



# Water Supply and Sanitation Sector Reforms in Kenya, Tanzania, Uganda and Zambia

Challenges and Lessons

## ACRONYMS

## Acronyms

CU	Commercial Utility – Zambia
EWURA	Energy and Water Utilities Regulatory Authority – Tanzania
FC	Financial Cooperation
DTF	Devolution Trust Fund – Zambia
DUWSA	District Urban Water Supply and Sewerage Authority – Tanzania
MoW	Ministry of Water – Tanzania
MWI	Ministry of Water and Irrigation – Kenya
MWLE	Ministry of Water, Lands and Environment – Uganda
NAWAPO	National Water Policy – Tanzania
NGO	Non-government Organisation
NWASCO	National Water Supply and Sanitation Council – Zambia
NWCPC	National Water Conservation and Pipeline Corporation – Kenya
NWSC	National Water and Sewerage Corporation – Uganda
NWSDS	National Water Sector Development Strategy – Tanzania
PCU	Programme Coordination Unit – Zambia
PSP	Private Sector Participation
SWAp	Sector Wide Approach to planning
TC	Technical Cooperation
UWSA	Urban Water Supply and Sewerage Authority – Tanzania
WRM	Water Resources Management
WRMA	Water Resources Management Authority – Kenya
WSB	Water Services Board – Kenya
WSP	Water Service Provider
WASREB	Water Services Regulatory Board – Kenya
WSS	Water Supply and Sanitation
WSSA	Water Supply and Sewerage Authority – Tanzania

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# 1 Purpose of the Paper

In the past decade, decision makers in government, development partners, and other stakeholders in the water sector have increasingly shifted their attention from individual investment and technical assistance projects to supporting the development of the sector framework of water resource management and the provision of water supply and sanitation services. With more and more countries embarking on water sector reforms, a wealth of knowledge and experience has become available on best practice design of enabling policies, strategies, legislation, effective regulatory frameworks, commercialisation, clustering of systems to achieve economies of scale, and contracts with the private sector. In addition, pro-poor approaches are increasingly shaping efforts carried out in water sector reforms.

Rather than being a comprehensive manual, the paper is intended to focus on key challenges that have been of major importance in the water supply and sanitation reforms in the four countries, and the lessons that have been learned.

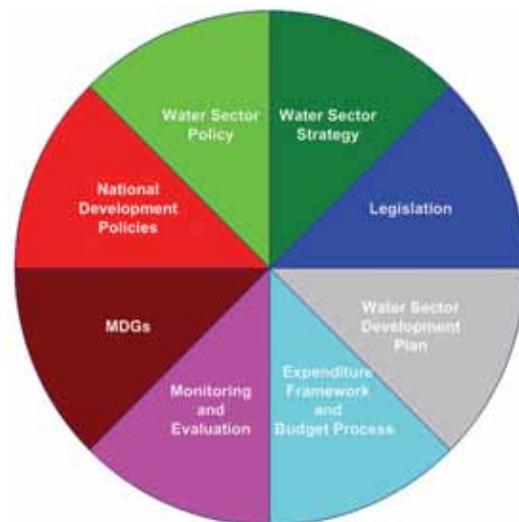
The paper is intended to be addressed to practitioners, government officials and staff of development partners worldwide, who are involved in preparing or implementing similar reforms in the water supply and sanitation (WSS) sector.

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**This paper is produced with the objective of summarising critical water sector reform implementation issues by drawing from recent experience of reforms in Kenya, Tanzania, Uganda and Zambia.**

However, there is little understanding of the challenges government officials are confronted with during the reform process itself. In addition, policy advisors and development partner staff often question why the supported reform process has not produced the expected results, or reform implementation has been delayed.

This paper is produced with the objective of summarising critical water sector reform implementation issues by drawing from recent experience of reforms in Kenya, Tanzania, Uganda and Zambia from a group of policy advisors of the German Technical Cooperation (GTZ), who, as long term advisors, have supported these reforms. This paper focuses on reform experiences in water supply and sanitation.



## Overview of Reform Histories

## 2

The history of the recent reform processes can be traced back to the period of the 60s and 70s when large programmes with ambitious targets and substantial funding were developed in many African countries to improve access to water supply and sanitation services in rural and urban areas. The establishment of decentralised structures and corporatised companies became important features of these early reforms.

However, most of these reforms and decentralisation programmes were cancelled or undermined, due inter alia to the lack of political will and commitment, political interference, conflicts with other government policies, maintenance of sub-economic water charges, and limited knowledge and experience in sector reforms.

In the 70s and 80s, water services deteriorated rapidly as a result of the declining ability of governments to provide the necessary funds, poor management, misuse of funds, low or non-existent charges for services and an unprecedented growth in demand caused by rapid population growth and urbanisation.

Experience in the four countries indicates that it was not only the poor conditions that triggered a more comprehensive reform effort. The UN Water Decade of the 80s initiated new thinking on reforms but the most powerful impetus for reforms appears to have resulted from external factors such as:

- Public health crises arising from poor water services
- Major droughts, flooding or other climatic extremes
- Changes in government giving the necessary push to initiate sector reforms
- New economic reform policies such as civil service reform or the liberalisation and privatisation of public utilities created the enabling framework for reforms in the water sector. These were often linked to development partner supported structural adjustment programmes

- In the late 90s and beginning of the 21st century the international debates on best practices and targets for water service provision intensified, resulting in pressure on governments to show results

Against this general background, the recent steps in implementing sector reforms in the four countries are summarised below.

### 2.1 Kenya

Policies for Water Resource Management and Water Supply and Sanitation were approved in 1999, followed by passing of the Water Act in 2002. The National Water Resources Management Strategy was finalised in 2006 and catchment area strategies are available. The National Water Supply and Sanitation Strategy was gazetted in 2007.

Most of the new institutions provided for in the Water Act 2002 were established in 2004 and have started operations. Responsibility for policy and resource mobilisation rests with the Ministry of Water and Irrigation (MWI), which still acts a service provider of last resort especially in the rural areas. The water supply and sanitation sub-sector is regulated by the Water Services Regulatory Board (WASREB). Seven regional asset holding Water Service Boards (WSBs), licensed by the WASREB, have contracted local government owned Water Service Providers (WSPs) in larger and medium urban centres for the management of services. In the remaining areas where no WSP has yet been identified, services are operated by the WSBs on an interim basis, or provided by associations or community based organisations. The National Water Conservation and Pipeline Corporation (NWPC) concentrates on bulk water supply and bore hole drilling. The new institutions still operate with some seconded staff from MWI and NWPC, and plans for restructuring the MWI and NWPC are underway. An Appeals Board has been established, and its members appointed.

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Since 2004 the WASREB has issued licenses to the 7 WSBs. The main regulations (guidelines, rules, standards) and a sector wide information system are in the process of being developed and implemented. There are a number of commercialised local government schemes in secondary towns and attempts are being made to cluster services in a number of towns wherever feasible. The initial experiences of commercialisation and clustering are very encouraging and are now being regarded as forerunners of large scale implementation.

There has been one contract with an international operator in a secondary town and one contract in a wealthy suburb of Nairobi with a local provider. However, international operators are no longer a key objective of the reform agenda, but outsourcing of functions to the local private sector participation remains in the focus of the reform.

Since 2004 efforts have been made to develop an investment plan for the WSS sub-sector through a Sector Wide Approach to planning (SWAp). The first SWAp conference was held in 2006 where a rudimentary sector investment plan was presented.

## 2.2 Tanzania

Reforms started with the first National Water Policy in 1991, and the revised National Water Policy, 2002 (NAWAPO). The Ministry of Water (MoW) is responsible for policy and sector coordination, as well as securing finance for capital investment for schemes of national importance, and regulation of community water supplies. Since 1997, 19 Urban Water Supply and Sewerage Authorities (UWSAs) have operated services in larger urban centres under a Memorandum of Understanding with MoW. This MoU contains a large number of per-

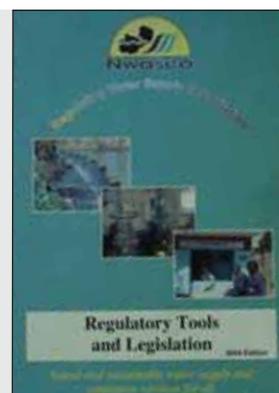
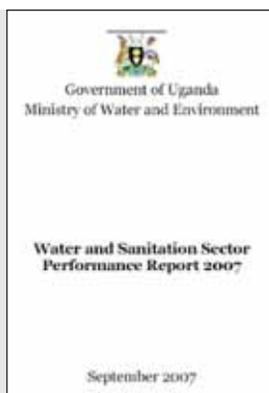
formance indicators and other data to be reported to the MoW. Until recently the UWSAs had autonomy over the setting of their tariffs..

Dar es Salaam has always been treated as a special case, not falling under the routine performance standards and monitoring framework established by MoW for all other urban centres and has remained, despite heavy investments brought in by the World Bank and the European Union, one of the worst performing water entities in Tanzania.

An additional 98 entities operating in small and medium towns have been declared as Water Supply Boards since 2002 and are operating either under a Memorandum of Understanding with MoW, or are in the process of being established and still being operated by the respective Town or District Council. A number of water supply systems in rural areas are operated by community based organisations.

A National Water Sector Development Strategy (NWSDS) has been prepared and is due to be submitted for Cabinet approval imminently. The NWSDS is a pre-condition for finalisation of the new Water Resources and Water Supply and Sanitation Bills, as well as implementation of the restructuring process of the MoW.

The NWSDS provides a comprehensive guide for the implementation of the NAWAPO and sets out a new institutional framework for both, water resources management and water supply and sanitation. Water Supply and Sewerage Authorities (WSSAs) will be created and may cluster services across several local government areas and contract (public or private) WSPs. Community Owned Water Supply Organisations are to be established to serve villages or groups of villages.



A multi-sector regulator, the Energy and Water Utilities Regulatory Authority (EWURA) was created under the EWURA Act, 2001, and started operation in late 2006 for the commercial (mainly urban WSS) sector. Although its full legal mandate for regulating the WSS sector requires passing of the new Water Supply and Sanitation Act, EWURA has, in the meantime, received the mandate to regulate all commercial water and sewerage entities (currently 85). EWURA is now responsible for technical and economic regulation including inter alia licensing of providers, tariff approval, and setting of technical standards and performance monitoring. The first tariff applications were approved in 2006.

Private sector participation (PSP) was introduced through a lease contract with the public asset holding authority, the Dar es Salaam Water and Sewerage Authority. This PSP arrangement was prematurely terminated in 2005 by the Government after less than two years operation and a public company has now been established to service the Dar es Salaam area.

In 2006 the national Water Sector Development Programme, a SWAp including a basket financing mechanism, was established for the period from 2006 to 2025. During the initial phase from 2006 to 2011, total investments for the different sub-sectors are expected to amount to US\$ 950 million. The first Joint Water Sector Review in 2006 was seen as the starting point for this more harmonised approach. However, the process is being driven to a significant extent by development partners and ownership not yet been fully assimilated by the relevant Tanzanian authorities.

### 2.3 Uganda

The main elements of the water sector framework are in place with the Water Act (1995), a Water Policy (1999), a sector strategy (2001), a institutional reform strategy and the investment plan for the urban water and sanitation sub-sector (2003). Also, in 2000, a Sector Wide Approach to planning (SWAp) was adopted.

The Ministry of Water, Lands and Environment (MWLE) is responsible for policy making, issuing national standards, regulation regarding tariffs, and performance contract management. The technical arm of the Ministry, the Directorate of Water Development, is responsible for managing water resources, policy guidance, coordination, technical regulation, and provision of support services to the local government authorities and other service providers. The responsibility for sanitation is divided between three ministries and laid down in a Memorandum of Understanding signed by all line ministries.

The National Water and Sewerage Corporation (NWSC) is responsible for water supply and sewerage services in 19 out of 41 large towns, i.e. 55% of the urban population. NWSC is effectively an Asset Holding Authority, with operations being delegated to areas through internally delegated area management contracts. These contracts simulate international management contracts with an incentive structure but have no legal basis. Local governments are responsible for service provision in the remaining 155 towns and are supported by the MWLE to build up capacity.

International PSP appears to have fallen off the reform agenda and the focus is on capacity development of local service providers. Most of the towns have contracted local private operators with 13 operators covering 64 towns.

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## 2.4 Zambia

The WSS reform process was initiated by the National Water Policy, 1994. A new institutional framework for the provision and regulation of water supply and sanitation services was approved by Cabinet in 1994, which resulted in the passing of the Water Supply and Sanitation Act in 1997. The Ministry of Energy and Water Development is the lead ministry in the sector responsible for overall policy and water resources management, while responsibility for water supply and sanitation services is under the Ministry of Local Government and Housing.

In parallel to the drafting of the WSS Act the preparation of large scale implementation for clustering of water and sanitation schemes and commercialisation was carried out. The first step was the elaboration of viability studies in most of the provinces. Commercial Utilities (CUs) were to be formed as commercial entities owned by local authorities as shareholders. These viability studies were essential in forming the CUs because clustering was to be made by voluntary decisions of the respective local government authorities, rather than using a top-down approach by the Government. Once agreement had been reached by the local authorities to establish a CU, a Joint Implementation Team from the local authorities was established to steer the creation of the CU.

This approach to commercialisation, as provided for in the Water Supply and Sanitation Act, has been very successful with more than 90% of the urban population now living in areas serviced by a CU, although the actual service coverage is only around 50% but rising. Commercialisation was carried out much faster than in the other countries covered by this brochure.

There are currently 33 licensed service providers comprising 10 CUs, 13 local authorities and six privately run schemes. A PSP management contract with an international provider came to an end in 2005 and was not renewed as performance indicators did not significantly improve in comparison to the other CUs.

In 2000 the regulator for urban water supply and sanitation, the National Water Supply and Sanitation Council (NWASCO), was established and is now fully operational with the key regulatory tools being implemented. Performance indicators of the CUs have been steadily improving and, for the past five years, the public and policy makers have been kept informed through the annual comparative report of the sub-sector issued by the NWASCO. In addition, tariff adjustment procedures have been a main tool of regulation. Regular tariff increases, also carried out during election periods, have not only demonstrated the large degree of autonomy of the regulator, but has led to operations and maintenance cost coverage at most of the CUs over a relatively short period.

The sector reforms also provided for the establishment of a financing basket for urban WSS, the Devolution Trust Fund (DTF). Initially established by NWASCO, in accordance with the WSS Act, the DTF was later de-linked from the management of the regulator in order to avoid conflict of interest. The aim of the DTF is to promote low-cost technology in order to improve access of the urban poor to WSS and thus may be regarded as a pro-poor fund. The DTF carried out a baseline study in all settlements of the urban poor, which led to the downward revision of the coverage figures for water in the urban setting from 89% (according to MDG monitoring) to 47% (Further details of the DTF are provided on page 33).

**The aim of the Devolution Trust Fund (DTF) is to promote low-cost technology in order to improve access of the urban poor to Water Supply and Sanitation (WSS).**





## 3 Frameworks for the Reform Processes

### 3.1 Impetus and Champions

The impetus for reform varies in each country according to the history and other special events as discussed in Section 2. Development partner pressures were also a significant factor in initiating the reform processes, particularly in the urban sector with the push towards regulation, commercialisation and private sector participation, as is discussed later.

In all the countries the reform process was led by the Ministry responsible for water, as that Ministry had the major responsibility for the delivery of water supply and sanitation services. This was mainly due to the historical weak state of local government structures and previous centralisation policies. Therefore, most reforms were being led by the same Ministry that would lose power through the decentralisation or devolution of service delivery responsibilities from the central level to newly established autonomous institutions. This placed considerable strain on the commitment to the reforms by the ministries concerned and resulted in external pressure for reform, usually from development partners and mainly linked to financing of investment for infrastructure.

### 3.2 Guiding and Implementing Structures

Reforms require a significant level of input in addition to the normal business of governments. Therefore, governments often decide to create temporary institutional bodies to be able to manage the reforms effectively. The institutional design of such bodies requires a significant level of attention. These have been established in three of the countries and the most important aspects were:

- The institutional set up of the reform management unit
- The financial and human resource capacity of the reform unit
- The inter-ministerial coordination set up and procedures

#### 3.2.1 Institutional Set-up of Reform Management Unit

The critical decision was whether to establish the reform unit inside or outside the lead Ministry. Experience appears to suggest that an internal management unit may be more isolated from policy decisions of other ministries, but will be closer to the decision making processes in the leading ministry.

In Kenya, the Sector Reform Secretariat was created as a unit within the MWI, directly reporting to the Permanent Secretary, and was entirely staffed by officials of the MWI. This may partly explain why there has been little enthusiasm for the water sector reform in other government ministries.

Similarly, in Uganda, a Reform of the Urban Water Sector Unit was established within the Ministry of Water, Lands and Environment. However, in contrast to Kenya, stakeholders seem to agree that the experience with this arrangement has been generally positive. This is probably due to the limited role of other ministries in WSS.

On the other hand, in Zambia, a separate reform unit for urban water supply and sanitation was set up by Cabinet Mandate, reporting to an inter-ministerial committee, the Programme Coordination Unit (PCU). The already existing Community Management and Monitoring Unit for rural water supply was subsequently brought under the same inter-ministerial committee. The strength of this arrangement lay in the Cabinet mandate given to the PCU to steer the reforms. However, the planned phasing out of the PCU when the regulator was established was, in retrospect, premature and allowed disagreements between the ministries responsible for water and local government to continue to disrupt the reform process.

In Tanzania, there is no separate reform unit and responsibility for reform rest within the Directorate of Policy and Planning in the Ministry of Water.

**Political commitment to the reform process is the most important factor in implementing the reforms.**

As this Directorate is less influential than the technical directorates of the Ministry, coordination of reform activities has been a constant challenge.

Experience in the four countries indicates that political commitment to the reform process is the most important factor in implementing the reforms. However, the institutional set-up can have an impact, particularly if vested interests are not adequately recognised or catered for.

### 3.2.2 Inter-ministerial coordination

Water sector reforms are linked to other sector policies, particularly local government and health policies in respect of WSS. Consequently, effective inter-ministerial coordination and cooperation is essential; firstly to achieve support from other government departments; and secondly to establish harmonised policies across the various sectors.

Inter-ministerial coordination mechanisms were established in three of the countries at the start of the reform process:

- the Inter-ministerial Steering Committee in Kenya;
- the Inter-ministerial Coordinating Committee in Tanzania; and
- the Programme Coordination Unit in Zambia

Experience shows that, in spite of these structures, coordination with other ministries involved in the reform process not only partly failed, but in some cases the reform process was actively blocked at certain stages. This usually arose from the rivalry between the Ministry responsible for water and the Ministry responsible for local government. Nevertheless, without the coordination structure the reforms would not have achieved the results. Another obstacle to effective coordination has been the lack of a reliable support and follow up mechanism.

## 3.3 Policies, Strategies and Legislation

### 3.3.1 Policy Principles

Establishment of the overall policy principles should be the first, and very important, step of a reform process. The importance of this first step is often underestimated, as is the involvement of stakeholders in the process.

The guiding sector principles should be limited in number and cover the key areas of the reform. They are crucial in providing guidance over the long time of the process and to help newcomers in the sector to understand the initial intent of the reform. Although it has helped the reform champions to remind decision makers over time to concentrate on the key areas of the reform, governments have sometimes found it difficult to adhere to these principles during the implementation process.

A review of the respective policies shows that the four countries have all adopted a number of similar principles, namely:

- Separation of roles: The role of government will change to that of policy and coordination and will not include operational or service provision functions
- Separation of WRM and WSS: Three of the countries have clearly separated these sub-sectors
- Decentralisation: All the countries have a policy of decentralisation, either to the regional level or to local government
- Cost recovery: Full cost recovery in urban areas features in all four policies
- Participatory approach: Participation of communities, especially women, features in two of the policies
- Public financing: Continuous allocation of public funds appears in three policies

**It is important that the drive to reform the sector through commercialisation, regulation, etc. is also used to improve access to sanitation.**

It is interesting to note that none of the water policies adequately address the issue of sanitation. This omission may arise for two reasons:

- Sanitation is only regarded as part of the WSS sector when it relates to waterborne sewerage systems; and
- Policies have been developed primarily by the Ministry responsible for water, whereas on-site sanitation is regarded as the responsibility of the Ministry responsible for health, or of local governments.

Consequently, sanitation remains the weak point of the sector reform processes in all four countries and still has to be adequately addressed.

It is important that the drive to reform the sector through commercialisation, regulation, etc. is also used to improve access to sanitation. Even if the Ministry of Health or local government authorities hold the main responsibility for sanitation, the potential of new institutions in the water sector can be used to promote and improve access to sanitation, particularly for the urban poor. The guiding principles for sector reform should include a clear statement as to how sanitation is to be addressed, such as giving commercial utilities a clear mandate to liaise with the responsible authorities.

### **3.3.2 Sequencing of Policy, Strategy and Legislation**

Sector reforms have rarely been managed in an integrated manner. In most cases, more attention has been given to one sub-sector (most commonly urban water supply and sewerage) over the other sub-sectors of the water resources management, rural water supply, and sanitation. In Kenya, the legislation was adopted before the sub-sector

strategies were developed, and in Uganda the legislation was passed before even the National Water Policy had been approved. In Zambia, the institutional framework was prepared and agreed before the enabling legislation was drafted.

Moreover, some reform activities have pre-empted the logical progression of Policy ► Strategy ► Legislation. For example, the introduction of the private sector in Tanzania was carried out prior to developing the sector strategy and framework, and required special legislative provisions to be made.

Apart from the issue of private sector participation, which has tended to be driven by the development partners, experience has shown that formal strategy development has not necessarily been a constraint to sector reforms. In any event, strategies are normally revised on a regular basis of, say, five years.

However, informal or draft strategy development, at least to the extent of decisions on the future institutional framework, is an essential pre-cursor to effective legislation. Formal sub-sector strategies can then be formulated after the new legislative and institutional framework has been put in place, with the participation of the new sector institutions that will be responsible for strategy implementation.

The experience in Kenya of updating strategies at a later stage was useful in that lessons learned by the new institutions were factored into the revised strategies and feed back from many stakeholders was captured. This led to wider acceptance by the stakeholder community.



**3**

The different sequencing of reform activities in the four countries, including the adoption of a Sector Wide Approach to planning (SWAp), is shown in the box below.

Factors affecting the sequencing of policies, strategies and legislation have been found to be:

- Defined institutional responsibilities, included in the new legislation, in advance of full fledged national strategies
- Responsibilities of reform support units if the sub-sector strategies are elaborated prior to the legislation
- Government priorities
- Influence of development partners

While the advantage of developing sub-sector strategies separately may allow greater focus on one sub-sector at a time, the disadvantage is that effort may be required to harmonise strategies, particularly at later stages.

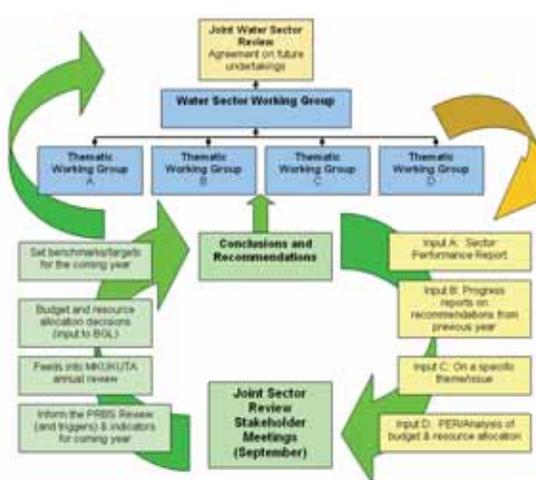
Also, the phasing of reform steps needs to be carefully planned. For example, private sector involvement often requires a strong regulatory framework in place prior to the tendering of the contract.

**3.4 Stakeholder Awareness and Participation**

Evidence from the four countries suggests that effective communication between relevant ministries, and between government and other stakeholders, can be decisive for the success or failure of

a reform process. This has varied widely. In both Tanzania and Kenya the reforms were led by one ministry and, initially, communication with other stakeholders was kept to a minimum. Wider communication and consultation resulted from political pressure or legal requirements calling for consultation. The lack of early communication appears to have contributed to the delays in implementing reforms in these countries.

**Effective communication between relevant ministries, and between government and other stakeholders, can be decisive for the success or failure of a reform.**



Water sector coordination in Tanzania

In contrast, Zambia and Uganda engaged in an active stakeholder dialogue and actively encouraged stakeholder participation. A key success factor in Zambia was the political support which allowed the Reform Support Unit to operate independently through communication programmes and consultative or dissemination meetings with stakeholders.

	TIMING											
	Pre 1997	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Kenya				Policy			Water Act			Regulator		SWAp Strategy Investm. Plan
Tanzania	1. Policy 1991						New Water Policy				Strategy Regulator	SWAp Develop. Plan
Uganda	Act 1995			Policy	SWAp	Strategy		Investment Plan urban				
Zambia	1994 Policy Framework	Act			Regulator				Dev. Trust Fund			



**Achievements such as decentralisation of functions or autonomy of new sector institutions can be reversed in the drive to introduce a SWAp.**

**Reform processes can be significantly disrupted if governments do not succeed in focussing the input of development partners in line with the national policy for the sector.**

## 3.5 Roles of Development Partners

### 3.5.1 Influence of Development Partners on Reform Processes

Multi-lateral and bi-lateral development partners have played a major role in sector reform planning and implementation in all four countries and were often instrumental in pressurising governments to initiate the reform processes and for taking the reforms in specific directions. The major influence in the introduction of international private operators into the reform process arose from the pressure of development partners, principally the World Bank.

The role and degree of influence of development partners has depended on various factors:

- Government commitment: If a government is committed and takes an active role, the development partners are likely to take a supportive role rather than driving the process
- Focus of assistance: The role of a donor depends on the focus of its support activities. From experience in the four countries, water sector reform was not initially high on most development partners' agenda and each donor focused on their own traditional areas of assistance. Only when progress became slow was attention moved to the sector level and importance given to influencing the reform process
- Set up of a specific project: A development partner has more informal influence, better access to information, and a greater role on the policy process, if their advisor's office is based within the organisation responsible for steering the reform process
- Mode of delivery: The influence of development partners providing financing may be greater than that of an organisation providing technical assistance because of the reliance on the countries on external finance to improve service delivery

In the long term, it is evident that a reform process will be more successful if it is led by the Government. It is important to note that reform processes can be significantly disrupted if governments, through the reform champions, do not succeed in focussing the input of development partners in line with the national policy for the sector. Areas of reform can be easily dominated by issues preferred or pushed by certain development partners and achievements such as decentralisation of functions or autonomy of new sector institutions can be reversed in the drive to introduce a SWAp.

In addition, attention to the further development of key areas of the sector reforms, such as regulation, pro-poor approaches in regulation, financing, sector information and reporting, can come to a halt when major sector investment plans become the priority focus of politicians and financing institutions.

### 3.5.2 Coordination between Development Partners

The water sector is typically supported by a number of development partners. During a reform process the coordination of the activities of different development partners is essential. For this reason, in many countries development partners have established sector coordination mechanisms with the objectives of:

- Facilitating exchange of information, coordination and cooperation
- Providing a more effective dialogue partner with the Government

While the first objective has been achieved in most countries, the dialogue mechanism between the Government and development partners still requires strengthening. Experience has also shown that the influence of development partners has been greater where coordination has been effective.

### 3.5.3 Need for Harmonisation and Alignment

The need for harmonisation of development partner activities results from differences in the focus of assistance and the modes of delivery.

For example, German FC has traditionally focused on secondary towns; SIDA supports rural areas rather than urban areas; and the World Bank has focused on the capital cities and other large centres, as well as increasingly supporting water resources management.

The modes of delivery also vary significantly in supporting reform activities. For example, the World Bank provides technical assistance through short term international consultants as well as soft loans or grants for investments. In contrast, German TC provides team of international and local long term advisors based within the counterpart's institutions, which enhances the opportunity for capacity development for individuals and institutions. Other partners, such as SIDA and DFID strongly promote basket financing or budget support. As a result, each partner has had a tendency to continue with their own way of project planning, implementation and monitoring, reporting, and procurement. Nevertheless, this mix of input can be an appropriate approach if partners agree to integrate their reform activities whilst using their preferred modes of delivery.

A recent international agreement by development partners to improve aid effectiveness, the Paris Declaration, proposes a number of joint principles such as ownership and leadership by the partner

countries in developing and implementing national development strategies; alignment with partner countries' development strategies, institutions and procedures; harmonisation between development partners' actions and procedures and government systems, and increased coherence in policy making.

### 3.5.4 Sector Wide Approach to Planning (SWAp)

Recognising the need for better harmonisation and alignment based on an overview of the whole sector, governments in some of the countries have started to consider or implement a SWAp. This is a process in which funding for the sector, whether internal or from development partners, supports a single policy and development programme under government leadership, and adopts common approaches to management arrangements such as planning and budgeting procedures, procurement, disbursement and audit procedures, and performance monitoring across the sector. However, a SWAp should be seen as part of the sector reform process as a whole and not an end in itself.

A SWAp has been under implementation in Uganda since 2000, and has been introduced recently in Kenya and Tanzania.

In Tanzania the implementation of the SWAp in 2006 has clearly slowed down most of the other activities which were part of the comprehensive reform process. The SWAp has a strong focus on the basket financing mechanism and early indications are that part of the reforms, especially the decentralisation process, may be further delayed due to complex implementation mechanisms.

**SWAp should be seen as part of the sector reform process as a whole and not an end in itself.**



### 3.6 Time Frames

While there is little dispute on what steps need to be taken to develop a new framework in a sector, experience shows that the time required from the beginning of preparation work until the implementation of strategies and action plans is substantially completed is often longer than expected. As a result, when planning a reform process, realistic time frames need to be set and allowances need to be made for delays that may arise as a result of:

- Changes in Power: Reform often leads to shifts in the existing power balance resulting in political costs for decision makers as well as loss of responsibility or power in sector organisations, leading to time consuming resistance to change
- Institutional interests: Institutions have a tendency to seek to guarantee their existence and to increase their influence. Experience shows a continuous struggle between the ministries responsible for water and the ministries responsible for local government that have led to major delays in the reform process
- Political events: Political events outside the water sector, such as elections in Tanzania and the referendum on the proposed new constitution in Kenya, have delayed the reforms

- Complexity of issues: Delays also occur due to the complexity of the issues involved, which decision makers may have difficulty in understanding
- Capacity constraints: A significant level of analysis and studies is required to develop and implement best practice reforms, which was often hampered by managerial and other capacity constraints. Also, implementation of tools to support the reforms, such as information systems, tariff adjustment procedures, pilot projects for infrastructure, etc. require a minimum level of capacity to be developed in new institutions before these can become effective
- Stakeholder participation: The greater the degree of stakeholder participation in the reform process, the longer each step in the process takes

In all four countries delays to the original planning were common and the reform processes have taken at least ten years, and are still going on. In Uganda, Kenya, and Zambia, it took more than three years between the approval of the policy and/or strategy and enactment of the respective sector legislation. In Tanzania, preparation of the National Water Sector Development Strategy for Cabinet approval has taken three years.

**In all four countries delays to the original planning were common and the reform processes have taken at least ten years.**



## Reform Issues in Water Supply and Sanitation

### 4

#### 4.1 Socially Acceptable Commercialisation

##### 4.1.1 Commercialisation

Commercialisation is aimed at introducing some of the benefits associated with the private sector, such as efficiency and productivity, and for staff to assume a clearer responsibility for results. One pre-condition of commercialisation is the establishment of autonomous legal entities outside the government framework (corporatisation) with a clear separation of policy making at the local and national levels from service provision. In addition, effective commercialisation requires the introduction of new management processes in all areas of the business, financial and managerial autonomy, good governance and, most importantly, a change in attitude of employees and senior management.

The establishment of autonomous corporate entities in the water sector with the objective of providing better public services has been known in the region for a long time. However, in most of the countries experience with corporatisation in the 70s and 80s failed to deliver the expected results mainly due to significant political interference in the appointment of senior management and in the day to day running of the organisations.

In the late 80s and early 90s, the commercialisation of WSS services came on top of the early reform agenda of governments and development partners alike. There is no doubt that, in the four countries the commercialisation of water utilities in major and secondary towns cleared the way for deeper reforms and, in some cases, served as role models.

The commercialisation of a few water schemes in rural areas in Tanzania, such as the establishment of Kiliwater Company Ltd and the Water Trusts, or in medium sized towns such as Nyeri and Eldoret in Kenya, were later replicated in other rural schemes or towns. The main factors that have had a positive impact on the commercialisation process are:

- Commercial approach of Board: The appointment of a Board of Directors that includes a significant proportion of business people and customer representatives, and the appointment of Chairmen who were not representatives from government institutions but from the private sector
- Commercial management team: The appointment of commercially aware and motivated senior management, usually from outside the government system
- Performance contracts: The existence of performance contracts between a commercial entity and either the government or the regulator, as well as the introduction of performance management within the companies
- Staff incentives: The introduction of increased autonomy and incentives to operational staff achieve performance targets contributes to better motivation of staff and higher productivity
- Freeze on debt service: Not overloading a new organisation with historical debt provides flexibility in introducing performance improvements
- Threat of PSP: The threat to staff of introducing PSP proved to be a strong incentive for NWSC's management in Uganda to demonstrate better performance and led to the motivation of management to develop a local solution and promote local management capacity
- Comparative competition: Publishing information on performance of the different service providers to policy makers, and especially to the public, puts the management of the providers under considerable pressure to continuously improve performance

**In most of the countries experience with corporatisation in the 70s and 80s failed to deliver the expected results mainly due to political interference.**



However, experience has also shown that the following issues have had a negative impact:

- **Resistance to change:** Local government representatives would seek to prevent the loss of influence and revenue through commercialisation
- **Overstaffing:** Government departments were overstaffed and would seek to offload their staff, and their pension obligations, to the newly established utilities
- **Political interference:** Politicians would still seek to interfere in the day-to-day operations due to their strong positions, for example on the Board of Directors
- **Financial viability:** At the time of commercialisation the utilities often faced substantial debt burdens and tariff levels below operating costs
- **Productivity and staff motivation:** Staff had little incentive and limited responsibility for results, which resulted in poor performance, especially in cases where top management was seconded from Government institutions
- **Lack of pro-poor awareness:** Even in cases where the commercially oriented utility managed to improve performance significantly and achieve cost recovery, the extension of services to the settlements of the urban poor was neglected. One of the reasons is insufficient knowledge of how to reach the poor and how to manage adopted low-cost technologies

#### 4.1.2 Clustering of Water Schemes

Clustering refers to the syndication of water schemes under one service provider to enable realisation of synergies and economies of scale and thus improve prospects for commercial viability. Clustering is planned or being implemented in Uganda and

Tanzania, and has been implemented successfully in Kenya and Zambia.

Experience in the latter countries shows that while there are substantial benefits to be gained by clustering a number of water schemes, there are major challenges arising from the diverging interests of various stakeholders and the loss of influence of previous operators, often the respective local authorities. Clustering was implemented as the prime strategy for improving service delivery in Zambia and yielded very positive results in a relatively short period.

Successful clustering of schemes requires the identification of the appropriate service area, including viability studies, strong commitment, external facilitation and a carefully designed system for effective allocation of decision making power between different shareholders.

## 4.2 Private Sector Participation

### 4.2.1 International PSP

In the 90s, after the weaknesses of government ownership and management became evident, in looking for new solutions, decision makers in governments and the development partners turned to the involvement of the private sector. Over the last ten years, six contracts were made with international service providers in the four countries ranging from service contracts to lease contracts.

However, it is difficult to evaluate the benefits resulting from PSP in these countries as either required performance standards were not adequately defined,



or they were not met, or the performance was not significantly better than under local management. Also, the contracts were of relatively short duration or were terminated early. Given the high costs and limited success with international operators in the four countries, international PSP no longer features in the reform agendas and decision makers have turned instead to the local private sector.

#### 4.2.2 Crucial Aspects of International PSP Experience

While much has been written elsewhere about international PSP, the experiences in the four countries shows that there are some crucial aspects which need to be taken into account for successful involvement of the international private sector as part of reform processes.

- **Government commitment:** To a significant extent, PSP was introduced by development partners (principally the World Bank), often as a pre-condition of investment loans. Consequently, there was often little real commitment by governments to the PSP process, and little backing and even hostility from the public
- **High quality tender process:** Carefully designed tender documents and a transparent and competitive tendering process are pre-requisites of PSP contracts. Feasibility studies for PSP were sometimes carried out by subsidiaries of international service providers and, therefore, did not consider sufficiently the interests of governments or the public
- **Management of expectations:** The contract period must be sufficient for the service provider to carry out the required improvements and achieve the performance standards. Expectations of the government should also be realistic and achievable

- **Management skills:** The management skills and cultural sensitivity of expatriate personnel are the key to the success or the failure of the contract. Some contracts suffered from frequent changes of management staff and, in many cases, the expatriate staff did not have a specific relationship with the international service provider that won the bid as they were contracted from the international market specifically for the contract

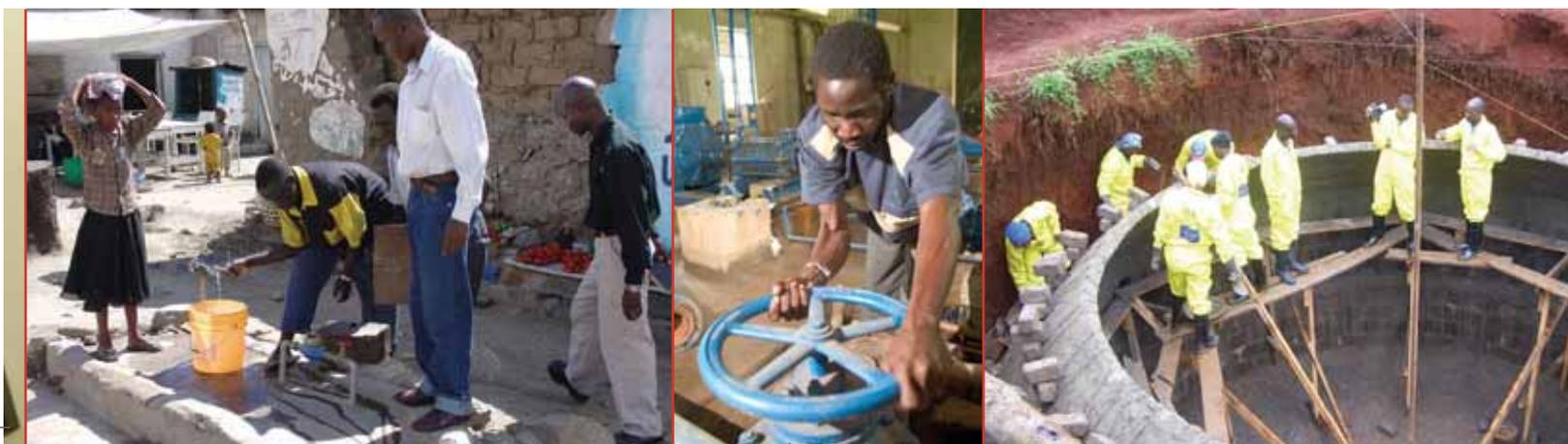
#### 4.2.3 Local PSP

Local private sector participation has the benefit of creating local employment opportunities and costing less in terms of transaction and management costs compared to international PSP. However, in many countries sufficient local capacity and entrepreneurship is not available.

There are many opponents in governments to the handing over of public assets to the private sector. It is difficult to ensure a clear separation of potential local competitors for operation of WSS infrastructure from officials in government institutions, especially at the local level, as long as there is insufficient firm control over the sector and its development.

In Kenya, local private sector participation was provided for in the early days of reforms in that the Water Act 2002 envisaged that private and public companies would compete for the appointment as WSPs by the regional WSBs. However, publicly owned and managed companies are still the preferred option of political decision makers and, consequently, private sector participation has not been encouraged.

**International PSP no longer features in the reform agendas and decision makers have turned instead to the local private sector.**



**The establishment of regulatory regimes and institutions is an important element of sector reforms.**

In Uganda local private sector participation has been actively encouraged in small towns. In 1995, under the Government's decentralisation policy the mandate for water services outside the NWSC area was handed back from the MWLE to the local authorities to provide the services through urban Water Authorities. These Authorities then can enter into management contracts with local private operators. Currently, fifteen individuals and companies are contracted as private operators. However, due to capacity constraints and political interference from local councillors, the MWLE continues to play an important role providing continuous technical, management and regulatory support.

### 4.3 Regulation

The main rationale for regulation in the water sector is the lack of competition arising from the natural monopoly and the need to protect the consumer against poor services and to provide "value for money". The establishment of regulatory regimes and institutions is an important element of sector reforms. Due to the specific characteristics of the WSS sector, some form of regulation is always required whether services are provided by a public or a private service provider. Regulatory institutions are commonly charged with the responsibility of:

- Protecting customers against high prices and services of inferior quality
- Ensuring the financial viability of the service provider
- Ensuring transparency and comparative competition in the sector

In a reform context, regulatory institutions also play an important role in providing guidance in the early reform stage by developing sector regulations and providing advice on the implementation of the legislative framework. The strategies or legislation in the four countries provide for the establishment of relatively autonomous regulators for water supply and sanitation. In three of the countries the

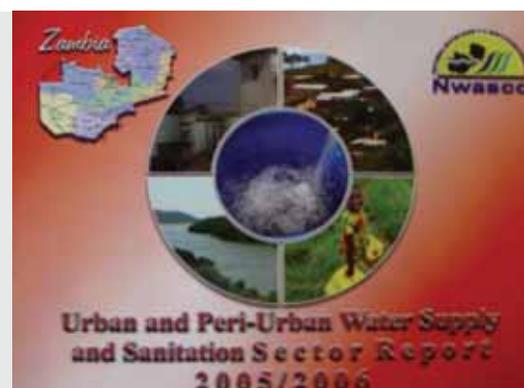
intention was to establish single sector regulators. However, in Tanzania, as part of a planned major divestiture of a range of public enterprises to the private sector, including water utilities, a multi-sector regulator has been introduced.

While the development of these institutions is at an early stage of implementation, only the regulator in Zambia is fully operational. The regulator in Kenya has started operating and has recently put in place the first key regulatory tools after some initial start up problems. In Tanzania, the water supply and sanitation function of the regulator is now being established but requires new sector legislation in order to be given its full powers. In Uganda, the idea of a separate regulatory authority has been postponed but is still under discussion.

While it is too early to assess the performance of the newly established regulators in Kenya and Tanzania, the regulator in Zambia has proved that regulation can have a very important impact on the development of the WSS sub-sector. The constant improvement of performance indicators of almost all CUs demonstrates that regulation of WSS can work in Africa. NWASCO has without doubt shaped the sub-sector in Zambia to a point where the benefits are sustainable for consumers and service providers and can, therefore, serve as a role model for other countries in the region.

Whether Governments opt for single or multi-sector regulation, the experience of setting up these regulatory bodies indicates that the major challenges are:

- Separating regulation from policy making and enabling the regulator to make decisions not influenced by short term political expediencies
- Establishing and supervising of effective corporate governance structures for regulation



- Ensuring a level of autonomy that will enable regulators to be self financing
- Recruiting personnel from the open market and building capacity for the development of an effective organisation with competent staff
- Establishing regulatory processes and tools
- Providing for consumer involvement.

### 4.3.1 Independence and Transparency

Effective regulation requires a certain level of independence from political decision makers, regulated companies and other lobby groups. At the same time, however, this independence should be matched with accountability to limit the regulators' leeway for opportunism.

In addition, regulatory processes need to be transparent in order for customers and water utilities to evaluate the regulator's performance and to hold the regulator accountable. This means that all rules and agreements need to be public and be accessible to all market participants. Finally, the regulator's decisions need to be predictable and consistent.

### 4.3.2 Corporate Governance Structures for Regulation

The regulatory agencies in Kenya, Tanzania and Zambia have been set up as parastatal companies rather than government agencies. The typical corporate governance structure for parastatal companies separates the legal responsibility between an executive management board and a non-executive supervisory board representing the interests of key ministries and stakeholders.

The board members are political appointees and, as such, may be removed at the discretion of the Minister. Another characteristic of the corporate governance structure is the large number of board

members, 11 in Kenya, seven in Tanzania and 7 in Zambia. One common feature of setting up the regulators has been the issue of independence of the Minister to whom the regulator reports from the Minister to whom the service providers report so as to avoid conflicts of interest.

In both Zambia and Tanzania, delays in the establishment of the regulator occurred as a result of the Minister responsible for WSS services also trying to gain responsibility for the regulator. In Zambia, after considerable discussion, the Government finally decided that NWASCO should report through the Ministry of Energy and Water Development, while WSS services were under the Ministry of Housing and Local Government.

The multi-sector regulator in Tanzania was placed under the Minister for Water, who also has current responsibility for supervision of the urban water utilities. In Kenya there was no debate and all institutions in the water sector are accountable to the Minister for Water and Irrigation.

### 4.3.3 Funding

For the regulatory body to operate effectively and independently, it requires a secure and adequate source of funding. Identifying the financial requirements is particularly important in the start up phase to ensure that the government budget provides for adequate funds for the new institution.

The start up costs of both the regulators in Zambia and Kenya were met to a certain extent by development partners (principally GTZ). The start up costs in Zambia were approximately EUR 390.000. The World Bank has been supporting the establishment of the multi-sector regulator in Tanzania.



[www.nwasco.org.zm](http://www.nwasco.org.zm)



[www.wasreb.org](http://www.wasreb.org)



[www.ewura.com](http://www.ewura.com)

**Further information on regulation and the ways in which agencies are established can be found in the GTZ brochure "Sharing the Experience on Regulation in the Water Sector" - Kenya, Uganda and Zambia.**

In Zambia, NWASCO now covers over 85 per cent of its operational costs (equivalent to around EUR 250,00 per annum) mainly from a regulatory levy. A levy has also been introduced in Kenya. The levies in both cases are between 1% and 2% of the water bills. This appears to be an acceptable level as the positive impact of the regulator on the sector in Zambia by far exceeds its costs. The regulatory levy in Tanzania is currently 1% for the water sector.

#### **4.3.4 Effective Organisation with Competent Staff**

The task of developing and implementing an effective regulatory regime for the entire sector lies on very few professional staff as well as the members of the supervisory board. In Zambia there are 15 staff (8 professionals) and in Kenya, so far 18 staff have been recruited with 9 professionals. The regulator in Tanzania covers four sectors with approximately 80 staff of which 3 are water sector professionals in the head office, receiving support from the multi-sectoral legal and economics sections and 5 engineers which are currently being recruited for the establishment of zonal offices.

The small number of staff makes selection and terms and condition of employment very important. The regulators in Zambia and Tanzania have recruited their staff from the labour market and staff are remunerated with market salaries while, in Kenya, staff were partly appointed from the MWI and partly recruited from the labour market. However, high priority has been given to technical functions and, as a result, the regulator still lacks staff with financial and economic skills.

Experience has shown that the scarcity of regulatory skills, i.e. a good understanding of the sector paired with strong economic and financial skills, can be one of the main impediments to effective regulation.

#### **4.3.5 Effective Regulatory Processes**

In addition to competent staff the implementation of effective regulation requires the development of appropriate tools including:

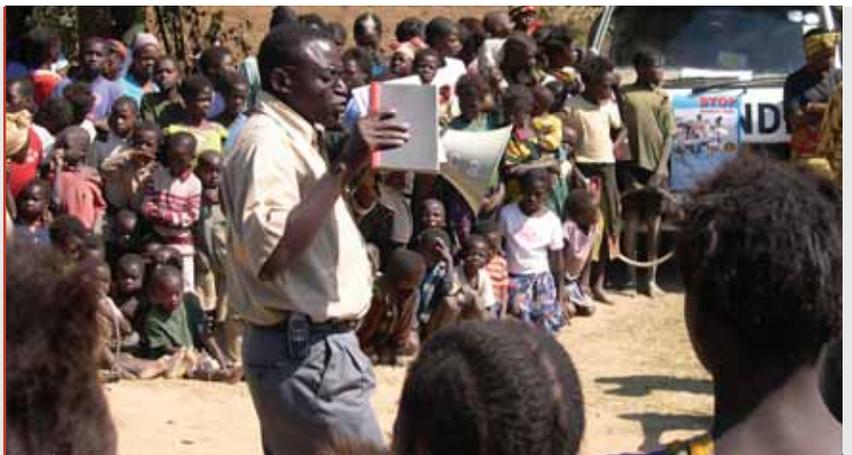
- Standards
- Guidelines
- Information systems
- Comparative reporting
- Tariff adjustment procedures

The development and implementation of these tools takes several years. Experience has shown that, while input through short-term consultancies might be appropriate at certain stages, the development of regulatory tools such as guidelines, reporting formats and procedures as well as the analysis of data should not be outsourced. Their development within the organisation is a major learning experience for the related staff and essential to ensure understanding and effective implementation.

#### **4.3.6 Consumer Participation**

With the regulators' role of protecting consumers against high prices and inferior service delivery, consumer participation in the regulatory process is very important.

In Zambia this participation has been secured through the establishment of Water Watch Groups. This concept of having volunteers representing the consumers in the exchange with the service providers as a sub-structure of the regulator is very successful. Not only do service providers have to pay much more attention to consumer orientation and give it a higher priority than in the past, but also the regulator can receive feedback from consumers on the effectiveness of the regulatory process and enhance consumers' confidence in the benefits of the reforms



Under the provisions of the EWURA Act in Tanzania, a Consumer Consultative Council is to be created. This Council consists of seven members to represent the interests of low income, rural and disadvantaged persons, industrial and business users, and government and community organisations. These members are appointed by the Minister responsible for EWURA after an open nomination process. However, the extent to which this mechanism can ensure adequate representation of consumers' interests at the local level is not yet clear.

#### 4.4 Community Participation

While the water policies in each country introduce the principles of community participation and, in the case of Tanzania, community ownership of rural water schemes, in general implementation of the reforms in respect of communities has been a "top-down" approach by the lead ministry.

However, community mobilisation and participation has been carried out as part of specific project interventions by bi-lateral development partners and NGO's, often in an uncoordinated manner as a result of the limited coordination and dissemination of policies and strategies by the lead ministry.

This experience shows the importance of:

- Establishing mechanisms to work at the community level as part of the reform process;
- Dissemination of information on community responsibilities to the community level, often through the local government structures and community leaders; and
- Coordination of development partner and NGO activities within the reform implementation frameworks.

#### 4.5 Human Resources

Prior to the implementation of reforms, the sub-sectors in each country had suffered from overstaffing and a lack of qualified personnel. While the labour reform needs were substantial, experience showed that the human resources aspects were often neglected as a result of concentration on technical issues.

Therefore, labour issues tended to be dealt with late in the process after strong external pressure from staff, media and labour unions. However, failure to address staffing issues may lead to resistance to implementing reform measures or will delay the improvement of performance indicators of new and restructured institutions.

Experience in the four countries shows that performance oriented management is crucial and performance can be improved significantly even when the majority of the personnel are from government institutions. Thus, it is important to pay attention to managerial staff and ensure recruitment in a competitive process from the open labour market. The key is for managers to:

- Be committed to performance management
- To be able to keep politicians and the Board away from the day to day operations
- Work towards the right sizing of the work force without provoking unnecessary social unrest

### 4.5.1 Recruitment and Career Development

In a reform process, with new institutions being established and existing ones being given new responsibilities, new positions become vacant. In addition to senior management, there is often an increased need for qualified staff in operational supervision, finance, economics, IT and engineering. The way in which these positions are identified, planned and filled is a test for the reform commitment of governments as the skills and expertise of staff recruited determine the future performance of these institutions.

**Most institutions in the water sector in the four countries have been struggling with excessive numbers of staff.**

Experience in the four countries shows that, in many cases, senior management positions are filled with insiders rather than being competitively and transparently recruited from the government service or the open market. As a result, the appointed staff often lacked financial and management skills as well as experience from the private sector to run commercially oriented organisations. Reform processes providing for commercialisation of service delivery and opportunities for the participation of the private sector can attract professionals from other sectors. This has been experienced especially in Zambia, Uganda and Kenya. The reforms can make use of this emerging potential in the water sector, especially for senior and middle management positions.

A further problem with staff appointments is the historical government approach of seniority in making promotions. This has severely limited the career prospects of younger professionals. Wherever possible the reforms should facilitate the principle of

competence over seniority, as has been demonstrated in Uganda. In Zambia the new institutions received the right of autonomy not only to recruit their management staff from the labour market but also to introduce their own salary and career schemes. This has helped to attract a large number of good professionals, but has also led to abuses in respect of salaries paid to management. Thus, it was crucial that the Boards of the CUs exercised their role of control and that the regulator monitored the increase of costs of the providers and went public in cases of misuse.

### 4.5.2 Labour Restructuring Programmes

Most institutions in the water sector in the four countries have been struggling with excessive numbers of staff. In the reform context, the issue of how to deal with excessive staff numbers must be addressed early as transferring these staff to successor organisations irrespective of actual requirements can place a severe strain on the commercial viability of these organisations before they even start operations. However, it has been shown that solving such problems quickly is not likely to happen. The solution is a combined effort by:

- Government institutions through retrieving seconded personnel and paying a redundancy package for personnel released
- Providers through introducing adequate personnel planning
- The development partners supporting restructuring or the set-up of new institutions



### 4.5.3 Retraining and Reorientation

The poor performance of the water sector in the countries has been partially due to the lack of appropriately qualified and motivated staff. As a result, reform managers were challenged to develop capacity building support that is demand responsive, tailor-made and still cost-effective after the withdrawal of development partners' support.

A review of capacity building activities in the four countries shows that most have carried out comprehensive training needs assessments for sector staff and key institutions. In addition, training institutes that are, in most cases, attached to the Ministry responsible for water have received significant support from development partners. However, experience shows that these initiatives have been of limited success.

In addition, training measures and their content have tended to be designed on the drawing board or just duplicated from other situations without matching the need of the institutions concerned. Procedures and management tools are different in each sector institution and, therefore, the training content must be tailored specifically to each need. Training also is often perceived as being a theoretical classroom based exercise, whereas learning by doing has proved to be the more effective approach.

In spite of the poor results of training needs assessments and the centralised top down training measures carried out, many institutions have managed to show significant improvement in performance levels. This indicates that while training is important, the systematic introduction of management methods and tools such as performance assessment and remuneration, personnel planning, budget planning, is essential. Successful institutions have usually started an in-house training programme to accompany the implementation of new management methods and tools, with some of their own personnel being trained and employed as part time trainers next to their functions in the institution.

Contributing factors to the disappointing performance of capacity building initiatives include the lack of ownership, lack of financial resources, poor targeting of the needs of the supported institutions and, sometimes, central governments' reluctance to give up control over centrally managed capacity building programmes.



4

**4.6 Information Management**

The flow and management of information is crucial for the successful implementation of reforms and the effectiveness of sector institutions and should be started early in the reform process. Sustainability is the main problem of information systems, as experience in the past is proving. Therefore, it is crucial to identify the institution that will establish and maintain the sub-sector information systems. The newly created autonomous institutions appear to be better positioned to ensure sustainability than existing government bodies. Therefore, government bodies should play a supervising rather than implementing role in data collection, processing and reporting.

**The flow and management of information is crucial for the successful implementation of reforms.**

Sector information systems are needed for the following purposes:

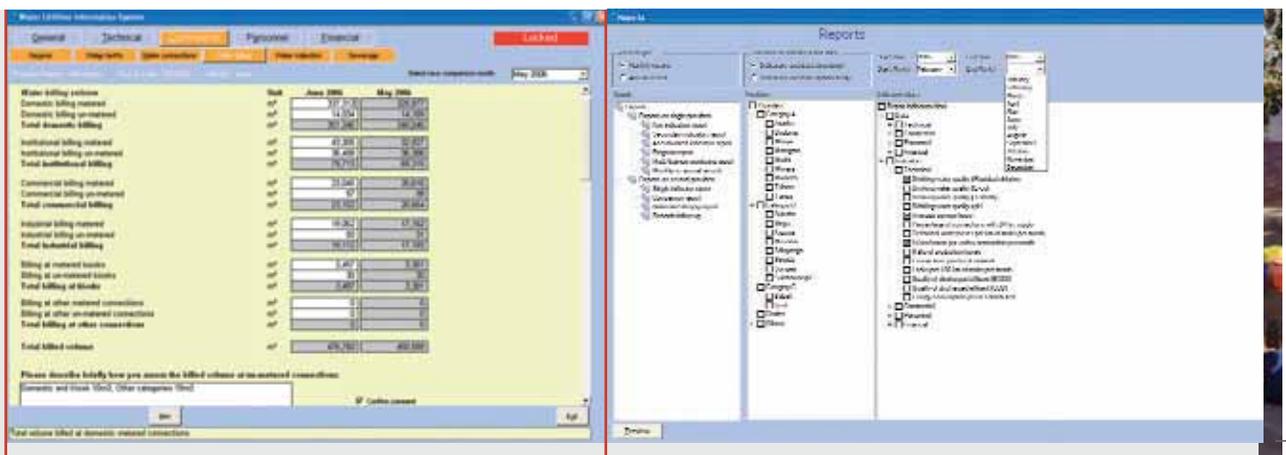
- **Planning:** Investment planning, implementation strategies, performance improvements and business planning
- **Public information and transparency:** Improvement of transparency and accountability of institutions and the status of the sector
- **Performance setting and monitoring, and comparative competition:** Establishing baseline information for performance setting and monitoring achieved results, as well as comparative competition of various service providers
- **Tariff setting and adjustments:** Calculating the existing and future levels of cost recovery
- **Policy making:** Including the need for policy adjustments, allocation of investment funding and subsidies, and coordination of technical and financial assistance
- **Corporate management:** Operational and capital expenditures, operational and financial performance, including efficiency gains

Experience in the four countries shows that the collection, analysis and management of data can be resolved within sector reforms, but remains a major challenge. Firstly, in most countries limited information was available at the start of the reforms. Secondly, there was also limited experience of what information needed to be collected and how information needs should be prioritised.

Furthermore, the information systems that did exist were usually manually processed and not appropriate for the management of complex data. While this issue was usually addressed with support for development partners, sometimes with duplication of effort as in the case of Tanzania, the remaining major challenge consisted of shortage of staff with appropriate data management and analysis skills, and inadequacies in the computer literacy of senior management in water sector institutions. Finally, poor follow up mechanisms for updating information also contributed to limiting the value of comprehensive data collection exercises.

While most countries have recognised the challenges and have started to develop management information systems, relevant data should be collected in the early stages of the process to ensure the right focus by:

- **Developing data collection, analysis, updating and dissemination mechanisms**
- **Conducting baseline studies**
- **Avoiding duplication of unsustainable database development**



In Zambia, through the use of this approach, the regulator has managed to maintain and constantly improve the sub-sector information system and has issued an annual sub-sector report for the past five years. In Tanzania, the regulator is using an information system providing up-to-date information on technical, commercial and financial operation e.g. in the process of tariff negotiations and licensing.

#### 4.7 Pro-poor Orientation

Recognising, that poor and marginalised people suffer most from insufficient water, access to water should be affordable and indiscriminate regarding income and wealth, sex, or other personal characteristics. In some countries, reforms have contributed to developing appropriate policies and measures to ensure that vulnerable groups receive adequate access to services. However, ensuring that vulnerable groups are not excluded from affordable access to water remains a major challenge which cuts across several reform areas. It has been shown that commercialisation and PSP do not automatically increase coverage for the poor and, therefore, the approaches to ensuring adequate attention is given to the poor should be addressed early in the reform process and not added as an after-thought.

Experience on the four countries has shown that the urban poor are often treated as “guinea pigs” with repeated piloting of new ideas. The aim should be to introduce sustainable and largely standardised approaches based on tried and tested solutions. Experience has also shown that the needs of the urban poor are best satisfied if these are part of the responsibility of the service provider as operating under regulation can offer a better price and a better water quality to the poor than those of informal providers. With comprehensive reforms the service providers have a much higher potential to cover the settlements of the poor than in the past and this should be used to the benefit of the poor.

Therefore, particular attention should be paid to:

- Policy, strategies and legislation: Ensuring that principles of affordability and service provision, including services to the poor, are included in policies, strategies and legislation to build a solid basis for interventions
- Regulatory framework: Developing rules and processes that ensure the inclusion of marginalised groups in the areas of commercial service providers and allowing for participation in decision making, having access to services, and ensuring the affordability of services through adequate pricing policies
- Pro-poor financing instruments: Establishing new financing mechanisms concentrating on low cost technology for the poor. Such instruments have been established in Zambia and Kenya and are proving to be making an important contribution to reach the Millennium Development Goals

**Ensuring that vulnerable groups are not excluded from affordable access to water remains a major challenge which cuts across several reform areas.**



## 5 Lessons Learned

The experiences examined in the four case study countries clearly demonstrate that the reform process is unique to the specific institutional, historical, socio-economic and other conditions prevailing in each country, as well as the existence of individuals who champion a reform process, or strong interest groups who try to prevent change. As a result, it is not possible to develop overall guidelines that would precisely match the reform needs in other countries. However, a number of lessons learned can be drawn from the experiences that may help other countries to design and implement sector reforms.

### 5.1 Reform History and Timing

- Set realistic timeframes: A period of at least ten years will be necessary from the development of a policy until new and restructured institutions function smoothly according to their mandate.

### 5.2 Policy and Strategy Development

- Winners and losers: Reforms often result in high political costs. It is essential reform proposals are presented in a way that allows senior government officials to minimise the political cost, maximise the political benefits and to communicate both effectively to the right stakeholders
- Speed up external approval process: Pro-reform lobbying and awareness rising in government departments outside the water sector at an early stage will pay back later, when cross-sectoral decisions are to be taken and formal approval is required
- Phasing: The sequencing of reform tasks should be planned so as not to overload available resources. For example, after developing the overall sector policies it may be preferable to start with one sub-sector before moving to the implementation of other sub-sectors

- Active involvement of stakeholders: Identify and involve major stakeholders from the beginning of the reforms when agreeing the policy principles and the overall sector framework to ensure sense of ownership and support of decisions

### 5.3 Reform Management Set-up

- Set-up professional reform management bodies: Establishment of a reform management body to steer the process, with an adequate level of human resource and financial capacity, is critical for a successful reform
- Inter ministerial coordination: Coordination with other ministries is essential and an effective co-ordination mechanism must be established and used
- Importance of individual champions: The impact of formal reform management structures is enhanced by individual reform champions taking the process forward

### 5.4 Reform Communication

- Effective communication: Effective communication with all stakeholders, including the public, is an essential part of the reform process

### 5.5 Role of Development Partners

- Development partner's influence: While development partners may play an important role in initiating and supporting the reform process, a reform can only be successful if led by the Government itself
- Coordination: An effective mechanism for coordination between development partners, and between development partners and the government must be in place

## 5.6 Establishing Effective Regulatory Institutions

- **Timing of establishment:** Regulatory institutions can play a strong role in guiding the sector. Therefore, it is desirable for regulatory institutions to be set up and operational as early as possible, ideally prior to restructuring of other institutions, the establishment of new institutions, and/or the contracting of a private operator
- **Include timely provision in sector budget:** Initial expenses for the establishment of new institutions should be provided in the sector budget
- **Ensure adequate and autonomous predictable source of funding:** Subsidy funding for the operations of new institutions should be free from short term political interference. Full financial autonomy should be aimed at being achieved within the first five years of operation
- **Staff selection and retention:** The recruitment and retaining of competent staff with the required skills, in particular in economics and finance, may be decisive for the performance of the entire sector
- **Ministerial independence:** The ministerial responsibilities for the regulator and for the organisations responsible for the provision of WSS services should be separated

## 5.7 Commercialisation and Clustering

- **Culture change:** Successful commercialisation requires a culture change amongst staff by training, the introduction of performance related incentives and/or retrenchment and recruitment of new staff
- **Ensure win-win situation:** Resistance to change can only be overcome by trying to create a win-win situation for all parties involved

- **External facilitation:** External facilitation such as technical assistance and funding for investments is essential to the successful commercialisation and clustering of public utilities
- **Decision making structure:** Clustering of schemes requires a carefully designed system for effective allocation of decision making power between different stakeholders and between the board and the executive management so as to avoid internal conflicts

## 5.8 Private Sector Involvement

- **Government commitment:** Commitment, attitude and the understanding of the government towards the private sector are crucial to the success of PSP
- **Ensure high quality competitive tender process:** PSP should be introduced through a transparent competitive tendering process
- **Focus on individuals:** More attention should be given to the experience, management and cultural skills of individuals proposed by a private operator
- **Manage expectations:** The performance of the private sector depends on various factors including the scope of tasks defined in the contract, the level of autonomy granted as well as the capacity of individuals. Governments need to be encouraged to develop realistic targets and expectations
- **Design of contract documents:** The importance of carefully designed contracts should not be underestimated. Governments should make use of international expertise combined with a transfer of know-how to local sector staff

## 5

**5.9 Community Participation**

- Working at community levels: Mechanisms to work at the community level should be established as part of the reform process
- Dissemination of roles and responsibilities: Roles and responsibilities of communities should be disseminated through the local government structures and community leaders
- Coordination of interventions: Activities of development partners and NGOs at the community level should be an integral part of the reform implementation frameworks

**5.10 Addressing the Staffing Challenge**

- Anticipate early: Plan for how to deal with excess or inadequately performing staff early in the process and develop alternative opportunities for employment
- Secondment: Seconded personnel is often the reason for uncertainty among staff in the new institutions and an important obstacle to the implementation of staff development. Consequently, secondment of personnel shall only take place within a limited transitional phase
- Competence based recruitment process: Recruitment processes should be carried out in a transparent manner in order to recruit best qualified staff
- Capacity building: Develop a demand responsive and efficient training approach for the sector and consider possibilities of pooling activities of development partners
- Right sizing of institutions: Redeployment of personnel during reforms leads often to overstaffing of new institutions. This is seriously hampering progress towards performance improvements. Carefully designed staff plans linked closely to financing options are crucial for sustainability and effectiveness of reforms

**5.11 Information Management**

- Start early: Key reform elements depend on the availability of data and the existence of an effective information management system and this should be established early in the process
- Follow up mechanism: A requirement for updating existing data needs to be in-built into the regulatory framework

**5.12 Resources Management**

- Involvement of local stakeholders: Effective resources management on the local level requires the involvement of stakeholders. Crucial factors are the establishment of formal forums for consultation and the involvement of community leaders
- Participatory decision making: Participatory decision making contributes to the acceptance and sustainability of the reforms within the community
- Success of cooperative approaches: Cooperative and informal conflict resolution approaches have been successful in the initial reform stages

**5.13 Pro-poor Approaches**

- Ensure pro-poor mandate: Ensure that all relevant institutions have a mandate and the financial and human resource capacity to represent the interests of the poor. Incentives may need to be provided to commercial service providers
- Set relevant targets: Pro-poor targets and the obligation to listen to consumers and encourage their participation need to be part of the sector frameworks, and part of performance and management contracts

## Example of a Pro-Poor Financing Instrument- the Devolution Trust Fund, Zambia

In Zambia, more than 2 million people living in peri-urban and low-cost areas presently do not have access to safe water supply and proper sanitation due to lack of investments and poor management in the past. In order to address this situation, the regulator, NWASCO, established the Devolution Trust Fund (DTF) under the Water Supply and Sanitation Act as an innovative funding instrument for improving WSS service provision to the urban poor.

Subsequently, DTF management - consisting of a Manager and three other full time professional staff - was separated from NWASCO's management and now operates independently. The lean structure makes it possible to maximise the amount of investments going directly to the beneficiaries. The DTF maintains its own accounts and undergoes a separate annual audit. Investment decisions are taken by the DTF Committee ('Board').

The main objective of the DTF is to assist Commercial Utilities (CUs) to extend their water supply and sanitation services to the low-income population in the peri-urban and low-cost areas of their responsibility. The DTF supports the implementation of appropriate low cost technology.

For example, the concept of water kiosks that has been modified to the local requirements has proven to be sustainable for over ten years. Apart from physical investment, the DTF also supports the implementation of sustainable kiosk management systems. The pilot projects have demonstrated that the operation of the water kiosks is not a financial burden to the CUs.

During its preliminary phase of operation up to August 2006, the DTF was able to finance water kiosks which serve more than 120.000 people at

a total cost of EUR 643.455. After this preliminary phase, the DTF has now embarked on a programme to scale up financing to all the CUs. The DTF's first Call for Proposals, launched early in 2006, attracted all the nine CUs to submit a total of 22 project proposals.

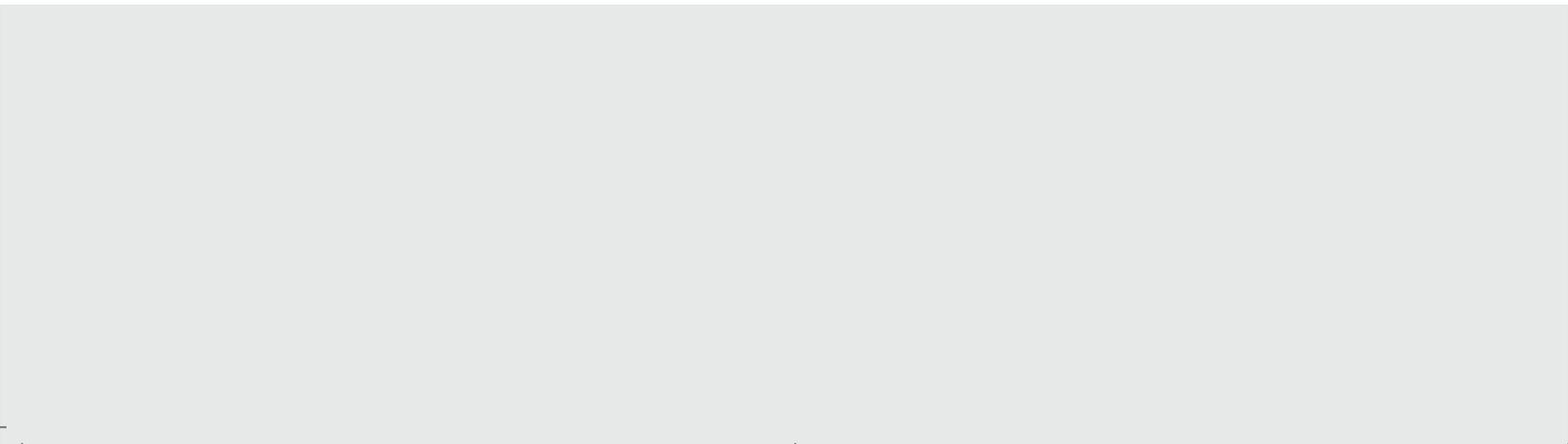
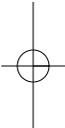
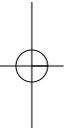
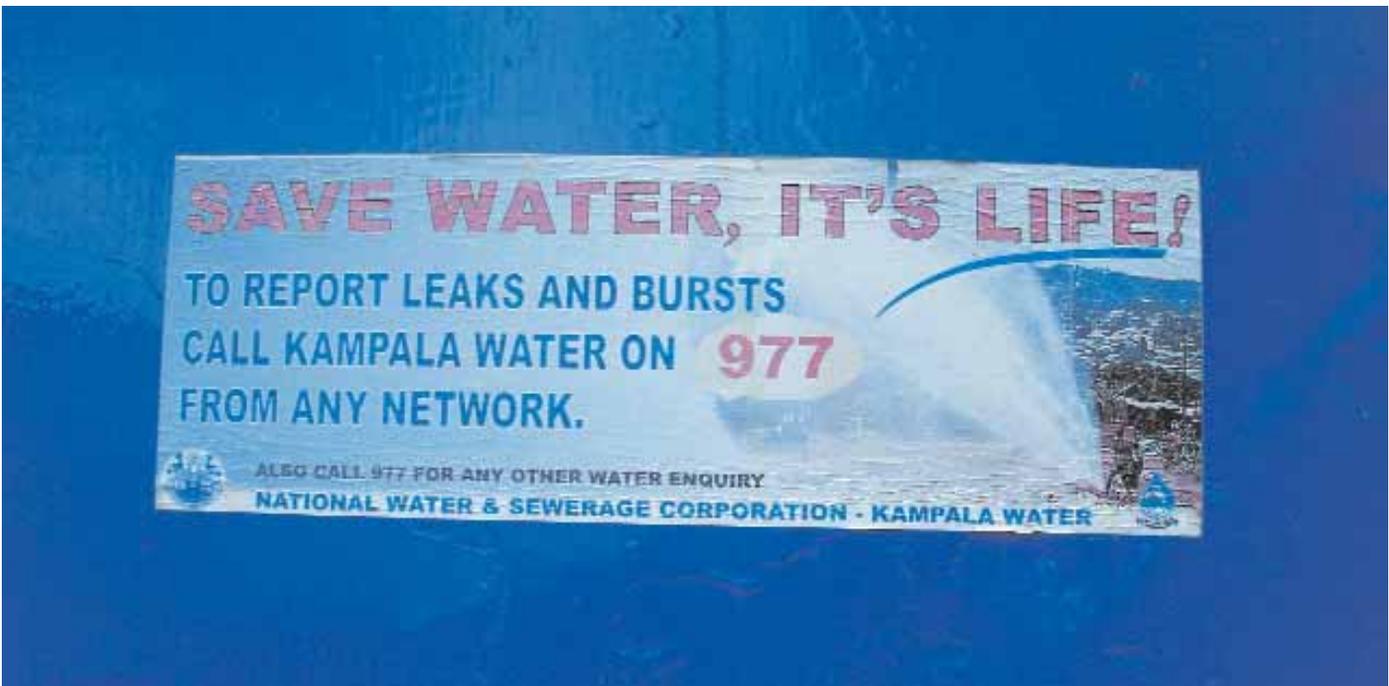
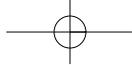
Since October 2006, nine of these proposals involving the construction of 69 water kiosks have been approved for funding and are now under implementation. The nine projects cost US \$ 945.000 and benefit approximately 135.000 people. The low investment cost of US \$ 7 per beneficiary demonstrates the cost-effectiveness of the concept.

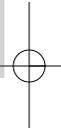
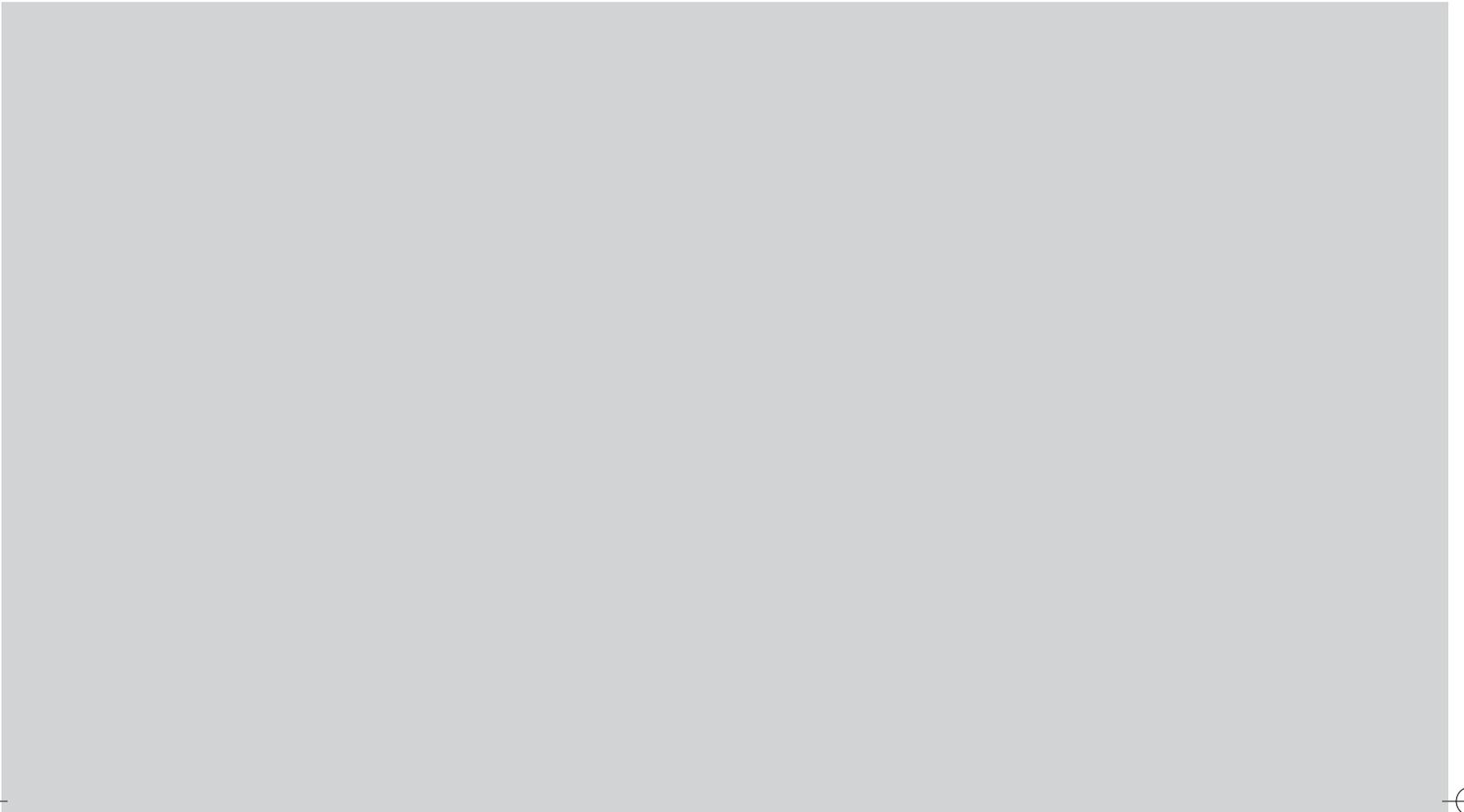
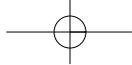
The DTF is designed to handle two (2007) - three (2010) Calls for Proposals per annum with an investment volume of 2 to 3 million US \$/year. Funding worth US \$ 13.3 million has already been secured from KfW (4.4), Danida (2.3), the EU (6.0) and the government of Zambia (0.6).

Provided the DTF continues to secure the current annual funding levels, almost the entire urban population of Zambia can have basic access to safe water by 2015. The design of pilot low-cost schemes for sanitation is in progress, and the DTF is eventually addressing both the access of the urban poor to safe water as well as to basic sanitation

The advantage of such financing baskets is that national standards can be enforced for not only the technical lay out but also for the management of infrastructure. This puts an end to the multiple approaches of donor or NGO driven projects and their inability to take into consideration the lessons learned through other measures. It also follows the recommendation of the Paris Declarations and puts the national institutions into the driving seat (for more information on the DTF see [www.nwasco.org.zm/dtf/](http://www.nwasco.org.zm/dtf/)).







Support to the Water Sector Reform in Tanzania

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