



REPORT

Framework Conditions for Private Service
Delivery in Faecal Sludge Management in
Kampala

KAMPALA CAPITAL CITY AUTHORITY
PUBLIC HEALTH AND ENVIRONMENT DIRECTORATE

REPORT

FRAMEWORK CONDITIONS FOR PRIVATE SERVICE DELIVERY IN FAECAL SLUDGE MANAGEMENT IN KAMPALA

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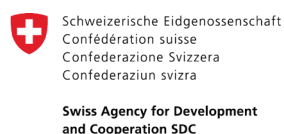


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ABBREVIATIONS

a.o.	among others
CAPEX	Capital Expenditure
CSO	Civil Society Organisation
DP	Development Partners
FS	Faecal Sludge
FS C&T	Sludge Collection and Transport
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoU	Government of Uganda
KCCA	Kampala Capital City Authority
KfW	Kreditanstalt für Wiederaufbau
MoES	Ministry of Education and Sports
MoH	Ministry of Health
MWE	Ministry of Water and Environment
NEMA	National Environment Management Authority
NGO	Non Governmental Organisation
NWSC	National Water and Sewerage Corporation
O&M	Operation and Maintenance
OHS	Occupational Health and Safety
OPEX	Operating Expenditure
PEAU	Private Emptiers Association of Uganda
PPE	Personal Protective Equipment
PPP	Public Private Partnership
PSP	Private Sector Participation
RUWASS	Reform of Urban Water and Sanitation Sector
SDC	Swiss Development Cooperation
SLA	Service Level Agreement
SWOT	Strengths, Weaknesses, Opportunities, Threats
ToR	Terms of Reference
VAT	Value Added Tax

Introduction

CONTEXT OF THE ASSIGNMENT

Sanitation issues are some of the most significant development challenges for Kampala City, Uganda. Like many other capital cities in developing countries, Kampala is experiencing rapid population and economic growth. However, provision of key services including adequate sanitation for the city population has not been in tandem with these developments.

In Uganda, piped sanitation systems are available only to a very limited extent of the urban population. In Kampala, about 90% of the people rely on on-site sanitation solutions¹, a greater proportion of which cannot be considered “improved” or “acceptable” in most cases: too many households share one toilet, leading to unhygienic conditions; pit-latrines are unlined, filled with solid wastes, and hard to access for emptying services, ultimately leading to filled-up facilities that are either abandoned or directly emptied into the environment, posing health and environmental risks for the city and its people. High population growth rates and increasing urbanisation add to the fact that especially in poor urban areas and informal settlements, access to sanitation is inadequate and collection, transport as well as treatment of faecal sludge remain a great challenge.

It is estimated that 900 m³ of faecal sludge are generated in Kampala every day, whereas only 390 m³ are collected, representing a collection rate of 43%². There are several reasons for this, including the following:

- » The faecal sludge collection and transport (FS C&T) service providers currently operate in an environment that is informal and unregulated. This results in high price variations and unsatisfactory service delivery standards (response time, quality and completeness of service, appropriate discharging and treatment). As a further consequence of high prices the services are often not affordable for large parts of the urban poor, harming their access and thus equity.
- » Around 80% of Kampala’s population relies on pit latrines, out of which most are not lined, making it hard for vacuum tankers to empty them. In many cases manual emptying is being practised, exposing workers and households to high health risks.
- » Access to the toilets for FS C&T vehicles is a challenge in unplanned and congested areas and often not possible.
- » Weak legal and institutional framework regarding e.g. the regulation of FS C&Ts or infrastructural planning and provision of sufficient sanitary services.
- » Only one treatment plant in the city is designed for faecal sludge management, which reached full capacity within the first month of operation.

It is estimated that 900m³ of faecal sludge are generated in Kampala every day, whereas only 390m³ are collected.

¹ Source: Government of Uganda and KCCA supported by Bill & Melinda Gates Foundation and DFID (2014): Analytical Report – Improving Faecal Sludge Management (FSM) for On-Site Sanitation in Kampala City, Uganda.

² Source: Government of Uganda and KCCA supported by Bill & Melinda Gates Foundation and DFID (2014): Analytical Report – Improving Faecal Sludge Management (FSM) for On-Site Sanitation in Kampala City, Uganda.

Faecal sludge is only one waste stream that requires management/oversight through public institutions. Other waste streams usually refer to solid waste. The management of the latter similarly faced several challenges in the past, especially due to its informal and unregulated nature. However, the Kampala Capital City Authority (KCCA), the governing body of Kampala City, managed to tackle a considerable number of those issues; KCCA successfully divided the city into municipal solid waste collection zones and contracted private companies for the management through an open bidding process using a PPP model. Some of the lessons learned and experiences gained from this process can provide useful guidance also for FSM.

KCCA recognizes the importance of water and sanitation to human health and well-being and their role as an engine for sustainable development for the population of Kampala. To ensure proper faecal sludge and waste management in Kampala, KCCA has an intermediary function for the coordination of sanitation planning and the harmonisation with urban development planning.

The Reform of the Urban Water and Sanitation Sector (RUWASS) programme implemented by GIZ supports KCCA and other key stakeholders in improving the sanitation sector of Kampala. In the current programme phase (2014 – 2017) GIZ has a strong focus on supporting private sector engagement in the urban sanitation sector while at the same time strengthening the regulatory framework and governing institutions such as KCCA. These interventions towards improved sanitation in Kampala also draw on the results of the Resource Recovery & Safe Reuse (RRR) Project Phase I, funded by the Swiss Development Cooperation (SDC) between 2011 and 2014. Phase II of the RRR Project is based on a co-funding agreement between SDC and the German Government (German Development Cooperation, GDC), and is being implemented by GIZ RUWASS and KCCA between 2015 and 2017.

KCCA seeks to strengthen the legal and institutional framework for sanitation management.

In this context KCCA, with the support of RUWASS, seeks to strengthen the legal and institutional framework for sanitation management including private sector engagement in faecal sludge collection and transport (FS C&T) in the city, considering that

- » PPP models in municipal service provisions can bring efficiency gains through competition and private investment.
- » Due to the above described conditions, FSM is a priority sector in the provision of municipal services.
- » For any successful involvement of the private sector a stringent and conducive legal framework as well as a rigorous monitoring and supervision system must be in place.
- » At the same time services offered by the private sector must be available and affordable for all customers, including the urban poor.

In this context this report proposes a possible future FSM framework, addressing the following key aspects for private sector participation in FSM:

- » **Legal and Institutional Framework**
- » **Existing Market Situation**
- » **Options and Key Features for Private Sector Engagement**
- » **Recommendations for Further Interventions**

Carrying Out of the Assignment

The present report is based on a field mission to Uganda, which took place between 11.10.2015 and 17.10.2015. During this field mission consultations with all major stakeholders were held based on a previous desk study as well as an analysis of existing literature.

TABLE 1 MEETINGS DURING FIELD MISSION

#	Name	Title	Organisation	Date	Location
1	Ms. Janka Rokob	Project Manager RRR Project Phase II	GIZ RUWASS	12.10.2015	GIZ RUWASS, Kampala
2	Dr. Najib Lukooya Bateganya Mr. Jude Byansi Zziwa	Manager, Environment Supervisor Water & Sanitation	KCCA, PHED	12.10.2015	KCCA City Hall, Kampala
3	Mrs. Sherina Munyana Mr Robert Makune	CEO Commercial Manager	Sanitation Solutions Group	13.10.2015	SSG Offices, Kampala
4	Mr. Ali Hullage	Senior Lecturer	Meeting at School of Public Health	13.10.2015	Makerere University, Kampala
5	Mr. Jafari Matovu	General Secretary	Private Emptiers Association (PEAU)	13.10.2015	Consultant's office, Kampala
6	Mrs. Cate Nimanya	Country Manager	Water for People (WfP)	13.10.2015	WfP Office, Kampala
7	Mr. James Maiteki	Sewerage Services Manager	NWSC	14.10.2015	Lubigi WWTP
8	Mrs. Jennifer Kutesakwe	Analyst/ Senior Inspector	NEMA	15.10.2015	NEMA premises, Kampala
9	Mr. Jude Byansi Zziwa	Supervisor Water & Sanitation	KCCA	15.10.2015	KCCA, Kampala
10	Ms. Janka Rokob Mr. Jude Byansi Zziwa	Project Manager, RRR Project Phase II Supervisor- Water & Sanitation	GIZ RUWASS KCCA	16.10.2015	GIZ RUWASS, Kampala

A summary of all meetings is contained in Annex 1 to this report.

Legal and Institutional Framework for Private Sanitation Service Provision

1.1 INSTITUTIONAL FRAMEWORK AND MAJOR STAKEHOLDERS

1.1.1 The Public Sector

The following are the major Public Sector Stakeholders:

Kampala Capital City Authority (KCCA)

KCCA is the legal entity, established by the Ugandan Parliament and is the body charged with governing the Capital City of Kampala. It administers the Capital City on behalf of the central government subject to the KCCA Act of 2010. KCCA replaced the former Kampala City Council (KCC).

KCCA is mandated with provision of services in the city that enable residents and businesses operating in the city to function in an environment that supports development. This mandate includes facilitating and providing support to ensure health and productivity of citizens, a clean, habitable and sustainable community for citizens through efficient management of public health and the environment.

The Authority has several Directorates. KCCA's responsibility for sanitation policy and planning falls under the Directorate Public Health and Environment, especially under the Department of Preventive Health. KCCA also has reinforced the commitment to onsite sanitation area as it has been shown for instance in launching of the Kampala Water and Sanitation Forum and other opportunities. Finally, the consideration of the institutional role of KCCA is a prerequisite for the development of a sustainable faecal sludge management model in Kampala. The institutional role consists of: definition of areas for public and communal toilets, implementation and control of operational models of public and communal toilets and cooperation in organisation of hygiene and sanitation promotion.

Other departments include the one for Engineering and Technical Services which is mandated to plan, design, construct and maintain the City infrastructure through road repair, maintenance and opening up of new roads, bridges, flyovers and water channels and the department for Education and Gender & community development.

Managing drainage of major water channels such as Nakivubo channel, clearing of such drains to avoid flooding in the city, installation, repair and maintenance of street and traffic lights is also part of the responsibility of the Directorate.

Additionally, KCCA is mandated to conduct physical planning through the Directorate for Physical Planning that plans the development of the functional urban design, infrastructure and administers land management of Kampala city. Overall, this Directorate ensures that the development of the city is organized and does not exert stress on the existing functioning infrastructure.

Other responsibilities of KCCA include oversight of the provision of health services, provision of education services including general administration and management of educational institutions, gender mainstreaming, youth and community development, child care and protection especially for street children etc.

KCCA is mandated with provision of services in the city that enable residents and businesses operating in the city to function in an environment that supports development.

NWSC has the role of developing, operating and maintaining water supply and sewerage services in urban areas of Uganda.

National Water and Sewerage Corporation (NWSC)

The National Water and Sewerage Corporation (NWSC) was established in 1972 as a Government Parastatal with the role of developing, operating and maintaining water supply and sewerage services in urban areas of Uganda. NWSC falls under the Ministry of Water and Environment, and currently operates in Kampala and many other towns of Uganda.

NWSC operates the wastewater treatment plants (Bugolobi and Lubigi) in Kampala and is mandated to provide sewerage services to customers connected to the network feeding the plant as well as to treat faecal sludge that is brought to the plants by private emptying trucks. Through several donor funded projects and its internally generated funds, NWSC has implemented several onsite sanitation projects within Kampala. However, the responsibility for the maintenance of these sanitation facilities does not lie with NWSC but with KCCA.

The mandate of NEMA is to oversee, coordinate and supervise environmental management in Uganda.

National Environmental Management Authority (NEMA)

The mandate of NEMA is to oversee, coordinate and supervise environmental management in Uganda. NEMA's enforcement branch is the department of Monitoring and Compliance, which is responsible for ensuring that enterprises comply with various environmental regulations and standards.

NEMA is also responsible for issuing licenses to the companies dealing with hazardous waste and faecal sludge. NEMA's environmental inspectors have the power to close any activity which pollutes or is likely to pollute the environment in Kampala. NEMA collaborates with KCCA in enforcing environmental protection policies. For example, Solid Waste Operators are required to get a recommendation letter from KCCA before being granted a License by NEMA.

Other powers include giving notice to operators of any activities contrary to the Act and NEMA has the powers to prosecute offenders. NEMA has a formal link with local governments through District Environment Committees. In Kampala the link is with the Public Health and Environment Directorate.

Other public stakeholders include the Ministry of Health (MoH) which is responsible for promotion of household hygiene and sanitation; the Ministry of Education and Sports (MoES), responsible for latrine construction and hygiene education in schools; the Ministry of Lands, Housing and Urban Development and The Ministry of Water and Environment (MWE), responsible for planning investments in sewerage services and public toilet facilities in urban areas.

Currently, the inter-institutional collaboration is more on a mutual understanding and not by any common agreed binding commitments with regard to improving sanitation services provision, with the exception of an MoU between the MWE, MoH and the MoES of 2001.

1.1.2 The Private Sector

Main private stakeholders include:

Private Emptiers Association of Uganda (PEAU)

PEAU started operations in 1998 with 4 trucks and 28 members. Currently, the association members have over 75 trucks and approximately 200 members. The members are mainly individual drivers and operators, only one company (W Mulindwa & E Nakanwagi General Agencies Ltd) has a NEMA license for transportation of FS and own two trucks of 10m³ each. The highest number of trucks owned by same individual is four. These trucks are owned/registered in the name of Peter XXXXXX³. A local NGO CIDI acquired 4 cesspool trucks for serving urban poor areas and has subscribed to join the association.

The main objectives of PEAU and the benefits for its members are to (i) strengthen the market power of its members and (ii) to set minimum industry standards (such as to have a cesspool truck). Furthermore PEAU has a working relation with NWSC and KCCA.

The main requirements for joining PEAU are (i) having a cesspool truck and (ii) the payment of subscription fees which are dependent on the truck size (see table right) and a lump sum monthly fee of UGX 20,000 per truck.

The PEAU members mainly offer services in Kampala and the neighbouring districts and towns. Currently PEAU members are not licensed by NEMA, which limits their ability to enter in working relations with public entities.

Kampala Emptiers Association (KEA)

This association was formed as a break-away from PEAU in 2014. KEA is also registered as a company limited by Guarantee. It is important that both association members (PEAU and KEA) are engaged in the process of selecting the private sector partners to provide services during the pilot project.

Other private stakeholders

A number of NGOs are active in the provision of sanitation services. Some of the organisations include: Water for People; Sanitation Solutions Group; CIDI etc. Furthermore, small scale gulper operators are also active on the market. The role of these operators is crucial and their increased future involvement is essential to ensure constant and reliable emptying in narrow informal settlements. Manual emptiers also exist but their activities are illegal and often carried out in the night or during heavy rainfall to avoid being caught by the law enforcers.

Some private sector capacity exists to deliver improved FS services in Kampala. However, the accountability of the private sector to the public sector is still lacking. Licensing and regulation are some of the missing links in the sanitation chain.

TABLE 2 PEAU SUBSCRIPTION FEES

Truck Size (m ³)	Subscription Fee (UGX)
1.8 -2.5	500,000
3-4	1,000,000
5-10	1,500,000
>10	2,000,000

³ For a full inventory and details see: KCCA, GIZ: Inventory for Formal and Informal Faecal Sludge Emptiers and the Resource Recovery and Reuse (RRR) Private Sector in Kampala, 2015

1.1.3 Research Institutions

The main research institutions involved in FSM are Makerere University and the Appropriate Technology Centre for Water and Sanitation (ATC). Most of the research on FS is focussed on reuse of FS to generate energy, to use it as a soil conditioner, for manufacturing of briquettes, etc.

1.1.4 Major Objectives of Stakeholders

Public stakeholder objectives

The major objectives of the public stakeholders emerged as follows:

Leveraging Funding

Considerable investments may be necessary for the upgrading of the emptying trucks and latrine facilities. By offering stable and foreseeable business opportunities to the private sector, an incentive to invest can be generated.

Accelerating Implementation

Private market forces through competition and the opportunity for the private sector to realise short and long term profits provide an incentive for the private sector to quickly realize business opportunities. Hence, once the institutional and legal provisions are in place the private operators can accelerate implementation of services.

Improving Service Levels

By setting binding standards and by delegating the implementation of these standards to the private sector service levels can be improved.

Improving Service Coverage

Service coverage can be improved for instance by assigning predefined zones to private operators, where they will have the obligation and can be held accountable for their zones as a whole and not only to selected profitable areas.

Efficiency Gains

Efficiency gains can be achieved by introducing elements of competition and by sensitive price regulation. Examples from other infrastructure sectors such as electricity and telecommunication show that costs and prices can decrease with the abolishment of state monopolies as long as sufficient demand is available. Hence there is a need for social and sanitation marketing.

Private sector objectives

The major objectives and requirements of the private sector for an engagement in the business can be summarised as follows:

Fair Profit

Private operators will seek a price for their services that would allow them to finance their operations and to realize a profit within their expectation. By assigning them to a certain zone and by a regulated price this can be achieved.

Risk Mitigation

Private operators also look to minimize their risks. Sudden shocks in price or in demand should hence be avoided. Also this can be achieved by reasonable zoning.

Clear Legal / Regulatory Structure

The general regulatory system and its implications for all stakeholders has to be clear right from the beginning. Regulations have to be stable and should not be subject to frequent and unforeseen changes.

Finally, also the end users have certain, sometimes implicit, objectives. Those are mainly that services offered should be (i) affordable, (ii) reliable, (iii) of good quality and (iv) short term availability. All of these objectives are currently not completely fulfilled in Kampala.

End user objectives

1.2 LEGAL FRAMEWORK FOR PRIVATE SECTOR PARTICIPATION IN SANITATION

The Government of Uganda adopted a policy of Public-Private Partnerships (PPP) as a tool for the provision of improved public services and public infrastructure based on the principle of better value for money, appropriate risk transfer and management and taking advantage of private sector innovations. The Policy Framework, approved in March 2010, is expected to result into the following:

- » Better utilization and allocation of public funds
- » More efficient development and delivery of public infrastructure
- » Good quality public services
- » Increased economic growth and foreign direct investments

Local government authorities shall be responsible for identifying, developing and managing PPP projects. In the case of KCCA, its founding act specifies that under its functions falls to “Undertake private works and services and charge and recover costs on those private works and services and contract out public services to the private sector.”⁴

In August 2015 a PPP law/Act was also adopted. However, the applicability of this law in the present context of formalising private sector engagement in FS services is yet to be verified. The PPP Act, 2015 seems to focus more on turn-key infrastructure investment projects. However, as the law sets out that all PPP agreements above a threshold monetary value will require cabinet approval, hence it must be further investigated if and to which extent this law is mandatory applicable for FSM service provision in Kampala, since no major infrastructure investment is included in the envisaged PPP arrangement. However, the law sets out principles for the procurement process as well as supervision and monitoring arrangements which could be considered also for private service provision with FSM in Kampala.

⁴ The Kampala Capital City Act, 2010, Third Schedule, Sections 7(2), 35, 44 And 83(1), Part A, Functions And Services For Which Kampala Capital, City Authority Is Responsible, Para 14

The other major laws with an impact on sanitation in Kampala are the following:

TABLE 3 MAJOR LAWS WITH IMPACT ON SANITATION

Law	Relevant Provisions
Public Health Act 1935 (Cap.281) (Revised in 2000)	<ul style="list-style-type: none"> • Mandates KCCA to safeguard and promote the public health (Part II, Section 5) • Requires all buildings to have functional sanitation facilities (Part X, Sections 84-86 and 88-89) • Requires every dwelling house to have a latrine of a minimum standard specified therein (S.I 281-3, Part III, 11) • Gives the siting requirement for latrines in schools and the stance: pupil ratio of 1:15 (S.I 281-20, 11) • KCCA is empowered to enforce the regulation (Part IX, 15) • All buildings to be erected on plots with proper and sufficient access to a road or road reserve (S.I 281-1, Part III, 26-29)
The Local Government Act 1997 (Cap.243)	<ul style="list-style-type: none"> • Allows KCCA to implement and maintain-public sanitation facilities, sanitary responsibility for the removal and disposal of night soil (Second Schedule, Part 3, 1 (o and w)) • Prohibit, restrict, regulate or license— the deposition/removal/disposal of any material/refuse. (Second Schedule, Part 3, 3 (b)). • Enables a Local Authority to make bye-laws for reinforcing existing laws (Part IV, Section 39-1)
The Local Governments (Kampala City) (Sanitation of Building Sites) Byelaws. (Based on section 39 of the Local Government act, Statutory Instrument 243-22	<ul style="list-style-type: none"> • Requires employers at building sites to construct temporary pit latrines during construction which should be demolished after completion (sections 3 and 5).
The National Environment (Waste Management) Regulations S.I. No 52/1999	<ul style="list-style-type: none"> • NEMA is mandated to license any person intending to transport waste (Clause 6, 1). • NEMA is mandated to license a person intending to operate a waste treatment plant or waste disposal site after an EIA study (Clause 13, 1). • NEMA sets out conditions that transporters of waste are expected to comply with (Clause 7, 2).
The Kampala Capital City Act, 2010	<p>KCCA is mandated to:</p> <ul style="list-style-type: none"> • Provide public health and safe sanitation in the communities (Part B, Section 35, 29 (l & s)) • Allows KCCA to enforce ordinances and byelaws made by the Authority (Part III, 19 (s)).
Physical Planning Act, 2010	<ul style="list-style-type: none"> • Requires Urban Authorities to develop physical development plans which must be adhered to • Provides fines for non-compliance to the physical development plans
The Occupational Health and Safety Act, 2006	<ul style="list-style-type: none"> • Provides for different Occupational health and safety measures for protection of workers while at the work place
Memorandum of Understanding between Ministry of Water and Environment, Ministry of Health and the Ministry of Education and Sports of 2001	<ul style="list-style-type: none"> • According to this MoU, the Ministry of water and Environment (MWE) is responsible for planning of investments in sewerage services and public sanitation facilities in towns and rural growth centers, the Ministry of Health is responsible for house hold hygiene and sanitation, and the Ministry of Education and Sports is responsible for school latrine construction and hygiene education in schools.

Implications for FSM

The enabling aspects of this law include:

- KCCA is mandated to enforce existing laws and regulations. This would enable increase in demand for construction of emptiable pit latrines and septic tanks.
- Creation of FS emptying demand.

The gaps include:

- Lack of adequate pit latrine standards. S.I 281-3 does not provide for lining of pit latrines for emptying purposes.
- The fines stipulated in Section 89 (2) are obsolete and too low to deter non-compliance.

These provisions can be used by KCCA to issue appropriate legal documents.

This has also implications for FSM since FS has to be removed after demolition.

If there is a change to existing guidelines which fall under NEMA jurisdiction, then NEMA has to be considered during approval process.

Again, this underlines the responsibility of KCCA for FSM, giving it also the mandate to include the private sector in FSM service provision.

Sanitation and hence FSM must be included in Physical Development Plans.

This includes some precautions for hazardous waste handling which are applicable to FSM.

This has implications especially for what concerns public toilets, incl. FSM of public toilets..

1.2.1 Summary of Major Stakeholders

A recent study on the subject carried out by KCCA with support from the Bill and Melinda Gates Foundation⁵ summarised the main stakeholders as follows:

TABLE 4 MAJOR STAKEHOLDERS

Stakeholder	Key Features	Drawbacks
Kampala Capital City Authority (KCCA)	<ul style="list-style-type: none"> • Regulate FSM services • Regulation, monitoring of service provision and enforcement • May provide cross-subsidies for the urban poor • Semi-autonomous Agency 	<ul style="list-style-type: none"> • Limited financing for FSM activities • Limited capacity to advance FSM improvement • Limited involvement in downstream (treatment) activities of the FSM chain.
National Water and Sewerage Corporation (NWSC)	<ul style="list-style-type: none"> • Semi-autonomous government institution • Attract funding for big infrastructure development for FSM. • Treatment of FS 	<ul style="list-style-type: none"> • Monopoly of the FS treatment services. • Limited FS treatment facilities. • Limited involvement in upstream activities of the FSM chain.
National Environmental Management Authority (NEMA)	<ul style="list-style-type: none"> • Sets waste discharge standards • Issues licenses for handling hazardous waste 	<ul style="list-style-type: none"> • Weak enforcement of the regulations
Collection and Transport (C&T) Operators	<ul style="list-style-type: none"> • Collection of FS upon request • Flexibility in delivery of services • Creates job opportunities for the locals 	<ul style="list-style-type: none"> • Operating informally makes it difficult for satisfactory services to be delivered, limits services to be delivered to public institutions, limits formal engagement with KCCA and financial institutions. • Low technical and business management skills limits innovativeness in FSM service delivery.
Civil Society organizations (CSOs)	<ul style="list-style-type: none"> • Deal directly with and involve the communities. • Provide technical support to the operators. • Promote appropriate technologies. 	<ul style="list-style-type: none"> • Lack of project continuity in case of CSOs withdrawal.
Development Partners	<ul style="list-style-type: none"> • Provide funding for water & sanitation infrastructure • Institutional capacity building • Technical advisory services 	<ul style="list-style-type: none"> • Inadequate budget allocation to the sanitation component • Lack of continuity of financial support due to ending programme phases, change of priorities, other unforeseeable factors
The Users	<ul style="list-style-type: none"> • Creation of the faecal sludge demand. • Pay for FS emptying services. 	<ul style="list-style-type: none"> • Majority construct substandard sanitation facilities that are difficult/cannot be emptied. • Tendency of landlords to reserve insufficient space and access to sanitation facilities. • Misuse of toilet facilities.

⁵ Improving Faecal Sludge Management (FSM) for On-Site Sanitation in Kampala City, Uganda, KCCA, Kampala, August 2014

Proposed Actions	Comment and Findings
<ul style="list-style-type: none"> • There is need for capacity strengthening in terms of training, action research development Operationalization of the proposed (Section 5.2) FSM framework. • Enforcement of the existing laws/regulations • Strengthen collaboration with other stakeholders (NWSC, NEMA, research institutions). 	<ul style="list-style-type: none"> • KCCA is aware about the necessity for dealing with FSM as a priority area. • It sees itself more as a regulating, monitoring and supervising authority rather than as a direct service provider. • For this capacity building is needed in terms of regulation.
<ul style="list-style-type: none"> • The need to increase the capacity of FS treatment through construction of additional decentralized FS treatment plants. • Leveraging private sector financing in FS treatment and resource recovery in collaboration with KCCA. 	<ul style="list-style-type: none"> • NWSC is a business oriented entity with interest to receive financial compensation for its services. • Hence, it can be a reasonable business partner along the FSM chain.
<ul style="list-style-type: none"> • Strengthen enforcement of the relevant regulations • If necessary, establish a suitable licence for FS C&T and raising awareness and clear criteria for acquiring it 	<ul style="list-style-type: none"> • NEMA is primarily interested in environmental regulation.
<ul style="list-style-type: none"> • FS Transportation & business licensing by NEMA & KCCA respectively. • Formalizing FS C&T Operators into legal entities. • Formal engagement of FS C&T operators through SLAs. • There is need for capacity building (business management, OHS, O&M) for FS C&T operators. • There is need for providing incentives to the FS C&T operators e.g. through tax exemptions on desludging equipment. 	<ul style="list-style-type: none"> • The organisation has considerable potential for organisational strengthening. • Currently it is not corporatized and has no licence.
<ul style="list-style-type: none"> • Strengthen harmonization of CSO work with the KCCA work plans. 	<ul style="list-style-type: none"> • CSOs sometimes operate rather isolated from each other. • The commercial focus of new technologies may need some strengthening.
<ul style="list-style-type: none"> • Development partners should also prioritize funding for sanitation. 	
<ul style="list-style-type: none"> • Compliance to building standards and regulations related to sanitation facilities • Need for financing to facilitate construction of emptyable pit latrines 	<ul style="list-style-type: none"> • Awareness raising among users is needed. • Willingness to pay and affordability issues have to be addressed.



Legal and Institutional Framework for Private Sanitation Service Provision

2.1 EXISTING MARKET SITUATION FOR FAECAL SLUDGE MANAGEMENT

2.1.1 Main Features and SWOT Analysis

The main features of the current market conditions are as follows:

Market is completely unregulated

Mainly, competition happens in the market for the provision of emptying services to customers. Customers are completely free which supplier to choose, whenever they wish to have their sanitation facilities emptied. On the other hand, suppliers are not bound by any geographical restrictions nor by regulated prices. Although PEAU sets some guidelines for prices, operators are free to negotiate in every single case. NWSC charges fixed prices for dumping. Current market prices estimates are shown in Table 5.

TABLE 5 CURRENT MARKET PRICE ESTIMATES FOR EMPTYING SERVICES

In cases where a broker is used a commission of UGX 5,000 to UGX 10,000 is deducted from the final amount the owner of the cesspool truck receives.

Truck Size (m ³)	Charge per Trip (UGX)	NWSC Disposal Charge per Trip (UGX)
1,8- 2,5	70,000	10,000
3-4,5	100,000	14,000
5-8,2	160,000	20,000
10	200,000	20,000
>10	250,000	40,000

This leads to a situation where numerous market failures occur. For example, very often “Cherry Picking” takes place: private operators serve only customers who are easy to access and who have the financial means to pay for their services. Hence, a large part of the customer base remains unserved.

Dominance of informal operators

The vast majority of operators are individuals who are not incorporated in the sense that they are not a registered company themselves or not even attached to a registered company; furthermore they operate without a license from NEMA. The main reason for not having a license is the stringent requirements set by NEMA for obtaining this certificate. Details of NEMA requirements are shown in para. 2.2.

NEMA licenses are valid for the entire country and renewable after 1 year, fees are about UGX 100,000 per year.

According to NEMA only four companies in the country have a license for the transport of faecal sludge.

No or weak asset base of operators

Most of the operators are small or individual enterprises. In most cases they do not own the trucks they operate and have no other assets. Often this is the reason why they cannot obtain a license. Also the PEAU is not registered as a limited company, lacks assets since most members are operators and not truck owners and as such their efforts to get a license from NEMA as an association were not successful.

Legal framework not fully conducive towards regulation

In principle the law allows for PSP. However, there is so far no Municipal/ City Ordinance or other by-law for Sanitation, which could regulate the sector. In addition, the existing fines and penalties are very low, a fact which does not provide incentive for the compliance with existing regulations and which hinders enforcement. Also the existing regulations are largely silent on issues of price regulation. These amendments could be brought out more clearly in a sanitation specific Ordinance/Bye-law. Also an ordinance/ By-law including pit latrine standards and setting new penalties for non-compliance at lower urban councils is required.

Several Public Sector Stakeholders involved

There are several public stakeholders involved, among them KCCA and NWSC. Both stakeholders are aware about the urgency of the situation and are committed towards reform, but have different interests. NWSC has some commercial focus and aims to provide its services against payment, whereas KCCA is a public authority and interested in providing affordable sanitation services for all, including the urban poor. KCCA can draw upon foreign assistance, such as Bill & Melinda Gates Foundation and GIZ RUWASS in the reform of the sector.

The analysis of these main market features can be transformed into a SWOT analysis.

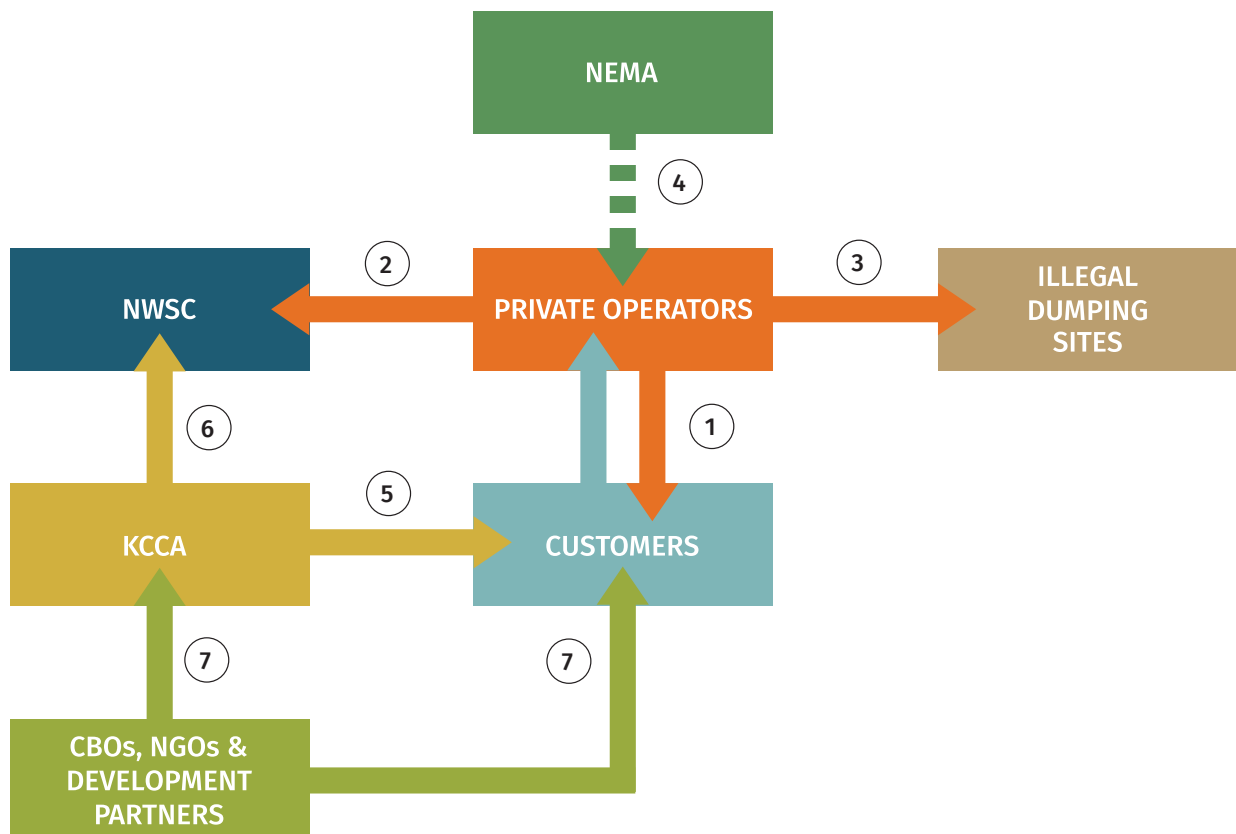
TABLE 6 SWOT ANALYSIS OF CURRENT MARKET FEATURES

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Private Sector Participation already in place • KCCA committed to reform • Present legislation allows for PSP/PPP • Awareness among most stakeholders • Sector has access to foreign assistance. 	<ul style="list-style-type: none"> • Completely unregulated market • Heterogeneous structure of the private sector • Large parts of customers are unserved • High environmental and health risks • Laws not fully conducive towards PSP • Lack of regulatory framework and bylaws • Lack of law enforcement
<ul style="list-style-type: none"> • Learn from experiences in other sectors • Use pilots as a chance to learn 	<ul style="list-style-type: none"> • Continuous deterioration of the situation • Weak law enforcement?
OPPORTUNITIES	THREATS

2.2 CURRENT MARKET SET UP

A graphical representation of the current market set up is shown in the figure below.

FIGURE 1 CURRENT MARKET SITUATION



- ① Private Operator provides service to customer and gets paid
- ② Private Operator deposits FS and pays dumping fee to NWSC
- ③ Also illegal dumping by Private Operators occurs
- ④ NEMA should license Private Operators but in practice they operate without license
- ⑤ KCCA trucks empty public and institutional toilets
- ⑥ KCCA deposits FS and pays dumping fee to NWSC
- ⑦ CBOs, NGOs and Development Partners support KCCA and customers in awareness raising

Private Sector Engagement

The background features a light blue gradient with several large, overlapping teal shapes. On the left, there is a large, rounded shape that resembles a stylized letter 'R' or a similar abstract form. On the right, there is a large, curved shape that looks like a stylized 'C' or a partial circle. The overall aesthetic is clean and modern.

3.1 CONSIDERATIONS FOR PSP IN URBAN SANITATION⁶

In this context the term PSP refers to a form of cooperation between a public authority and private commercially oriented partners. Under such an arrangement the private actor assumes risk, e.g. through private operational management or private capital participation, with the aim of achieving improved and more efficient performance of public tasks.

With PSP, it is always necessary to reconcile divergent interests between public objectives, which include affordability for the end customer and quality of service, and the private operator's interest in making a profit. In this context it is important to create moderate but attractive business and income-generating opportunities for the private sector – whether it be through tariffs/user fees, or subsidies. When the private sector is involved this always places high demands on the public institutions involved.

When involving private enterprises in the sanitation sector the following issues must be considered:

Capacities

The needed capacities must be in place, or developed through accompanying measures for all actors involved in the partnership along the entire sanitation chain. Private enterprises also require capacity development and market development, especially where a service is being transferred by the state to private actors for the first time.

Regulatory Need

The increased regulatory input entailed by greater private sector participation must be taken account of.

Technical Assistance

Public authorities must be supported and trained in setting standards, fee models, contractual requirements, procurement and contracting procedures.

Security

Private partners must have a stable and predictable cash flow.

Clear Agreements

General terms and conditions must be clearly and unequivocally defined, and both sides, public and private, must be familiar with their respective rights and obligations, incl. a.o. pricing, performance standards, access to service, etc.

Procurement

Tendering and market-based award procedures are a key prerequisite for the delivery of cost-efficient services by the private enterprise.

Transparency

Contract awards must be transparent, and depending on their order of magnitude must be implemented in accordance with international or national standards.

It is important to create moderate but attractive business and income generating opportunities for the private sector.

⁶ See also: Schuen, R. (2013). Financial Aspects of Integrated Urban Sanitation in: Integrated urban sanitation at scale - Discussion paper. KfW Bankengruppe, Frankfurt/Main, Germany

3.2 ISSUES TO BE CONSIDERED AND OPTIONS FOR PRIVATE SECTOR PARTICIPATION

There are several major issues to be considered when planning for PSP as shown in table 7.

TABLE 7 MAJOR ISSUES FOR PSP

Issue	Generic Options	Key Assumptions
Market Regulation	<ul style="list-style-type: none"> • Zoned • Unzoned 	<ul style="list-style-type: none"> • Zones must be attractive to generate private sector interest. (Zoned) • Customers must be informed about the offers on the market. (Unzoned)
Tariff and Price Setting	<ul style="list-style-type: none"> • Market forces • Uniform or differentiated tariffs 	<ul style="list-style-type: none"> • Both, (i) affordability for customers and (ii) profitability for private operators must be safeguarded.
Payment Flows	<ul style="list-style-type: none"> • Direct Payment • Voucher System 	<ul style="list-style-type: none"> • Payment flows must be simple and transparent.
Risk Allocation	<ul style="list-style-type: none"> • Guarantee minimum business to private partner • Full commercial risk at private partner 	<ul style="list-style-type: none"> • Private partners need a clear perception about the risks they are incurring.
Market Access and Competition	<ul style="list-style-type: none"> • Only to licensed companies • To all companies 	<ul style="list-style-type: none"> • Quality standards can be assured best under a license scheme.
Structure of Private Sector	<ul style="list-style-type: none"> • Incorporated companies • All companies 	<ul style="list-style-type: none"> • Accountability of the private operators must be safeguarded.
Legal set up	<ul style="list-style-type: none"> • Contract, Service Level Agreement • Municipal/City Ordinance 	<ul style="list-style-type: none"> • Legal set up must be clear right from the beginning.
Pro poor approach	<ul style="list-style-type: none"> • Voucher System • Direct payment 	<ul style="list-style-type: none"> • The amount of “pre-financing” by the poor should be limited, otherwise they may not make use of the service.
Monitoring, Supervision and Enforcement	<ul style="list-style-type: none"> • KCCA • Other 	<ul style="list-style-type: none"> • A clear distinction between environmental monitoring (NEMA) and economic monitoring (KCCA) is desirable.
Procurement Process and Tendering Criteria	<ul style="list-style-type: none"> • Price/Tariff • Only technical criteria 	<ul style="list-style-type: none"> • Technical criteria must be met by any successful bidder.
Demand Mobilisation	<ul style="list-style-type: none"> • Call Centre 	<ul style="list-style-type: none"> • Access to call centre should be free of charge.
Pilot projects	<ul style="list-style-type: none"> • Only poor areas • Other areas as well 	<ul style="list-style-type: none"> • Pilot project must reflect bigger reality on the ground.

These issues have the following implications:

Market Regulation

A market regulation based on zones would certainly increase the accountability of the service provider as sole entitled entity to provide emptying services. Furthermore clear performance targets can be set and benchmarked, since the assigned zone is a well-defined area. It would also bring service security and potentially decrease response time for the customers, since they have a clear interlocutor. The biggest advantage may be that the currently unserved areas will receive service since the service providers would be obliged to look after them. Also potential conflicts between service providers can be avoided.

All this would suggest that a zoned approach should be preferred. Consequently KCCA is rather inclined to adopt a zoned approach.

However, zoning could also lead to limited competition after contract award and poor quality of service in case of lack of supervision and monitoring.

Tariff and Price Setting

The tariff system should reflect the differences in costs for providing the service. A considerable part of the operational costs of the service providers is for fuel. Fuel costs in turn depend heavily on the distance to the treatment plant, which are different for every zone. Hence, the tariffs should allow for different tariffs in different zones. A unified tariff is therefore not recommendable.

The maximum level of tariffs should be set by KCCA after thorough calculations. But bidders and potential service providers should be allowed to offer a lower price. Tariffs should also include a tariff formula and be reviewed periodically in order that they can be adjusted if needed. For instance price hikes in fuel may make an adjustment of the tariff necessary.

The eligible costs for tariff calculation (OPEX with/without depreciation, CAPEX, concession fee, etc.) have to be sharply defined in order to have comparable tariff calculations and benchmarks.

Payment Flows

There are different payment flows to consider:

- » **Direct payments from customers to service providers after provision of services**

These payments will also remain under the new market set up.

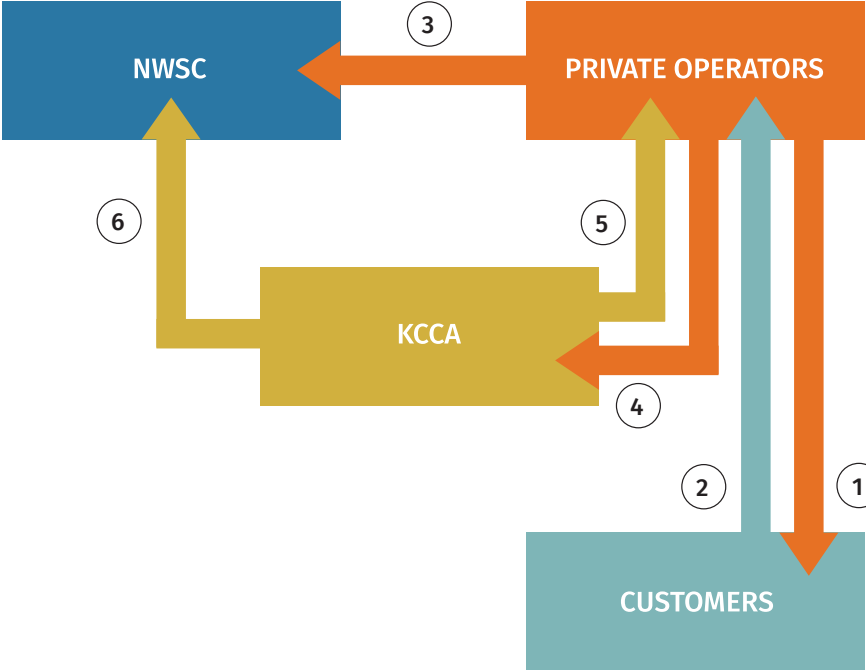
- » **Payment of concession fees by private operators to KCCA**

This concession fee should be fixed and be part of the tariff calculation. Revenues from fee should be dedicated to supervision, monitoring and enforcement.

- » **Payments within a voucher system**

These payments occur between NWSC, KCCA and the service provider in the case a voucher is used for the transaction. The private operator provides the service and receives payment against the voucher from KCCA. At the moment of dumping NWSC acknowledges delivery on the voucher. KCCA then compensates NWSC for these payments. In a second option, the service provider pays the dumping fee to NWSC and gets reimbursed by KCCA.

FIGURE 2 POSSIBLE PAYMENT FLOWS



- ① Customer orders and receives service from private operator
- ② Customer pays directly to service provider
- ③ Service provider pays dumping fee to NWSC
- ④ Service provider pays annual concession to KCCA
- ⑤ KCCA pays service provider against voucher
- ⑥ KCCA settles accounts with NWSC

Risk Allocation

Risks must be carefully balanced and allocated. As a principle risks should be allocated to the party which is most capable of handling them. The two major risks identified at this stage are:

» **COMMERCIAL RISK**

This risk corresponds to the probability of missing revenue targets for the private sector. It can occur when demand is not at the levels needed to operate with a profit margin. In order to mitigate this risk (i) a voucher system can be introduced to mobilize demand also from poor customers and (ii) a certain minimum business volume could be guaranteed to the private operators by KCCA. Whereas the first measure is highly recommended the implementation of the second could lead to losses in efficiency. This means that the incentives for the private operator to actively explore the market may not be fully realized, exactly because of a guaranteed minimum business. This may lead to “Cherry Picking”, where private operators serve those customers easy to access and with no affordability constraints.

» COST RISK

The profitability of the business can also be threatened by sharp cost variations for the private operator in providing their services, for instance from a rise in fuel prices. To mitigate this risk, a flexible tariff formula should allow for tariff adjustments, when they are objectively needed.

Market Access and Competition

In the current set up there are no regulatory market entry barriers and there is a prevalence of competition in the market, where private operators compete for the provision of emptying services in the market.

KCCA is oriented towards geographical zoning along borders still to be determined. Successful bidders will be awarded the right to serve a predefined part of the customer base for a certain period of time. Regulatory market entry barriers would be erected, since the market is not accessible for new entrants for the duration of the concession contract.

As alternatives there could be more than one contract for each zone or indeed no zones at all with several contracts.

Also the competition pattern would shift from competition in the market, where operators directly compete for the provision of services (for instance in the telecom sector, where the customer can choose among more than one supplier and also change supplier) to a competition for the market, where private operators compete only during the procurement and tendering process.

The competition pattern would shift from competition in the market to a competition for the market.

Structure of Private Sector

The private sector must (re-)organise and create incorporated companies. Only licensed companies should be eligible for bidding. NEMA's requirements for obtaining a license are as follows:

- » Company certificate of registration
- » Articles of association
- » VAT registration certificate
- » Trading license
- » Company profile
- » Number of staff
- » Type of equipment owned
- » PPE
- » Specific training in waste management
- » OHS (training is provided by the department of OHS in the Ministry of Gender)
- » Evidence of vehicle ownership (or an agreement with the Vehicle owner)
- » Recommendation letter from KCCA and NWSC
- » Appropriate labelling of the equipment/cesspool truck (in contrasting colours which should be readable from a distance of 100m)

As for now many of the private operators are not able to obtain a license because they are not in a position to fulfil even basic criteria, since they are individual enterprises without the above mentioned documents.

Also other (informal) operators, like gulper operators must go under the umbrella of a licensed operator, which is not the usual case now.

Legal Set Up

For the legal set up especially two instruments are necessary:

» MUNICIPAL/CITY ORDINANCE OR BY-LAW

The Municipal Ordinance will be the base of the business model. It is also the base on which KCCA operates. The existing ordinance for Solid Waste can be used as a guide. However the issues of (i) tariff determination and (ii) eligibility of companies shall be duly acknowledged. Also the mandate of KCCA to fix, issue and enforce fines has to be included in order to overcome the already obsolete small fines included in the current legislation.

» SERVICE LEVEL AGREEMENT (SLA) FOR THE INVOLVEMENT OF THE PRIVATE SECTOR

The main parameters of a SLA will entail:

SERVICE LEVEL AGREEMENT

Scope

The Service Provider will be required to:

- Enter into a Service Level Agreement with the Tendering Authority.
- Provide emptying services to all customers in the assigned zone
- Finance its operations
- Execute all adjustments (process and/or equipment and structures) needed to comply with the regulatory requirements, incl. minimum standards for sanitation facilities and for occupational, environmental and public health

Term

The Term of the transaction will be set by KCCA and is expected not to be longer than three years for the first contracts.

Service Provider Operating Obligations

The operating obligations of the Service Provider will include:

- Operation and maintenance of pit emptying services to meet contractual performance criteria and good industry practice;
- Meeting performance criteria for its services
- Disposal of sludge at NWSC in compliance with applicable national environmental standards.

KCCA Operating Obligations

The operating obligations of the Tendering Authority will include:

- Support the service provider in enforcing laws and regulations
- Co-operate with the service provider within the implementation of the voucher system
- Keeping the service provider informed of any changes in laws or regulations which may affect the business of the operator.

Monitoring

Monitoring and reporting procedures will be defined by KCCA to ensure full compliance with performance obligations.

Concession Fee and Tariffs

The Service Provider will charge the established price to its customers and will pay a defined concession fee to KCCA.

Contract re-equilibrium

The Service Provider may request KCCA to reexamine the tariff and/or seek compensation if any event has caused or results in a substantial increase in costs or a reduction in revenue.

Force Majeure, Change in Law

Compensation in case of force majeure or direct change in law will be provided in the contract.

Termination Clauses

Customary termination mechanisms and compensation for the Service Provider will be provided in the PPP Contract.

Settlement of Disputes

In case of disputes between the parties, appropriate legal provisions of Uganda will be applied.

Governing Law

The SLA will be governed by Ugandan law and will include standard internationally accepted provisions pertaining to, inter alia, rights and obligations of the parties, representation and warranties, price adjustment, payment, performance targets and monitoring, penalties and termination, compensation, and other general provisions including environmental undertakings, insurance, force majeure, and a dispute resolution mechanism.

Pro Poor Approach

The interests of the poor are safeguarded by the implementation of the voucher system. This is explained in section 3.3.

Monitoring, Supervision and Enforcement

Monitoring, supervision and enforcement will be under the responsibility of KCCA for all contractual and regulators issues. It is necessary that KCCA dedicates enough and qualified staff to this task. Also working procedures must be elaborated. This task shall become daily routine of KCCA.

For license related issues these tasks will be executed by NEMA.

Procurement Process and Tendering Criteria

The procurement process will be carried out in accordance with Uganda's Public Procurement and Disposal of Assets Authority (PPDA) guidelines. In general the procurement process will consist of the following steps:

Pre-qualification

Bidders having expressed interest will automatically receive a request for pre-qualification invitation. The process will involve technical and financial criteria. Each prospective bidder will be required to submit a qualification proposal.

This pre-qualification stage can also be skipped, if after the reorganization of the private sector only a limited number of bidders remain. But it is important in any case to communicate and apply minimum criteria for companies wishing to bid.

Prequalification results

Bidders qualified or invited to submit an offer will be announced.

Invitation to Bid

An invitation to bid, subject to amendments, will be sent to the qualified bidders.

PROCUREMENT PROCESS

PROCUREMENT PROCESS (cont.)

Bidders' due diligence

Qualified bidders will be given access to all financial, technical and legal documentation relating to the Project. This includes especially the Zoning Study, the draft SLA and the Municipal Ordinance. Bidders will have the ability to submit questions in writing. KCCA will address questions in writing.

One to One meetings

One to one meetings with the qualified bidders can be held by KCCA if deemed necessary and appropriate.

Tender Evaluation

Bidders will be invited to submit one technical proposal and one financial proposal. The technical and financial bid will be evaluated by KCCA. Technical proposals will first be evaluated with a point system. Only the bidders whose technical proposal meets minimum technical criteria will have their financial proposals evaluated.

Negotiation

Based on the evaluation results/report KCCA will select the best bidder(s) and will invite them for contract negotiations.

Contract award

The Contract will be awarded to the selected bidder(s).

Bidding Criteria

Bidding Criteria will be (i) technical criteria still to be defined, (ii) offered price and possibly also (iii) offered concession fee.

Demand Mobilisation

Demand should be mobilised by awareness raising as a combination of activities such as, a.o., (i) direct interaction with potential end users, (ii) media campaigns, (iii) dissemination of lessons learnt from previous experiences and (iv) a pilot project.

The demand mobilisation will be further supported by a Call Centre. This can bridge the information gap in as far as FS services are concerned. It will also provide a platform for receiving feedback from the customers promptly and thus enhance customer involvement.

Pilot Project

The business model will be tested in a pilot project. Lessons learnt can be applied for the bigger, city-wide roll out. The pilot project will also include a voucher scheme and a Call Centre. It has to be emphasised that the voucher system requires significant start up investment in demand creation.

3.3 OPTIONS FOR PRO-POOR POLICIES

3.3.1 Voucher System

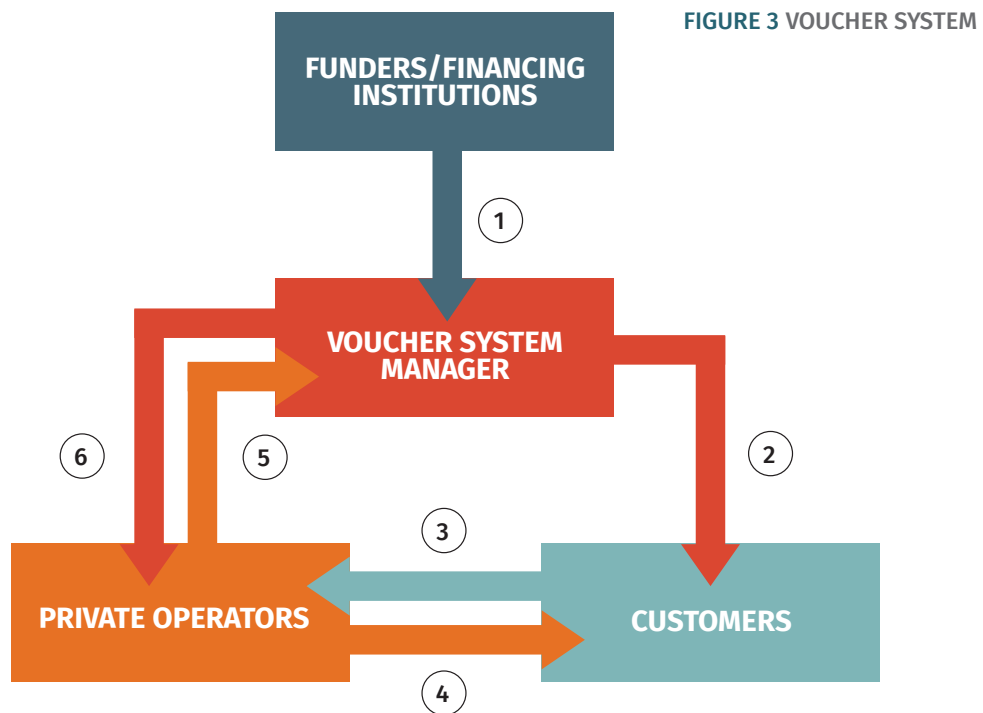
Increasing and mobilising demand for services plays a key role. To achieve this, customers often require financial support. This can be enhanced by applying targeted demand side measures.

Demand-side financing systems shift purchasing power from governments and donors to consumers, while addressing other demand-side barriers, with the goal of stimulating demand for sanitation services.

Vouchers are one form of demand-side financing where providers are reimbursed based on the number of services they deliver. Voucher programs involve four primary actors:

- » Funders, which may be KCCA or the GoU and/or donors
- » KCCA with donor support as voucher system manager for administration
- » Private Service Providers
- » Customers

A possible voucher system is shown in Figure 3 below.



- | | |
|--|---|
| ① Funders allocate money for voucher programme | ④ Services are provided against vouchers |
| ② Vouchers are distributed or sold at subsidised price to eligible customers | ⑤ Private operators submit vouchers for payment |
| ③ Vouchers are used for requesting services | ⑥ Private operators receive payment |

A key challenge is the identification of eligible beneficiaries.

The major cost components of the voucher system which will arise are:

- » Service costs and set-up/ administrative costs which include expenses for system design, developing information systems, marketing, and creating an evaluation system.
- » On-going administrative costs which include program management, monitoring, and provider training.

A further key challenge is also the identification of eligible beneficiaries. In principle the eligibility options include:

- » Geographical criteria

All households in a certain area, regardless of their income situation are entitled to receive a voucher.

- » Poverty related eligibility

Only poor people are entitled to receive a voucher. In the absence of reliable information on poverty or income data on household level, a poverty grading tool can be applied. Such a tool assesses the poverty by interviewing household and using a certain set of criteria such as:

- Living space
- House structure
- Rental status
- Cooking facilities
- Average number of meals per day
- Frequency of quality food
- Type of work
- Monthly income

3.3.2 Sanitation Levy

A Sanitation Levy is basically a surcharge to the water tariff, where these additional revenues are earmarked to be invested into sanitation activities and/or investments. In principle it can be applied to all households, incl. households with sewer connection. In this case the household without sewer connection pay for the sanitation levy.

The proceeds of this additional revenue can be used to fund on site sanitation, esp. for poor households.

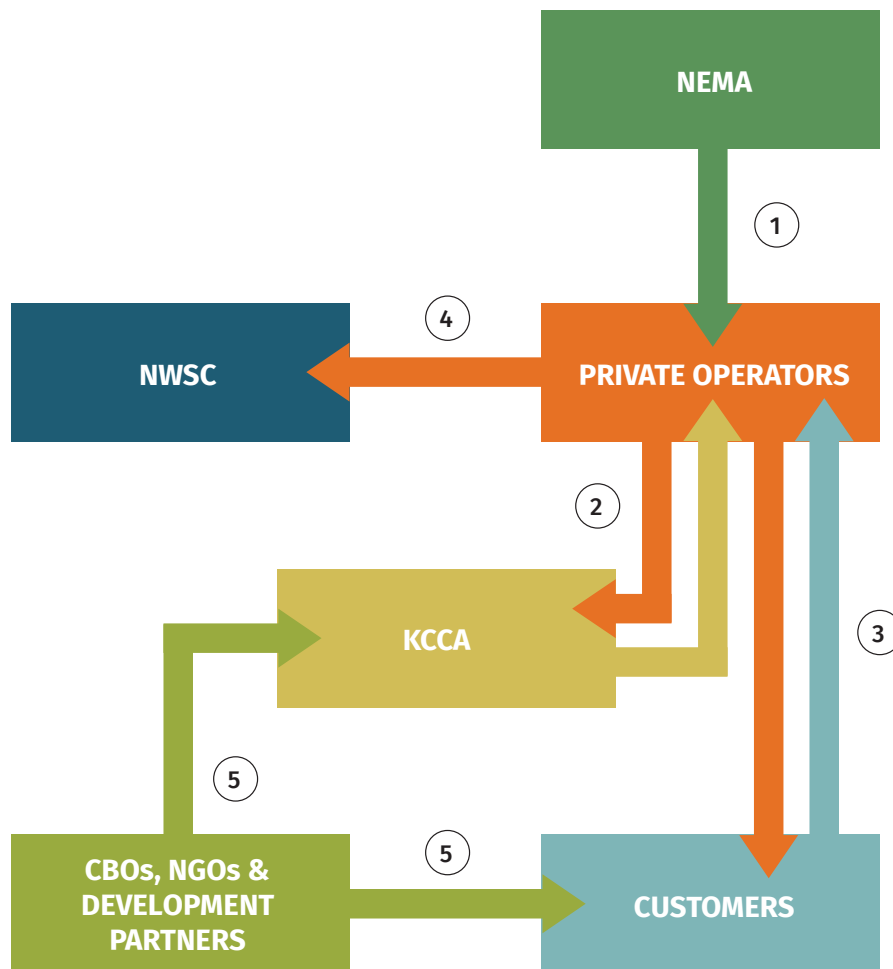
The fee is linked to the water tariff because of the straight forward collection mechanism and the obvious link to water consumption.

3.4 POSSIBLE BUSINESS MODEL

3.4.1 Outline of Business Model

A graphical representation of the proposed business model is the following:

FIGURE 4 OUTLINE OF BUSINESS MODEL



- ① Private operators get license from NEMA
- ② KCCA grants territorial concession to private operators, who pay a fee to KCCA
- ③ Private operators provide service to customers and get paid
- ④ Private operators deposit FS and pay dumping fee to NWSC
- ⑤ CBOs, NGOs and development partners support KCCA and customers in awareness raising

Hence, as discussed in the sections before, the main features of this business model are:

- » FS collection and transport are entirely delegated to the private sector. This includes inspections to identify pits due for emptying and/or illegal disposing and respective reporting of non-compliance to KCCA.
- » The delegation for service provision to the private sector will happen according to predefined zones.
- » Legal basis for implementation will be a specific Municipal Ordinance/By-law? enabling KCCA to:
 - Regulate prices
 - Define zones
 - Set terms and conditions of the SLA
 - Carry out an appropriate tendering process
 - Supervise, monitor and enforce compliance with regulations
 - Set and collect penalties in case of non-compliance
- » During the procurement and tendering process there will be competition for the market to provide service among private operators.
- » Market access will be open only to licensed and incorporated operators. All service providers (e.g. gulper operators) must go under the umbrella of a licensed operator. This will be decided at management level of KCCA with buy-in from NWSC-NEMA.
- » For demand mobilisation, especially among poor people the introduction of a voucher system for poor people will be an element.
- » The customers pay directly to the service provider, who in turn pays the dumping fee to NWSC.
- » In case of a voucher system, the beneficiaries would receive a voucher from KCCA. This voucher entitles them to service provision. Payment is made by KCCA against presentation of proof of deposit at NWSC. KCCA pays dumping fees to NWSC on a periodic base. This will be decided by KCCA management and approved by the political organs preferably at division level.
- » The contractual relationship between KCCA and the private service providers materialises in form of a Service Level Agreement.
- » Tariffs will be reflecting differences in costs for providing the services, hence different tariffs for different zones will be admissible.

Market access will be open only to licensed and incorporated operators.

From the analysis the following potential benefits arise:

POTENTIAL BENEFITS

Clear mandates and responsibilities

Each and every stakeholder is aware about its rights and obligations. These rights and obligation are governed by regulations. This leads to an overall framework of enhanced accountability.

Incentives for private sector

The incentives for the private sector are mainly given by the perspective to have the exclusive right to serve a zone. Furthermore a voucher system could provide an incentive also to serve poor and hitherto unserved customers, as well as a subsidy funded out of a sanitation levy.

Market mechanisms in place

Market and competitive mechanisms are in place during the procurement and tendering phase. However, by consequent supervision and strict enforcement of regulations it may be possible to uphold the competitive pressure also after the granting of the concession. Ultimately service delivery will be more efficient.

Transparency for the customer

For the customer it will be quite clear, what to do for consuming the service and how much it will cost. There will be no hidden or other costs.

Untapped customers also served

Through the voucher system and/or a sanitation levy a considerable part of the not-realised demand could be mobilised. The system will make the service affordable also for poor customers.

Enhanced enforcement options

Service providers can potentially help in identifying non-complying customers and report to KCCA for enforcement. For this to be successful, the involvement of necessary key stakeholders (KCCA, NWSC, NEMA) at the top levels is indispensable.

Increase in the knowledge base

Especially the pilot project should enhance the knowledge base of all involved stakeholders. Lessons learnt can be applied at the roll out phase and potentially also be replicated in other sectors and/or areas.

For the customer it will be quite clear, there will be no hidden or other costs.

3.4.2 Preliminary Risk Analysis

Due to the ambitious goals and the complex interrelations between the stakeholders, it is of utmost importance that all procedures are going fast and without unnecessary frictions. These circumstances contain some risks, which have to be identified and approached in a structured way.

In the table below the consultant has identified and assessed the major risks for project implementation as follows:

TABLE 8 RISK MATRIX

Risk	Description	Likelihood	Consequences	Mitigation measures
Private Sector Risk	Little competition and interest from private sector	Low - medium	High Scheme may not be implemented	Appropriate zoning
Capacity Risk	High requirements for monitoring, supervision and enforcement	Medium	High Rules and procedures may not be respected	Capacity Building at KCCA
Cooperation Risk	Resistance to organisational change in the private sector	Medium - high	High Competition may be limited	Close involvement and information of private sector
Information Risk	Customer awareness may not be sufficient	Medium - high	Medium Demand for services may be low	Awareness campaigns and tight enforcement of regulations
Design Risk	Some zones or contract conditions may not be attractive	Medium	High Some service areas would remain unserved	Appropriate zoning
Stakeholder Risk	Inter- Institutional bureaucracies	Medium	High Scheme could not be implemented fully	Buy in of all relevant stakeholders
Time Risk	Non Compliance with timetable	Medium - high	Medium Delay in implementation	Stringent project implementation
Partner Risk	No appropriate selection of private sector partner for pilot project	Medium	High Significance of pilot project may be limited	Appropriate analysis and attractive conditions for pilot sector partner

Recommendations for Further Interventions

In order to enable the implementation of the business model as outlined above, the following preparatory activities are recommended.

TABLE 9 RECOMMENDED ACTIVITIES

No.	Activity	Type of Activity	Responsible
1	Stakeholder Mobilisation	<ul style="list-style-type: none"> • Introduction of Concept • Workshops • Discussions 	<ul style="list-style-type: none"> • KCCA • Support by one/two national consultants • Supervision by one international consultant (optional)
2	Zoning Assessment	<ul style="list-style-type: none"> • Drafting of ToR • Study and assessment • Financial and economic analysis • Socio-economic analysis • Geographic and technical analysis • Identification of zoning options • Development and justification of zoning proposal 	<ul style="list-style-type: none"> • KCCA • Support by one/two national consultant(s) (technical and institutional/financial/economic) • Supervision by one international consultant
3	Standards for sanitation facilities that can be emptied by vacuum tankers (Lined pit latrines, septic tanks)	<ul style="list-style-type: none"> • Study 	<ul style="list-style-type: none"> • One national consultant
4	Standards occupational safety and health in handling and managing FS	<ul style="list-style-type: none"> • Study 	<ul style="list-style-type: none"> • One international consultant
5	Inventory of Private Service Providers for FS services in Kampala	<ul style="list-style-type: none"> • Study 	<ul style="list-style-type: none"> • One national consultant
6	Drafting of a Municipal/City Ordinance for Sanitation	<ul style="list-style-type: none"> • Legal and institutional analysis • Needs analysis • Draft and Final documents 	<ul style="list-style-type: none"> • KCCA • Support by one local legal expert
7	Drafting of Draft Service Level Agreement	<ul style="list-style-type: none"> • Legal and institutional analysis • Needs analysis • Draft and Final documents 	<ul style="list-style-type: none"> • KCCA • Support by one local legal expert

Indicative duration and timing	Remark
<ul style="list-style-type: none"> • Two months, first quarter 2016 	<p>Create a spirit of competition and ownership as well as early involvement on planning are key requirement.</p>
<ul style="list-style-type: none"> • Three month for comprehensive assessment • First quarter 2016 	<p>All zones should be equally attractive to the private sector in order to avoid “cherry picking” in the sense that there is much private sector interest for the zones with the biggest earning potential and little or no interest for the remaining ones.</p> <p>This assessment should hence include :. the number of potential customers, socio-economic profile, potential volumes, costs, tariffs, transfer stations, etc. The whole service area should be subject of analysis and then be divided into an appropriate number of as much as possible equal zones.</p>
<ul style="list-style-type: none"> • On-going activity 	<p>From the private operator’s perspective it is important to aim for the most uniform technical solution possible, in order to leverage synergies and economies of scale for the provision of emptying services.</p> <p>Also a byelaw/ordinance including pit latrine standards and setting new penalties for non-compliance at lower urban councils is required</p>
<ul style="list-style-type: none"> • Ongoing activity 	
<ul style="list-style-type: none"> • Ongoing activity 	
<ul style="list-style-type: none"> • One month • Second quarter 2016 	<p>Legal foundations must be clear and solid. The experience from the Solid Waste Sector can be used.</p>
<ul style="list-style-type: none"> • Second/Third quarter 2016 	<p>Legal foundations must be clear and solid. The experience from the Solid Waste Sector can be used.</p>

TABLE 9 RECOMMENDED ACTIVITIES (CONT.)

No.	Activity	Type of Activity	Responsible
8	Assisting the private sector in organisational development	<ul style="list-style-type: none"> • Seminars and workshops with private operators 	<ul style="list-style-type: none"> • KCCA and local experts and Business Development Organisations e.g. CAPTIVA
9	Development of a Voucher System (Optional)	<ul style="list-style-type: none"> • Drafting of ToR • Study and assessment • Socio-economic analysis • Geographic and technical analysis • Identification of involved stakeholders • Definition of roles, mandates and responsibilities • Identification of possible criteria for beneficiaries • Identification of financial needs and funding sources • Development and justification of criteria proposal 	<ul style="list-style-type: none"> • KCCA • Support by one/two national consultant(s) (technical and institutional/financial/economic) • Supervision by one international consultant
10	Raising of awareness among customers, service providers, KCCA etc.	<ul style="list-style-type: none"> • Drafting of ToR • Awareness campaigns • Seminars and workshops with opinion leaders and focus groups 	<ul style="list-style-type: none"> • KCCA • tbd
11	Initiation of Pilot Project	<ul style="list-style-type: none"> • Drafting of ToR • Selection of pilot areas • Organisational set up • Identification of financial needs and funding sources • Identification of selection of private partner • Final design and fine tuning of pilot scheme • Elaboration of implementation schedule 	<ul style="list-style-type: none"> • KCCA • GIZ • Local NGO, tbd
12	Put in Place a call Centre – under the BMGF Project	<ul style="list-style-type: none"> • Procure an ICT firm for upgrading the call centre • Develop specifications for upgrading the call centre • Design, procure and install call centre equipment • Hire call centre staff/operator • Training of staff & commissioning of call center. 	<ul style="list-style-type: none"> • KCCA

Indicative duration and timing	Remark
<ul style="list-style-type: none"> • One month • Second/Third quarter 2016 	<p>The private sector must get fit for implementation. This means that companies have to (re-)organise in a way that they fulfil the requirements of KCCA as set out in the Municipal Ordinance.</p>
<ul style="list-style-type: none"> • Two months • First/second quarter 2016 	
<ul style="list-style-type: none"> • Continuous activity, esp. within pilots • Starting first quarter 2016 	
<ul style="list-style-type: none"> • One year • Starting first quarter of 2016 	
<ul style="list-style-type: none"> • Mid 2016 	<p>To bridge the information gap in as far as FS services are concerned. It will also provide a platform for receiving feedback from the customers promptly.</p>

