



NATIONAL WATER AND SEWERAGE CORPORATION

**ANNUAL REPORT
2001/2002**

**WATER IS LIFE
SANITATION IS HEALTH**

OCTOBER 2002

FOREWORD

The satisfactory performance of the National Water and Sewerage Corporation in the financial and other key areas of activities which was reported in the financial year 2000/2001 was not only maintained, but also improved upon during the 2001/2002 financial year.

Notable among these were:

- ?? The turnover increased by 17% from Shs 29 billion in the financial year 2000/2001 to Shs 34 billion in the financial year 2001/2002. Furthermore, the Corporation achieved an operating profit (surplus) before depreciation and exceptional item, of approximately Ushs 7 billion, representing an increase of 59% over the previous year.
- ?? A Management Services Contractor was procured to run the water supply and sewerage services in the Kampala Area. The contract was signed in January 2002 and work commenced in February 2002.
- ?? The tariff was indexed with the objective of protecting it from further erosion, and thus maintaining its real value. The indexation took effect from April 2002 and had the effect of a 6% increase in the tariff.
- ?? The Corporation largely met the targets set out in the Performance Contract with the Government.

During the year, the Corporation continued with the implementation of short-term strategic programmes with the renewal of the Area and Service Performance Contracts which, together with other improvement programmes instituted within the National Water and Sewerage Corporation, have played major roles in the positive transformation of the Corporation's commercial and financial operations.

On behalf of the Board, I thank our development partners who have continued to extend assistance in co-financing most of the development projects. In this regard, I highlight two major rehabilitation and expansion projects which were substantially completed by the end of the year. These are the Jinja/Njeru and the Kabale water supply and sanitation projects funded by the International Development Association (IDA/World Bank) and the German Government (through KfW) respectively.

The tenure of the previous Board, which was appointed at the beginning of the financial year 1998/99, expired in April 2002. A new Board was appointed and it steered the Corporation for the remainder of the financial year 2001/2002. Sincere thanks go to the immediately preceding Board during whose term of service

tremendous achievements were realised in the Corporation. Such achievements include, but are not limited to the reduction of water losses, restructuring of the Corporation, substantial increases in turnover, and the encouragement of the Private Sector Participation in service delivery.

My appreciation also goes to the management team which has worked tirelessly and incessantly to maintain the good Corporate image of the National Water and Sewerage Corporation.

On behalf of the Board, I thank the Ministry of Water, Lands and Environment, for its constant support and guidance in all aspects, thus enabling the National Water and Sewerage Corporation pursue its objective of being the "Pride of the Water Sector" in Africa

S. L. OKEC
Chairman, Board of Directors

CORPORATE PERFORMANCE FOR THE FINANCIAL YEAR 2001/2002

Statement of the Managing Director.

INTRODUCTION.

The National Water and Sewerage Statute requires that management prepares annual reports showing the operational and financial performance of the Corporation for each financial year and presents them to the Minister of Water, Lands and Environment. It gives me great pleasure to fulfil this obligation by presenting the Annual Report for the financial year ended 30th June 2002 within the stipulated statutory period.

Preamble

During the financial year 2001/2002, management continued to develop and implement short - term performance enhancement initiatives aimed at expanding and improving service delivery.

In order to build on the successes of the previous programmes, management launched a new programme, the "**Stretch Out Programme**". This programme, whose activities are mainly going to be undertaken in the financial year 2002/2003, aims at introducing a new approach to work in the Corporation. The programme is based on the principles of reducing bureaucracy, increasing the speed of work, instilling self-confidence in employees, and inculcating the spirit of greater worker involvement. The objective of the programme is to raise the bar for all performance indicators within the Corporation so as to ensure accelerated achievement of corporate goals and targets.

Overview of Performance: 2001/2002

During the financial year, the NWSC continued to realise considerable financial and operational gains. The turnover grew by 17% from Shs 29 billion in the previous financial year to Shs 34 billion in the financial year 2001/2002, while the operating profit (before depreciation and exceptional item) increased from Shs 4 billion to Shs 7 billion. On the other hand, the operational results indicate that the Corporation largely met, and in many cases exceeded the targets set in the Government Performance Contract.

Further more, during the year under review, three new towns of Bushenyi/Ishaka, Soroti and Arua were added to the number of towns operated by NWSC. This brings the total number of towns under the NWSC jurisdiction to 15.

OPERATING STRATEGIES : 2001/2002

As a means to achieving the corporate goals for the financial year 2001/2002, management adopted the following strategies:

Area Performance Contracts and Support Service Contracts

Within the context of the Performance Contract with Government, the Corporation continued with the implementation of the Area Performance Contracts (APCs) and Support Service Contracts (SSCs). The implementation of these Contracts continued to realise spectacular results as will be illustrated later in this report.

Private Sector Participation Activities

The involvement of the private sector in service delivery continues to be one of the key strategies of the NWSC. The Kampala Revenue Improvement Project (KRIP), the first management services contract signed with a private operator in 1998, expired in 2001. During the financial year 2001/2002, a new management services contractor was procured to run the NWSC operations in the Kampala Area. The contract was awarded to ONDEO Services, a French management utility company. ONDEO Services commenced operations in February 2002.

Tariff Indexation

In March 2002, Cabinet approved a proposal to index the NWSC tariff so as to protect it from further erosion and thus maintain its real value. The indexation will principally allow for an annual adjustment of the tariff against inflation. The first such adjustment which was carried out in April 2002, entailed a 6% increase in the tariff.

On the other hand, in order to promote the competitiveness of industries within the country and to enforce the principle that "the more you consume the less you pay", a discount of 7% was offered to large water based industries for consumption in excess of 1,500 cubic metres of water per month. Further more, in addition to the 7% discount, a 20% discount was offered to specific large water based export oriented industries which included the Fish Industries.

Investment Strategy

As part of the programme to expand and improve water and sewerage services, the NWSC developed an Investment Plan that lays out the strategic investment needs for the sector in the interim (upto 2004) and in the long term (2004 - 2014). This Plan is to be used as an input into the framework for the proposed Lease Arrangement for the large towns.

Restructuring

Restructuring and rightsizing remains an effective tool in ensuring efficiency and staff productivity in the Corporation. During the reporting year, the recommendations of a Restructuring Consultant who was engaged to advise on the functional structure of the Corporation were implemented. By the end of the financial year 2001/2002, the Corporation boasted of a staff productivity ratio of 12 employees per thousand connections down from 35 staff per thousand connections in 1998. The target for the financial year 2002/2003 is to reach the staff productivity ratio of 11 employees per thousand connections, and we hope our customers will be beneficiaries of this improved staff productivity.

ACHIEVEMENTS FOR FINANCIAL YEAR 2001/2002

The strategies highlighted in the preceding paragraphs resulted into significant improvements during the financial year as outlined below.

Water Production and Sewerage Services

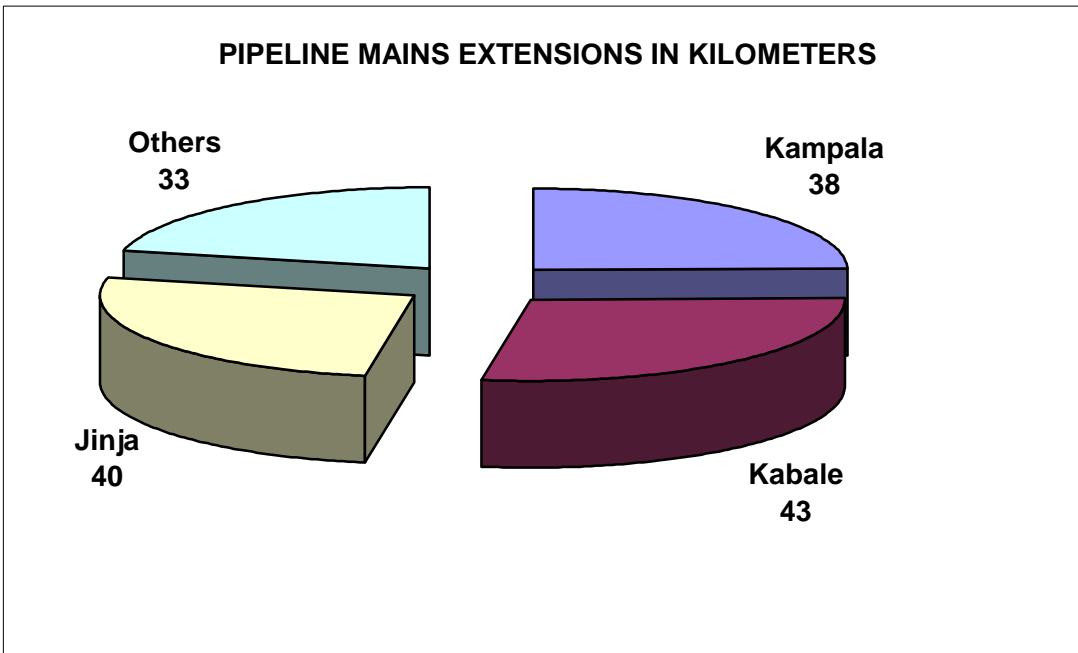
During the financial year, a total of 47 million cubic meters of water were produced, equivalent to a capacity utilisation of 65%. However, areas like Kampala, Gulu, Entebbe and Kabale had capacity utilisation greater than 70%, and plans are presently underway to expand production in these areas. The quality of water produced conformed to the Uganda National Bureau of Standards (UNBS) standards and were in line with World Health Organisation guidelines.

With the view to improving the quality of effluent from sewage treatment works, the Corporation carried out pilot studies on the use of constructed and re-constructed wetlands to provide tertiary treatment for the effluent from waste stabilization ponds. Further more, with support from the Lake Victoria Environmental Management Project (LVEMP), investments in waste management at Bugolobi sewage treatment plant resulted in over 10% increase in raw sewage flow to the plant, and thus improved sewage treatment.

Water Distribution

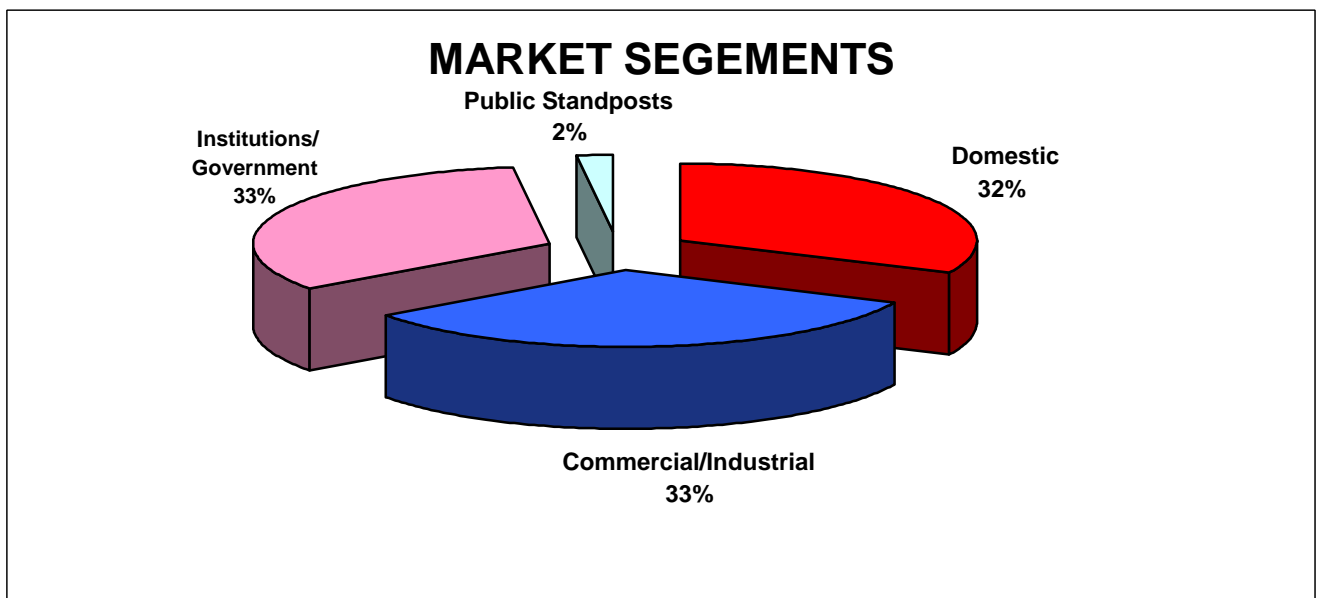
Network

As mentioned in the Director's report, the biggest part of the operating profits have been re-invested in the expansion of the network. Management is happy to report that apart from the donor funded network extensions made in the Jinja/Njeru and Kabale towns, the Corporation funded all mains extensions in the other towns from its own resources. Of a total of 154 kilometers made during the year, about 50% were funded from own resources reflecting an increase of about 108% from the previous year. The total network length as at June 30th 2002 was approximately 1846 kilometres.



Market Segments and Customer Growth

In terms of the volume of water sales, the market for the Corporation's services is currently segmented as shown in the chart below. 32% of the Corporation water sales are attributed to domestic consumers, while the Institutions/Government and the Commercial sector each account for about 33% of the Corporation's water sales. However, in terms of number of connections, Domestic consumers account for 78% of the total connections, while the Commercial/Industrial sector accounts for 13% of the total accounts and Institutions/Government make up 6%.



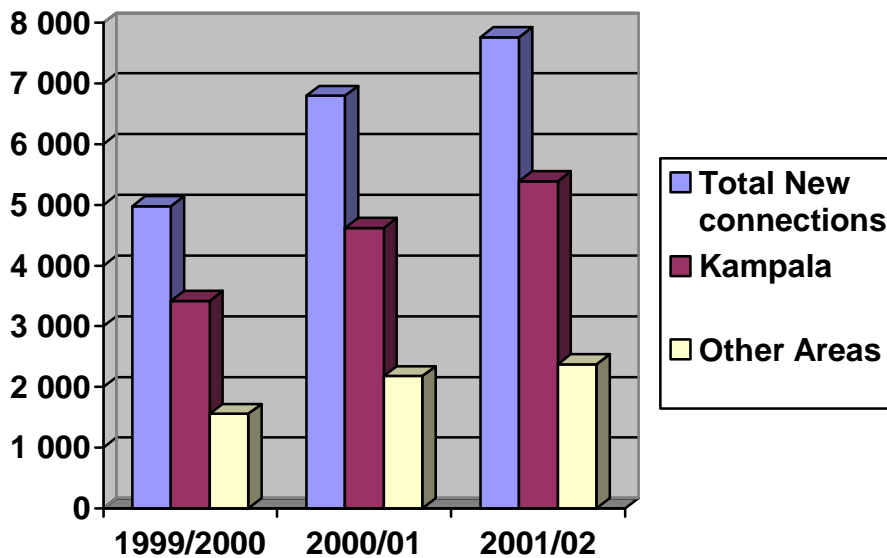
In order to expand the market further, and reach more potential customers, the Corporation has embarked on a program to expand the water distribution network in all operational areas.

New Connections

During the financial year, 7,764 new connections were made. This compares favourably to the previous financial year where a total of 6,798 new connections were made, and represents a growth of 14%. The table and graph below show the customer growth during the financial year. The majority of new customers were in the domestic category which represents about 80% of the total customer growth. Kampala continues to dominate in the number of new connections which almost double the number achieved by all the other areas combined.

Table 1: Growth of New Connections

Year	1999/2000	2000/01	2001/02
New connections	4,976	6,798	7,764
Kampala	3,419	4,621	5,390
Other Areas	1,557	2,177	2,374



Public Standposts

The NWSC provides cheaper water for the less privileged members of society through the kiosk or public standpipe system. During the year ended June 30 2002, a total of 68 new water kiosks/public standposts were erected, reflecting an achievement of 52% of the target. However, management is moving away from the concept of kiosks to yard taps.

We hope our customers in the less privileged areas within our water supply areas will be able to benefit from this new concept of bringing water nearer to their premises.

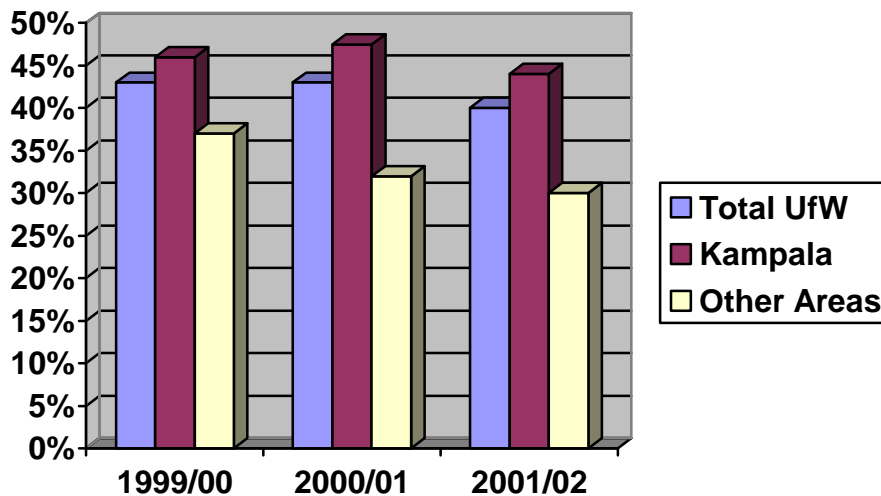
Unaccounted for Water (UfW)

During the financial year, the level of unaccounted for water achieved was 40%, down from 43% in the last financial year. This reduction translates into a saving of about 1.4 million cubic metres of water during the year. In Kampala, the UfW was 44%, compared to 47.5% in the previous financial year, while in the other areas it was an average of 30%, compared to the 32% in the previous financial year. (see table below).

The UfW in Kampala remains high due to the age of the network especially in the old city centre, and the vulnerability of the system to illegal connections. The problem in Kampala is to be addressed during the financial year 2002/2003 with the implementation of the Kampala Network Rehabilitation Project. The Project is to be jointly funded by the German Government (through KfW) and the National Water and Sewerage Corporation.

Table 2: Unaccounted for Water Trends

Year	1999/00	2000/01	2001/02
Total UfW	43%	43%	40%
Kampala	46%	47.5%	44%
Other Areas	37%	32%	30%



Service Coverage

During the year 2001/2002, the service coverage for water increased from 57% to 60% of the targeted population. This increase was as a result of the various mains extensions and new connections installed during the year. The table below shows details of service coverage on an area-by-area basis.

Table 3: Service Coverage as at June 30th 2002.

Town	Total No. of Connections	Pipe Network (kms)	Targeted Population	Population Served	% Served (Water)	% Served (Sewerage)
Kampala	46,246	909.40	1,297,920	752,794	58	8
Jinja	6,900	202.00	208,749	144,681	69	29
Entebbe	3,620	97.05	80,019	46,567	58	4
Tororo	1,633	53.75	48,569	29,272	60	7
Mbale	3,854	118.85	78,687	47,214	60	30
Masaka	2,261	89.99	85,218	59,104	69	10
Mbarara	3,750	90.00	70,758	54,720	77	6
Lira	1,284	87.25	38,566	19,817	51	2
Gulu	1,396	41.45	57,493	29,344	51	3
F/Portal	1,581	38.90	49,104	31,918	65	1
Kasese	1,362	41.63	44,759	33,569	75	0
Kabale	910	76.00	43,108	17,674	41	1
Total	74,797	1846.22	2,102,950	1,266,674	60	10

In regard to the low sewerage coverage, a Sewerage Master plan Study is to be carried out commencing with Kampala. The Plan will provide the framework for implementation of mitigation measures to improve sewerage coverage. It should however be noted that most households currently rely on on-site sanitation facilities, whose contents are periodically emptied by cesspool emptiers into the NWSC wastewater treatment facilities.

Operation Status

NWSC is currently responsible for the provision of water and sewerage services in fifteen urban centres. The table below shows the areas in which the Corporation operates. During the year under review, three new towns namely Arua, Bushenyi/Ishaka, and Soroti were added on to the list of NWSC operational areas.

Table 4: Operation Status

Areas Under NWSC before 2001/2002		New Areas added in 2001/2002
Entebbe	Kasese	Arua
Fort portal	Lira	Bushenyi/Ishaka
Gulu	Masaka	Soroti
Jinja/Njeru	Mbale	
Kampala	Mbarara	
Kabale	Tororo	

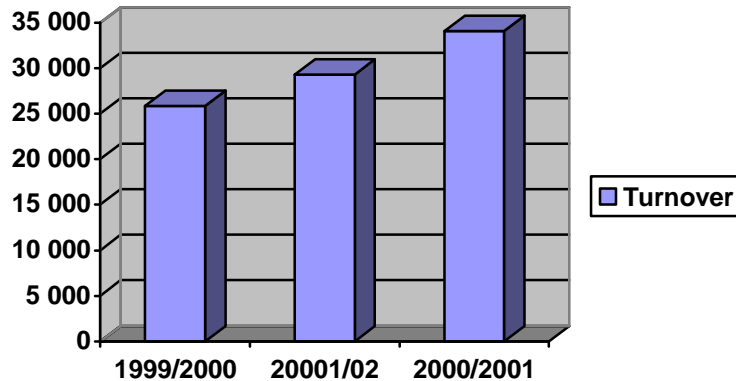
Revenue Improvement

Turnover

During the financial year, the annual turnover increased from approximately Ushs 29 billion in the previous financial year to Ushs 34 billion, a growth of 17%, and we hope this business growth trend will continue in the coming years.

Table 5: Turnover in Shs. millions

Year	1999/2000	20001/02	2000/2001
Turnover	25,838	29,297	34,054



Cost Reduction Initiatives

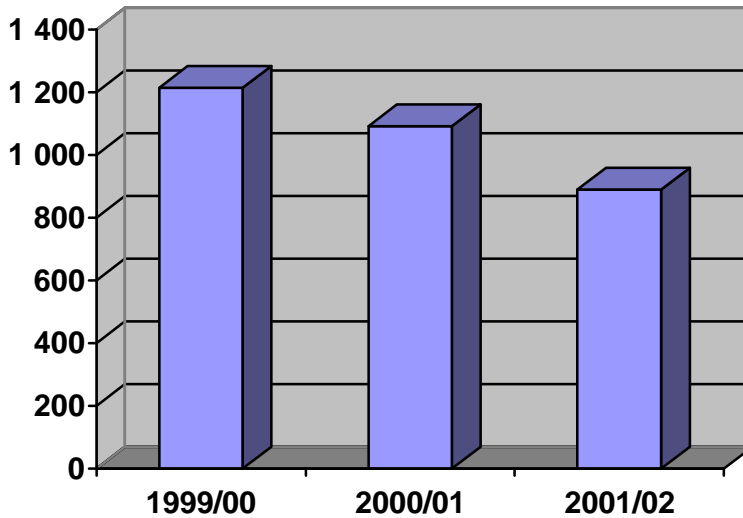
Staff Rationalisation

During the financial year, the Corporation implemented a staff rationalisation programme aimed at rightsizing the labour force. In this regard, staff were reduced from 1,092 to 889 a reduction of 203 employees. The staff per 1,000 connection ratio (only water connections) as at June 2002 was 12 compared to 13 in the previous year. It should however be noted that the staff productivity including both water and sewerage

connections is below 10 employees per thousand connections. The NWSC target is to achieve a ratio of 8 staff per thousand connections by the year 2004. The staff rationalisation policy is not aimed at reducing the staff *per se*, but is aimed at improving staff productivity. The table and graph below show the staff trends from 1999 to 2002, both in numbers and productivity.

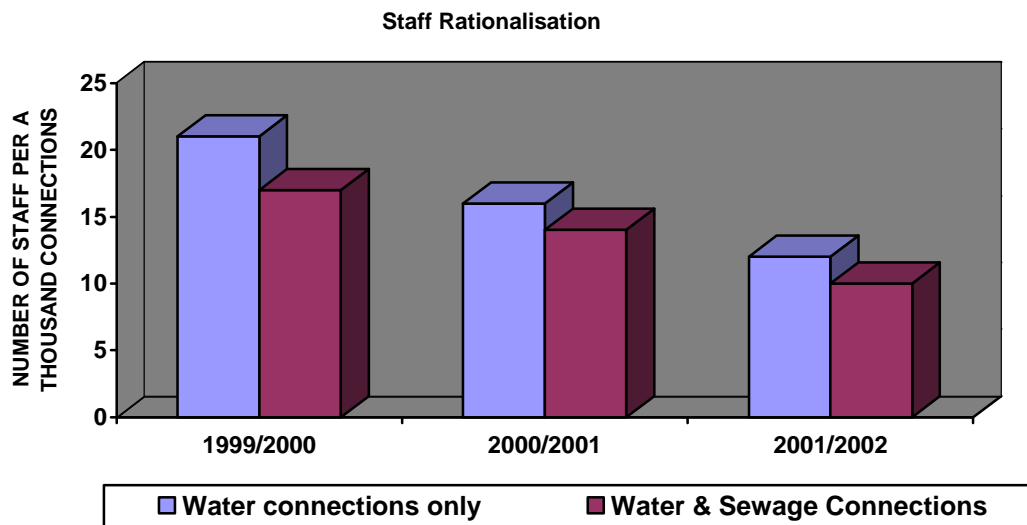
Table 6: Staff Reduction Trends.

Year	1999/00	2000/01	2001/02
Staff	1,213	1,092	889



The graph below shows the trend in staff per thousand-connection ratio over the period 1999 to 2002.

Graph Showing Staff per Thousand Connections



Customer Care Initiatives

With the slogan “**The Customer is the Reason We Exist**” the Corporation has continued to improve its public image and create a mutual trust and respect for itself through the media, and through the launching of its website which can be logged on at www.nwsc.co.ug.

In a bid to be responsive to customer needs, the Corporation introduced an on-the-spot questionnaire system at its various offices to gauge the customer needs and perception of the services we offer. Such initiatives have enabled the Corporation obtain feedbacks in order to offer the most competitive service to the consumers.

CAPITAL DEVELOPMENT PROJECTS

During the financial year, a number of projects were undertaken to further expand service delivery. The projects were funded by both the donors and from internally generated resources. NWSC's funds from internal sources as a percentage of total capital expenditure increased from 21% previously to 39% in the financial year 2001/2002. This is a remarkable improvement, and compares favourably to the 35% of the operation costs spent on staff. It should however be noted that staff costs were 65% of the total operation costs in 1998.

On-going Capital Projects

The following major capital projects were undertaken during the year:

The Small Towns Water and Sanitation Project: Part B: Jinja/Njeru

The rehabilitation of the Jinja Water and Sewerage systems was substantially completed, with funding from the International Development Association (IDA). A total of 40 kms of water mains extensions and 1000 new water connections were made, which also covered the Njeru area. The works are due to be commissioned in November 2002.

The Kabale Water Supply and Sanitation Project

The Kabale the Water Supply and Sewerage systems were refurbished and expanded with funding from the German Government through Kreditanstalt fuer Wiederaufbau (KfW). By the end of the financial year, works were substantially completed save for a variation order which extended the completion date to October 2002. The works entailed the construction of a new intake, water works, sewerage treatment plant and the rehabilitation and expansion of the water and sewerage network. A total of 7.8kms transmission mains, and 22.5kms of service pipes and 13kms of distribution pipes were extended by the project during the year. The project is to be commissioned in November 2002.

The Gaba I Water Treatment Plant

The Gaba 1 Water works was refurbished with funding from the European Union supplemented by NWSC internally generated funds. This resulted into an increase of water production from 30,000 cubic metres to 40,000 cubic metres per day. Works were commissioned in May 2002.

As a follow up, the EU agreed to fund the Phase II of the Gaba 1 rehabilitation project to the tune of 4.5 million Euro. The project is envisaged to start before the end of year 2002 and will restore the production capacity from 40,000 cubic metres to 72,000 cubic metres per day.

Peri-Urban Water Supply Project

In Kampala, extensions have been made to the peri-urban areas with funding from internally generated resources, and plans are under way to further extend services to the greater Kampala.

Planned Projects.

The following projects are planned for implementation in the financial year 2002/2003

The Entebbe Water Supply and Sanitation Project.

The feasibility study for Entebbe was completed and civil works are due to start in 2004. The financing agreement was signed between the Uganda and German Government in the month of June 2002.

The Sewerage Master Plan.

Funds have also been obtained from the Germany Government to carry out a Sewerage Master Plan for Kampala. During the year, five firms were short-listed to carry out the study. It is hoped that the study will commence in November 2002.

The Kampala Network Rehabilitation Project.

Under the Management Services Contract in Kampala, the German Government (through KfW) has provided funding for the rehabilitation of the network which would reduce on systems losses. Funds amounting to Euro 3.3 million have been earmarked for this. The NWSC is to co-finance the project from own resources amounting to equivalent of Euros 0.5 million.

Gaba III Project.

It is planned to construct a new water treatment plant at Gaba with funding from the German Government on a turnkey basis. This plant will produce an additional 80,000 cubic metres of water per day. Consultancy work started in August 2002, and we hope that the construction work will start in the financial year 2002/2003.

OVERVIEW OF THE FUTURE

The next financial year poses further challenges in light of the need for further industrial restructuring and strengthening. In tandem with the Government's objective to reform the Water Sector, the Corporation's belief is to continue "fattening the cow" and to allow the reform process to continue. It is our firm conviction that the NWSC operations will in the future hinge on the involvement of the Private Sector, and the Corporation is prepared to take on any roles that will be assigned to it in this respect.

During the financial year 2002/2003, the NWSC intends to strengthen the implementation of the **Stretch Out Programme** which is to be carried out in all areas of operation. Whereas the emphasis on the previous management programmes were aimed at breakeven of areas, in the Stretch Out Programme, more emphasis will be placed on the increase in the operating margins of areas.

In Kampala, activities under the Kampala Network Rehabilitation project will be geared towards rationalisation of the network and thereby reducing water losses.

Our future lies strongly in efficient billing, increasing the operating margin, reducing the level of unaccounted for water, improving staff productivity ratios, and extending our services to a wider population including the less privileged (urban poor) in the towns we operate. With the commitment of our staff, we are confident that we shall be able to drive the Corporation to greater levels of success in the years to come.

I wish to thank the dedicated management team and all the employees who have worked tirelessly and made it easy for us to achieve these performance improvements. We hope that the guiding principles of the Stretch Out Programme, of reducing bureaucracy, increasing speed, instilling of simplicity and self confidence, and worker involvement will steer the corporation to even greater heights.

I wish to thank the Board which played a tremendous role in guiding us in terms of policy formulation and implementation. We also owe our appreciation to the previous Board, and hope the new Board will be as guiding as the old one.

Last but not least, to our esteemed customers, we say "thank you" for your support and encouragement. We hope to serve you even better in the coming years, for we know "you are the reason we exist", and we shall keep to our vision of being the "Pride of the Water Sector" in Africa.

DR. WILLIAM TSIMWA MUHAIRWE
Managing Director