

SUSTAINABLE WATER AND SANITATION IN AFRICA (SUWASA)

Revised Reform Work Plan (RWP) for the Uganda
project: Supporting improvement of
regulatory/oversight of urban water services in
Uganda

CONTENTS

ACRONYMS	V
INTRODUCTION.....	1
1 PROJECT DESCRIPTION	2
1.1 Designing an improved water services oversight/regulatory framework.....	2
1.1.1 Description	2
1.1.2 Activities.....	2
1.1.3 Timing	3
1.1.4 Staffing.....	3
1.2 Lessons learned in private financing of small towns water infrastructure	4
1.2.1 Initiative description.....	4
1.2.2 Staffing.....	4
1.2.3 Timing	5
2 EXPECTED RESULTS OF THE RESTRUCTURED PROJECT	6
2.1 Component 1: Designing an improved regulatory/oversight framework for urban water services.	6
2.2 Component 2: Lessons learned in private financing of small towns water infrastructure	6
3 INDICATORS FOR MEASURING RESULTS.....	6
4 OVERALL MANAGEMENT OF THE SUWASA UGANDA REVISED WORK PLAN	7
4.1 GIZ/SUWASA cooperation	7
4.2 SUWASA presence in Uganda.....	7
5 RESOURCE TABLE AND PROJECT TIMELINE	8

PROJECT SUMMARY SHEET

Project Title	Supporting improvement of regulatory oversight of urban water services in Uganda
Country	Uganda
Specific Location	Uganda
Main Objectives	Supporting establishment of a clear regulatory/oversight framework for urban water services in Uganda
Specific Objectives	<ul style="list-style-type: none"> • Assistance to the MWE in developing a strategy for improved oversight of water services • Lessons learned in private sector financing for water infrastructure in small and medium towns
Project Duration	18 months (Proposed June 2012 to December 2013)
Approximate Commencement Date	July 1, 2012
Prime Implementing Organization	TT ARD, through SUWASA Regional Office, Nairobi.
Implementing Partners	<ul style="list-style-type: none"> • Ministry of Water and Environment –main partner (DWD and Regulatory Unit) • GIZ • Association of Private Water Operators
Key Project Implementation Staff	<ul style="list-style-type: none"> • INSPIRED International • Select number of Ugandan and international expert consultants
Reporting Requirements	Monthly, quarterly and end of project report
Project Partner Contribution	<ul style="list-style-type: none"> • Staff time from the Ministry of Water and Environment • Cooperative Agreement with GIZ

ACRONYMS

ADA	Austrian Development Agency
AfDB	African Development Bank
APWO	Association of Private Water Operators
DANIDA	Danish International Development Agency
DBO	Design-Build-Operate
DCA	Development Credit Authority
DWD	Directorate of Water Development
GIZ	German International Cooperation Agency
GoU	Government of Uganda
IFC	International Finance Corporation
MWE	Ministry of Water and Environment
NWSC	National Water and Sewerage Corporation
OBA	Output Based Aid
POs	Private Water Operators
RGC	Rural Growth Center
RUWAS	Reform of the Urban Water and Sanitation Sector Program
RWP	Reform Work Plan
SACCO	Savings and Credit Cooperative Organization
SUWASA	Sustainable Water and Sanitation in Africa
TSU	Technical Support Unit
Tetra Tech ARD	USAID Contractor
USAID	United States Agency for International Development
WA	Water Authority
WSDF	Water and Sanitation Development Facility

INTRODUCTION

The original SUWASA Uganda project was launched on December 6, 2010. The primary objective of the project was to develop and implement a financing mechanism for private water operators of small to medium towns in Uganda using loan facilities from local banks. The specific objectives of the project were to:

- Increase private sector financing of water rehabilitation and capital investment projects in Ugandan small and medium towns;
- Improve DWD monitoring and regulatory oversight of performance agreements with local water authorities, particularly for towns implementing DBO-OBA management contracts;
- Increase the capacity of local water authorities to manage DBO-OBA contracts.
- Increase the capacity of private water operators to implement DBO-OBA contracts.

In January 2012, SUWASA undertook an internal mid-term review to assess project progress to date (after one year of implementation), determine stakeholders' views of the project, and identify possible modifications in the second year to increase impact. The main conclusion of the review was that the timing of the DBO-OBA approach for financing infrastructure in the small towns was not appropriate to secure the anticipated impact of the project. After consultation with USAID, it was decided that the Uganda project be restructured to focus on activities that could bring about results within the remaining time frame for SUWASA. This is therefore a revised work plan for the Uganda project and is a result of internal consultations with key stakeholders in Uganda, including the Ministry of Water and Environment (MWE), GIZ, USAID Uganda, APWO and various development partners in the water sector in Uganda.

1 PROJECT DESCRIPTION

The main objective of this revised project is to address one key issue in the urban water sector: the Government's desire to establish an improved water services oversight framework. This is based on the expressed interest by the Directorate of Water Development to improve on its oversight framework.

Specifically, the project will implement the following activities:

- Support for the MWE in designing an improved water services oversight/regulatory framework;
- Identification and analysis of lessons learned in private sector financing of small towns water infrastructure.

1.1 Designing an improved water services oversight/regulatory framework

1.1.1 Description

Over the past decade the Government of Uganda has made significant strides in improving urban water services in the country's small and medium towns through application of commercial principles, most notably by establishing performance agreements with local water authorities, implemented by private operators under management contracts with the authorities. However, in spite of the progress that has been made, the Directorate of Water Development – the agency within the Ministry of Water and Environment responsible for urban water services – recognizes that improvement in the oversight of water services is needed, and in 2010 established a new Regulatory Unit to identify weaknesses in the Government's current oversight framework and developing needed improvements. Establishing an improved oversight framework is one of DWD's highest priorities, and is the focus of this SUWASA activity,

Another aspect of the urban water sector reforms in Uganda is to find a lasting solution to the need to improve the economies of scale of small towns' water supply. Some of small town water supply systems cannot achieve cost recovery due to the low number of customers. Therefore, DWD is considering the clustering of small town water systems to take advantage of a higher number of consumers. A consultancy to develop a clustering strategy will be one of three studies in the oversight framework analysis, and will be conducted by GIZ in coordination with the SUWASA studies.

1.1.2 Activities

SUWASA will work in partnership with GIZ in supporting DWD in its development of an improved oversight framework, by conducting a series of studies that will provide a foundation for Government of Uganda decision making. The relationship will be defined in a cooperative agreement to be signed between GIZ and SUWASA. The cooperative agreement will clearly define the areas that each partner will support. It is in view of the need for a long term engagement leading to the establishment of an improved regulatory/oversight framework that this initiative will be implemented in collaboration with GIZ. GIZ has a long term program with the Ugandan Government that will continue for at least another five years. SUWASA's role will be to undertake the following two activities, to be completed in early 2013, and to continue monitoring DWD's progress over the remaining life of the regional SUWASA program.

1.1.2.1 Design of the institutional framework

SUWASA will develop institutional options to improve the regulatory/oversight framework of water services in Uganda. The scope of the oversight framework will be for all urban water services including small and medium towns as well as services provided by the National Water and Sewerage Corporation¹. A full range of operations will be evaluated, from the current regulatory unit embedded in the MWE to providing regulatory/oversight through an autonomous regulatory body. SUWASA together with GIZ will undertake stakeholder consultations to identify possible appropriate institutional structures for the regulatory/oversight framework and alternatives for financing each option.

1.1.2.2 Developing cost-benefit analysis of regulatory/oversight options

SUWASA will conduct a cost benefit analysis of the regulatory and other oversight options available for Uganda's small and medium towns under each of the institutional arrangements identified in the first consultancy. The objective will be to determine which the most financially feasible options, their risks and benefits, and the implementation steps that would be needed. The water services include water supply and sewerage services but will not include on-site sanitation.

1.1.2.3 Designing an implementation plan

Once a clear regulatory/oversight option is accepted, SUWASA will go ahead and develop an implementation plan for the establishment of the new framework. This will assure some level of commitment from Government to implement the recommendations on the way forward for the regulatory framework.

1.1.3 Timing

The terms of reference for all studies will be prepared in July 2012 and the institutional framework study will be conducted by an international expert over a six month period from August 2012 to January 2013. The cost-benefit analysis will be conducted from August through January 2013. The two studies will be completed by the end January 2013.

Interim reports will be presented at the Annual Sector Review meeting of Donors and MWE in September 2012, and a final report will be presented at the Annual Sector Review in April 2013.

1.1.4 Staffing

GIZ will finance the technical advisor who will prepare all terms of reference and coordinate activities. SUWASA LOE will include:

- Institutional framework: 6 month consultancy working on an intermittent basis half time.
- Cost-benefit Analysis of regulatory options: 6 month consultancy working on an intermittent basis half time.

¹ While SUWASA's major focus will be on water services in Uganda's small and medium towns, DWD and GIZ have emphasized to SUWASA the need to establish one oversight body for all towns, including those under the jurisdiction of NWSC.

1.2 Lessons learned in private financing of small towns water infrastructure

1.2.1 Initiative description

A major objective of the original Uganda project was to provide incentives for private operators to participate in financing of water systems, using the design-build-operate (DBO) contracting framework, with capital investments subsidized through output based aid provided by basket funding from the Government of Uganda. The project was designed to scale up the pilot project conducted by the World Bank's GPOBA program. In the first year of the SUWASA Uganda project implementation, a major component was the promotion and implementation of a Design Build Operate (DBO) and (OBA) Output Based Agreement approach for financing water infrastructure in small towns. However, based on the analysis of the existing situation, i.e. non-availability of donor funds earmarked toward DBO-OBA, Government's inability to put its funds in an escrow account to guarantee payment, and the unwillingness of architectural and engineering companies to enter into long-term partnerships with private water operators, it became apparent that the DBO- OBA approach was premature, and possibly not viable. In order for SUWASA to capture lessons learned from this experience and identify possible solutions for future private financing of water infrastructure in small towns, SUWASA will review and document all experiences to date. The study will identify why private financing for water infrastructure in small towns was not secured; financial and managerial challenges faced by the private operators under DBO contracts, and views from local banks and the A&E firms. Efforts will be made to capture all the experiences, including reviewing the long-term results of water services and infrastructure in the ten towns included in the GPOBA pilot.

This lessons learned report will assist both the MWE and the donor community in identifying how best to approach future support to small town water infrastructure with possible solutions to effectively include the private sector in water services and infrastructure development. It will also provide a clearer picture of why the A&E and water operators communities are reluctant to work together in the design, construction and maintenance of water systems and what might be useful incentives for their future cooperation.

At the request of MWE, the study will also include the documentation of the impact of the GPOBA Pilot Project experience. While the majority of the work will be through SUWASA, GIZ/RUWASS will participate in the review of the World Bank pilot project. Finally, the study will review the current WSDF operations manual in coordination with GIZ to provide recommendations which will benefit a planned complete revision of the operations manual by multiple development partners.

A detailed statement of work will be developed during the first month of implementation of this revised work plan.

1.2.2 Staffing

This task will also be subcontracted to INSPIRED International with the Senior Financial Technical Advisor leading in preparing the document and will be supported locally by a water services specialist,² water engineer and program management auditor, with substantial technical support by the SUWASA Nairobi regional office staff.

² At the suggestion of the USAID Uganda Mission, we have contacted Rural Water Services Specialist, Lucrezia Koestler. Ms. Koestler has 7 years' experience working in the organization and implementation of water services in rural Uganda. Her particular skills include project management, promoting community involvement, rural community capacity building, and design, implementation and maintenance of water supply and sanitation systems.

1.2.3 Timing

The documenting of the lessons learned will be conducted in the months of June through August with the draft final report submitted in September to MWE and the Development Donor Group. Efforts will be made to ensure that the report reflects clear lessons learned on private sector financing using the DBO/OBA approach in Uganda.

2 EXPECTED RESULTS OF THE RESTRUCTURED PROJECT

2.1 Component 1: Designing an improved regulatory/oversight framework for urban water services.

As stated above, SUWASA's role will be institutional and regulatory design, rather than implementation, of the outcomes listed below. However, SUWASA will continue to monitor DWD's progress in implementing oversight improvements after completion of the studies, in collaboration with GIZ.

- Improved institutional arrangements for oversight of water services
- Implementation of oversight improvements.

2.2 Component 2: Lessons learned in private financing of small towns water infrastructure

- An exhaustive review of the various approaches to finance small towns' water infrastructure,
- A full report outlining the challenges and opportunities for using private sector financing in small towns
- Recommendations on modification of the WSDF Operations Manual, which will be used for future comprehensive review by donor organizations.

3 INDICATORS FOR MEASURING RESULTS

SUWASA will prepare an Inception Report which will finalize indicators for the project and will be included in the M&E plan as part of the report.

- Number of good practices identified, promoted and adopted
- Number of new policies, laws, agreements, regulations or investment agreements (public or private) implemented that promote access to improved water supply and sanitation (USAID F-indicator).

4 OVERALL MANAGEMENT OF THE SUWASA UGANDA REVISED WORK PLAN

During negotiations with Ugandan stakeholders and in preparing the revised work plan, SUWASA organized the overall management approach with two objectives in mind: first, to assure stakeholder involvement in project implementation and second, to assure continuity and sustainability of initiatives after the completion of the SUWASA Uganda project, now proposed for December 2013.

To meet these objectives we are proposing a management structure which would (1) organize and implement project initiatives cooperatively with the GIZ in Uganda, and (2) subcontract with a local consulting firm which would lead the implementation of a select number of SUWASA project initiatives and provide project oversight for all SUWASA activities.

4.1 GIZ/SUWASA cooperation

Through discussions with GIZ representatives initiated in January during the Mid-term Review of the SUWASA Uganda project and follow-up meetings in March, SUWASA has agreed to form a partnership with GIZ to organize and implement a joint project, which will be coordinated with ongoing GIZ work and experience.

The GIZ-SUWASA -USAID cooperation will be guided by the following principles:

- GIZ will lead the consortium through their existing RUWASS Operation and, in the case of the Regulatory Studies, contract a lead technical advisor who will prepare the terms of reference for all studies including the ones to be undertaken by SUWASA and will coordinate these individual efforts. SUWASA and GIZ contributions will be assured by branding all results and products as “GIZ/SUWASA-USAID”.
- Joint steering structure made up of GIZ, SUWASA –USAID and DWD representatives to oversee all project activities.

The benefit of working cooperatively with GIZ will allow SUWASA initiatives to be part of a broader water strategy with the Ministry of Water and Environment and assure that SUWASA initiatives continue to receive support after the completion of the SUWASA project. In addition, SUWASA will also benefit from GIZ experience in the water sector, its current work with MWE, and its experience working with local water projects.

The GIZ technical leader will assure coordination and exchange of information among the three studies and effective stakeholder involvement during the entire process.

4.2 SUWASA presence in Uganda

This project will focus on supporting the Government of Uganda in working towards an improved regulatory/oversight framework for urban water services. This means most of the work will be undertaken through consultancies but will also include a number of stakeholder consultations on recommendations. The project will technically be coordinated from the SUWASA regional office in Kenya. However efforts will be made to identify a local consultant to provide liaison support to the project office which already exists in Uganda. Nairobi office will participate in major milestone activities i.e. launch of major consultancies or works, presentation of results and any such meetings as may be deemed important by both the Ministry and SUWASA.

5 RESOURCE TABLE AND PROJECT TIMELINE

The activity plan for the implementation of the project is given in Figure 5.1. The funds for implementing the project will be those that remained as unutilized from the original two year SUWASA project. At the moment we do not anticipate the need for requesting for additional funds for the project. The above budget figure includes project implementation for the remaining life of the project supported by national and international experts providing short term technical assistance as well as liaison with the Government. In addition, SUWASA technical specialists based in SUWASA's regional office in Nairobi, Kenya will be available on an "as needed" basis.

A project timeline is provided in Figure 5.1.

Figure 5.1: Revised Work Plan

	Activity	LOE	2012						2013											
			3rd Quarter			4th Quarter			1st Quarter			2nd Quarter			3rd Quarter			3rd Quarter		
			Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1	Support for design of regulatory/oversight framework																			
1.1	RUWASS consultant prepares terms of reference	22	■																	
1.2	RUWASS Consultancy for cluster strategy	120		■	■	■	■													
1.3	Consultancy for design options for regulatory framework	110		■	■	■	■	■												
1.5	Stakeholder consultations on options of reg. framework	20							■											
1.6	Consultancy for cost benefit analysis of regulatory options	66							■	■	■	■								
1.7	Identification of items for legislative framework	15										■								
1.8	Implementation plan regulatory framework	30										■	■	■						
1.9	Interim report at Annual Sector Review	5													■					
1.10	Final report at Annual Sector Review	5														■				
	Sub-Total	393																		
2	Prepare SOW for Lessons learnt consultancy	0																		
2.1	Review of use of DCA	5	■																	
2.2	Reviw experience of DBO-OBA	30		■	■	■														
2.3	Review of experience of World Bank DBO-OBA Pilot	20			■	■	■													
2.4	Prepare report	10						■												
2.5	Review and comment by RUWASS	10							■											
2.6	Present findings at consultation workshop	5								■										
	Sub-Total	80																		
3	Local consultant to provide project oversight	200	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■