

***Ensuring Sustainable Access For the Poor
through Internal Revenue Generation: Water
and Sanitation. The Case of National Water
and Sewerage Corporation.***

By:

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Introduction

Internal Revenue Optimization: Definition

- Internal Revenues synonymous with Operating Margins:
- Defined as the difference between
 - Operating Revenues
 - Operating Costs
- Need to optimize Revenues
- Contain Costs
- Thereby realize investible funds

Operational Efficiency; (The Old NWSC as at 1998)

- ✍ High number of unviable towns (only 3 out of 12)
- ✍ High arrears level of 14 months old
- ✍ Very expensive labour force (1800No => 36 staff/1000c)
- ✍ Low operational efficiency with high NRW of 50-60%
- ✍ Irrational and costly welfare scheme
- ✍ Poor organizational public sector behavior e.g. late coming, corruption etc
- ✍ Lack of performance incentives for Area Managers and Staff
- ✍ Rampant water leakages and sewage spillages
- ✍ Low collection efficiency of 60%
- ✍ Intermittent service in several towns ranging from 15-21 hrs
- ✍ A running monthly deficit of about Ushs 348M (~US\$ 300,000) despite a high average tariff of Ush 1100/m³ (US\$ 1.00/m³)
- ✍ The high debt burden (\$100 million)

NWSC Cost Recovery Interventions

Policy level

- ✍ Strategic level, Change in Board

Operational level

- ✍ Operational framework through change management programmes: 100 Days, Service and Revenue Enhancement Programme (SEREP), Area Performance Contracts (APC's), Internally Delegated Area Management Contracts (IDAMC's), One Minute Management Concept (OMM), CHECKERS system
 - ✍ Organizational behavior
 - ✍ Customer care
 - ✍ Cost reduction
 - ✍ Technical and commercial performance
 - ✍ Incentive mechanisms

See our Website for details: www.nwsc.co.ug

NWSC Cost Recovery Interventions

Optimisation of Revenue:

- ✍ Restored Customer Confidence
 - ✍ Establishment of Customer care centres
 - ✍ Improvement in office ambience
- ✍ Training in Customer care
- ✍ Conducting of Customer surveys
- ✍ Amnesty for illegal water use
- ✍ Revenue squads/Territorial Management Concept
- ✍ Increasing market size through increasing Connections (Economies of Scale)

NWSC Cost Recovery Interventions

Cost Containment

- ✍ Staff Rightsizing : from 1,850 in 1999 to 850 in 2001, (2006, 1200)
 - ✍ No Labour Unrest
- ✍ Reduction in administration and overhead costs
 - ✍ Vehicle maintenance
 - ✍ Medical
 - ✍ Travel
 - ✍ Illicit activities
- ✍ Strict Appraisal of Capital projects
- ✍ Reduction in operating inefficiencies (UFW, Staff Productivity, Working ratios etc)

NWSC Cost Recovery Interventions

Tariffs: Simplification/Rationalisation and Indexation

Tariff last revised in 1994.(To approx US \$ 1/Cu.m)

- ✍ Indexation of the Tariff 2000 (Aver. Appr. US \$ 50cts)
- ✍ Reduction in connection fees by 50%
- ✍ Reduction in Reconnection fees by 75%
- ✍ Elimination of Minimum charge
- ✍ Introduction of a service charge (minimal)
- ✍ Free Water and Sewerage Connection Policy

Financing of Service to the Poor

- ✍ Constructed more than 1,370 km of new water mains
 - ✍ Serve peri-urban areas
 - ✍ Serve poor
- ✍ Construction of Stand posts
 - ✍ Average of 300 per annum
- ✍ Preference to Yard taps due to Short Falls of Stand posts
- ✍ Subsidised New Connections
 - ✍ Water 50 meters radius
 - ✍ Sewerage 60 meters radius.
- ✍ Operation of a Cross subsidy:
 - ✍ Across Customer groups
 - ✍ Across Areas by application of Uniform Tariff

Allocating State Revenues to Utilities

Within Context of

=>Performance Contract (to ensure continuous performance improvements)

=>Poverty Eradication Action Plan (PEAP)

=> Sector Wide Approach To Planning

Government to Finance

- ✍ Upfront big Infrastructure Investments (Water Works & Sewerage systems, big transmission mains etc)
- ✍ Social mission activities including service to the poor.
- ✍ Take over of non viable towns -pre-finance
- ✍ Agreed Debt write off to enable ploughing back of revenues for investment especially to the poor

Operating Efficiency Gains (The New NWSC)

(According to 2005/06 Audited Accounts)

- ✍ Service coverage increased from 48% to 70%
- ✍ Total Connections increased from 50,826 to 152,046 in 2006
- ✍ Metered Connections from 37,217 to 149,963
- ✍ New connections per year from 3,317 to about 28,521 p.a.
- ✍ Staff per 1,000 connections reduced from 36 to 7 in 2006
- ✍ UfW reduced from 51% in 1998 to 29.3% in 2006
 - ✍ Kampala from 55% to 35.1%
 - ✍ Other Areas from 43% to 15.2%
- ✍ Collection Efficiency increased from 60% in 1998 to 95% in 2006
- ✍ Increase in operating profit (1998-2006)
 - ✍ Before dep from UShs 1.5 bn (\$800,000) to UShs 14 bn (\$ 8 m)
 - ✍ After dep. from minus UShs 0.75 bn (\$400,000) to US Shs 4.3 bn (\$ 2.5 m)
- ✍ Annual turnover increased from Ushs 21 bn (US \$ 12 m) to Ushs 58 bn (U S \$ 33 m) in 2006

Sharing Experiences and Benchmarking

External Services a Response for need to replicate NWSC's experiences and innovations to other utilities and institutions within and outside Africa.

Services Offered:

Advisory Services, e.g. Organizational behavior change, Contract design and incentive systems

Core Utility Services e.g. Commercial & Customer Care/IT Services, Static Plant Maintenance

Who have benefited from our Services?

The Water Sector

- ✍ Nairobi Water and Sewerage Company, Lake Victoria Water services Board, Athi River Water Services Board, NZOWASCO Ltd: Kenya,
- ✍ Nkana Water, (Lusaka Water and Sewerage Co??): Zambia
- ✍ DAWASA/DAWASCO: Dar-es-salaam: Tanzania
- ✍ Ghana Water Company: Ghana??
- ✍ Karachi Water and Sewerage Co.: Pakistan
- ✍ New Delhi Water Board and Several Water Municipality Water Boards in India

Outside the Water Sector

- ✍ Steel Rolling Mills Alam Group of Co.,
- ✍ Sembule Steel Mills,
- ✍ The Lands Dept in Ministry of Lands and Housing
- ✍ The Kampala City Council??

In Conclusion

- **Need for a multi pronged approach to finance the poor**
 - Improved operational efficiency a prerequisite for improved financial performance.
 - Tariff restructuring a necessity as a short term intervention.
 - However full cost recovery in the short and medium term may be a myth especially in LDCs
 - Long term sustainability of service to the poor and big infrastructure projects can only be financed by targeted subsidies by the state or through ODA.
- **However Utilities urged not to be complacent about internal financing of investments.**