	6	2?	
Kampala Metropolitan	6	6?		1?	?	?	?	?	0	1	5	0	0?	
<b>TOTAL</b>	<b>242</b>	<b>233</b>	<b>56</b>	<b>44</b>	<b>24</b>	<b>2</b>	<b>21</b>	<b>1</b>	<b>19</b>	<b>23</b>	<b>193</b>	<b>11</b>	<b>19</b>	

SW – Surface water source; GW – Ground Water source

Currently, the compliance level for NWSC is at 61% but the Corporation should be commended for the cooperation and efforts made to regularize the shortfall.

### Highlight of compliance level for Umbrella Water Authorities

For the 424 towns gazetted to the UWAs, only 47 applications have been received by WRPR. These are largely applications made by Water and Sanitation Development Facilities (WDSFs) during construction phase of projects. The compliance level for UWAs stands at less than 11%. The UWAs also do not seem keen to regularize this anomaly.

Umbrella Water Authorities	Gazetted towns	Submitted Applications	
		GW	SW
East	55	12	0
North	76	22	0
Midwest	48	0	0
Southwestern	100	0	0
Central	108	13	0
Karamoja	37	0	0
<b>TOTAL</b>	<b>424</b>	<b>47</b>	<b>0</b>

### Utility Performance Fact Sheet on selected KPIs

No.	Indicator	NWSC	Umbrella
1	NRW (%)	31	37.2
2	No. of Towns (No.)	236	436
3	Total Connections (No.)	587,863	52,138
	Total Active Connections (No.)	525,286	44,661
4	Total Sewerage Connections (No.)	21,616	0
5	Metering Efficiency (%)	99.9	approx.60
6	Total Annual Collections (UGX in Bn)	340	7.03
7	Total PSPs, Pro-poor Connections(No.)	12,305	494
8	Total Population Served	10,590,910	2,323,250

## Highlights of NWSC Integrated Annual Report 2017-18

NWSC recently published its Annual Report for the year 2017-18. The report covers a cross-section of performance parameters:

- Increased coverage from 218 to 236 towns
- Water network extended by 2,021 kms and sewer mains by 24kms
- Connected additional 50,341 consumers and 272 sewer connections
- Connected 3,342 Pro-poor connections
- Asset base increased from 1.4 trillion to 1.7 trillion
- Operating profit before depreciation increased from 71 billion to 92 billion
- Invested 334 billion into refurbishment and development of new water and sewerage infrastructure
- Increased annual turnover from 321 billion to 388billion
- Commissioned new Head office block



Newly commissioned NWSC Head office block

## Regulating Water supply services for sustainability

In recent years, a number of milestones have been realized in the urban water sub-sector. The process of reforming the sub-sector that was initiated in early 2000 was the beginning of a new horizon that was later to see the introduction of commercialization in the provision of water supply services driven by the private sector. The last four years have also witnessed the continued re-organization of the sub-sector resulting in the evolving of Umbrella Organizations of Water and Sanitation into Water Authorities.

These efforts to reform the sector are without doubt triggered by the need to address challenges of low coverage, high unit operation costs and general low service levels. The drive is therefore aimed at ensuring the realization of efficient and effective service delivery; which should be sought without compromising the operations of utilities.

The urban water sub-sector to-date has grown to have 7 water utilities (NWSC and the 6 Umbrella Water Authorities) serving 236 towns and 424 towns respectively. NWSC currently has a turnover of over UGX 300bn per year while the Umbrellas are estimated to increase to over UGX 7bn this year. This growth of water supply services currently serves an estimated population of 9 million people (source; Sector Performance Report, 2018, pg. 46). Therefore the framework within which these operations are done has inevitably become of great concern. It should be noted that these utilities operate in supply areas designated to them by law, which implies that the provision of drinking water in these areas is carried out by public monopolists. With such monopolistic tendencies, comes exploitation of vulnerable groups and compromise of service standards due to lack of alternatives for the consumers coupled with the need to “avoid” costs in order to increase on the would be “profitability”. One would therefore ask questions for such service levels like; How are rational non-exploitative tariffs set? Are vulnerable groups catered for in service delivery and tariff development? How is competition amongst different service providers managed? Does the utility have sufficient independence to innovate and deliver on the required mandate? How are the fair interests and/or rights of the utility protected?

When discussing these and other related issues, the reference is towards “Regulating water supply services for sustainability”. For

purposes of this discussion, two categories of aspects have been categorized as “demand aspects” – these being aspects related to the adherence to standards of service to beneficiaries; and “supply aspects” – being aspects relating to enabling the utilities deliver on their mandate (Enabling environment).

The Demand aspects relating to the framework of water supply service provision require a rational tariff setting process (transparent and non-discriminatory) that ensures that consumers are not exploited and the vulnerable segments of society benefit from government programs. This denotes Economic Regulation. The current trend of consumers paying tariffs of up to 200/= per jerrycan at PSPs should therefore be curbed through Economic Regulation in order to ensure that the consumers are protected. In addition, the quality of water received by the consumers should meet the set drinking water standards. These and other key standards of service should be of paramount interest to any Regulator because as a Regulator, there is need to guarantee that certain public interests especially relating to protection of consumers are adhered to by utilities.

The supply aspects relate to ensuring that the utility is supported to deliver on the required mandate. The pro-activeness of NWSC in reviewing and routinely applying for a tariff adjustment to keep pace with macro-economic factors should be an area where the Umbrella Water Authorities can benchmark with NWSC. This is still an area of weakness where Water Utility Regulation Department has engaged the Umbrellas to apply for tariff adjustments in order to address tariff erosion that has taken place in some towns under the Umbrellas. Insulation of the utilities from such shocks and allowing some degree of independence provides the utilities with a somewhat predictable working environment which directly contributes to their output, especially when “the rules of the game” are very clear and fair. The idea of carrying out self-regulation by utilities is a sustainable approach that is encouraged for both NWSC and the Umbrellas Water Authorities in order to ensure that service levels do not degenerate prior to the engagement by the Regulator. For government to contribute to the output of utilities, provision of incentives is vital and indeed Government made a significant contribution.

Regulating for sustainability requires that attention should be drawn to the sub-sector asset infrastructure development through assessing the impact of government incentives against expected outputs. As a department, the involvement of the regional regulation engineers in auditing regional structures as part of the Ministry’s internal audit team is a step in the right direction. This technical Regulation can be strengthened further.



*Assets that require technical Audit*

The future outlook of the sector paints a glaring picture of the challenge ahead. The Uganda Bureau of Statistics estimates the current population to be about 40 million people. Considering a growth rate of over 3% per year, in the year 2040, the population is estimated to be about 71 million people, of which over 30 million will be urban population. This implies that the pressure on existing infrastructure of water supply and sanitation facilities will be enormous and requires a big investment to meet the demand for services. Additionally, the size and complexity of system operations to meet the required service levels at the time will be great and hence require effective technical and economic regulation.

As we plan for the challenges that lie ahead, there is need to empower and further build the capacity of the Water Utility Regulation Department to structure and enforce an effective regulation framework through which water supply service delivery will meet the needs of consumers without compromising the rights of service providers.

## Updates from Regional Regulation Areas

### SOUTH WESTERN AND MID-WESTERN REGION

The Regulation Unit charged with region comprises an Engineer and an Economist. The team is tasked to monitor compliance to set water supply and sanitation service standards by the different providers.

The advent of Umbrella WA's has witnessed a number of schemes gazetted under this model continuously growing during the period the new model has been operational. As of end of January 2019, the number of schemes gazetted under the South Western Umbrella Water Authority (SWUWA) was at 100 which is a 60% increase from the 40 at the end of June 2018. The number of schemes in the Mid-Western Umbrella Water Authority (MWUWA) has also increased from 43 to 49 within the same period.

The increase in the number of gazetted schemes under the UAs is also partly responsible for improved water supply and sanitation in their area of operation. As at the end of January 2019, SWUWA served an estimated population of 318,354 people and another estimated 475,000 under MWUWA. The numbers have been further enhanced by Pro-poor initiatives like establishment of Public Stand Points which charge relatively lower prices.

The SWUWA and MWUWA have also registered gradual growth in the number of new connections. While the total number of active connections in the MWUWA stood at 5,876 at the end of the 2017/18 financial year, the authority reported 10,987 connections by the end of January 2019. SWUWA is also part of this success story as it registered over 3,800 new connections within this period.

While the number of new connections is commendable, the demand has not been satisfied as prospective customers are unable to meet the connection costs.

The UA's performance is also gauged by the improved financial performance. While the amount of revenue collected by SWUA and MWUA continues to grow, it is still affected by a number of factors, one of which is Non-revenue Water. While SWUWA supplied 109,847 cubic meters of water as at the end of January 2019, it registered NRW of 6.8% while MWUWA for the same period supplied 87,548 cubic meters with a NRW of 28.3%. Though the NRW is mainly attributed to physical water losses the figures are in acceptable levels.

With increased revenues, there is improved operating cost coverage at the scheme level. This is a clear illustration of the success achieved by the new model.

### EASTERN AND KARAMOJA

#### WURD partners with WaterAid Uganda to offer support to Eastern Umbrella Water Authority

WURD in conjunction with WaterAid Uganda carried out a needs assessment exercise in the central and eastern regions to gauge the level of interventions required to strengthen the capacity of Umbrella Water Authorities to undertake their mandate as managers of water and sanitation systems in the towns gazetted under them. The objective of this exercise was to assess and identify a few areas of need which WaterAid Uganda can support Umbrella Authorities to realize impact and also identify a few town/schemes that can be supported as a pilot from which lessons can be derived for replication in other towns countrywide. As a result of this exercise, 460 micro meters and a computer were procured by WaterAid Uganda and handed over to Eastern Umbrella. This move is geared towards helping the Umbrella Authority to address the Commercial limitations in service operations.



Handover of Water Meters to Eastern Umbrella

#### Revenue Collections surge

Umbrella Water Authorities are recording rapid improvement in revenue collections. This improvement has been greatly enhanced by the improved billing software and multiple payment mechanisms such as Ezee Money portal.

Karamoja Umbrella revenue collections rose from UGX 12.3M in July 2018 to UGX 20M in February 2019 translating to a 38% increment.



Eastern Umbrella also recorded rapid increments in revenue collections from UGX 64.5M in July 2018 to UGX 117.8M in December 2018. However there was a slump there after to UGX 49.7M in February 2019.

#### Quote:

*"Regulation is necessary, particularly in a sector which exposes countries and people to risk"*

Christine Ligarde

### About Water Utility Regulation Department

The Water Utility Regulation Department (WURD) of Ministry of Water and Environment is mandated with monitoring commercial and technical compliance in the water sector to ensure that water supply service standards are met. This is aimed at increasing access to safe water supply and sewerage services by improving efficiency of service provision in the sector.

The scope of WURD covers regulation of service provision in Urban (including NWSC), Rural and Water for Production Sub-sectors. In addition, Sanitation Regulation is a novel area that has been brought on board.

### Upcoming

- Billing software developed for Umbrella WA's to be rolled out
- NWSC to soon report through Utility Performance Monitoring Information System (UPMIS)
- Publication of Sanitation Regulation Framework
- Tariff review for Umbrella WA's  
Performance review of NWSC by PRT (Performance Review Team)
- Finalization of first Performance Contract (PC1) for Umbrella WA's