



THE REPUBLIC OF UGANDA

THE REPUBLIC OF UGANDA

PERFORMANCE CONTRACT

between

THE GOVERNMENT OF THE REPUBLIC OF UGANDA

and

NATIONAL WATER AND SEWERAGE CORPORATION

Dated 17th day of October 2003.

Table of Contents

1. PREAMBLE	1
GENERAL PROVISIONS	4
2.1. Purpose of Performance Contract	4
2.2. Period of the Performance Contract	5
2.3. Parties to the Contract	5
2.4. Contract Monitoring and Review	5
2.5. Limitation of the Contract	6
3. NWSC GOVERNANCE PROVISIONS	6
4. INDUSTRY RESTRUCTURING	8
5. SUPPLY/CUSTOMER SERVICE OBJECTIVES	9
6. OPERATIONS MANAGEMENT OBJECTIVES	13
6.1. PRODUCTION	13
6.2. DISTRIBUTION	15
6.3. CAPITAL EXPENDITURE	16
7. HUMAN RESOURCE MANAGEMENT OBJECTIVES	17
8. MANAGEMENT EFFECTIVENESS OBJECTIVES	18
9. FINANCIAL OBJECTIVES	19
10. TARIFF POLICY	20
11. PROVISION OF INFORMATION	21
12. APPROVAL PROCEDURES	22
13. PERFORMANCE CONTRACT MANAGEMENT	22
14. NWSC CORPORATE PLANNING PROCESS.	23
Appendix I	25
Operational & Financial Targets	
Appendix II	25
Investment Schedule	

1. PREAMBLE

1.1. The Overarching objective of Government of Uganda (GOU) under the National Water Policy is to extend the use of safe water supplies and appropriate sanitation services to 100% of the urban population. It is generally expected that it will take about 10-15 years to achieve this aim from the present situation of about 65% for piped water coverage and very limited (less than 10%) coverage of appropriate sewerage services.

1.2. The Water Service Industry world-wide is going through a phase of major restructuring. The driving forces behind this restructuring varies from country to country, but in developing countries the principal considerations are:

1.2.1. The need for greater efficiency in the industry.

1.2.2. The need to attract private capital to fund major infrastructure projects.

1.3. In addition, many water utilities perceive benefits in terms of enhanced managerial effectiveness and accountability in re-organizing into properly incentivised business structures that achieve financial sustainability and ultimately deliver the requisite utility services.

1.4. Both GOU and NWSC recognize the potential benefits for Uganda by restructuring the Water Service industry. In the light of this, the National Water Policy of GOU has adopted industry restructuring and reform as a key policy measure.

1.5. GOU undertook a study of the Urban Water Sector restructuring and reform options for Uganda which recommended a lease package for the larger Urban towns and district townships including the NWSC operated centers. The strategy entails the following actions:

1.5.1. The establishment of an Asset Holding Authority to hold the existing water system assets of NWSC and any other towns that may be gazzetted in trust for the Public, and implement investments in the provision of WSS services in these urban centers.

- 1.5.2. The delegation of the operations of NWSC to a private operator under a higher level appropriate PSP option.
- 1.5.3. The establishment of an appropriate regulatory framework to ensure fair allocation of benefits and costs between the players in the provision of Water and sanitation services in the NWSC towns.
- 1.5.4. This may entail amendment of existing laws (water statute and the NWSC act) to separate the functions of asset management, operations and regulation.
- 1.5.5. It will also involve the restructuring of the existing Government debt to sustainable levels to unburden the sector and enable the entry of the Private sector into the provision of water services.
- 1.6. As a backdrop to the reform process a Performance Contract 1(PC1) was introduced as a transitional measure to strengthen NWSC operations and prepare the Corporation for institutional transformation.
 - 1.6.1. All parties to this contract recognize the achievements made by NWSC under PC1 as part of an effort to commence the restructuring of the Urban water industry. In particular all parties acknowledge the following:
 - 1.6.2. In the time since the signing of the PC1 between the GoU and NWSC in August 2000, the Corporation has achieved a turnaround in its financial and operational situation and at the same time expanded its services to new customers at a fast rate surpassing the target connection rates of PC1.
 - 1.6.3. As a way of achieving the PC1 targets the Corporation translated the PC into a series of ever challenging improvement programs-the '100-day' improvement program, SEREP, Area Performance Contracts Phase 1, Area Performance Contracts Phase 2, and recently the 'Stretch-Out' program. These programs have devolved NWSC operations into a group of profit and cost centers and introduced the concept of performance oriented culture and autonomous decision making business Units.
 - 1.6.4. The Corporation has implemented a number of internal reforms including staff rationalization (which included restructuring and staff reductions); involvement of the private sector by divesting non-core activities and

implementing an enhanced management services contract for the Kampala Water Area.

- 1.6.5. The Corporation developed and implemented a 3-year network expansion program and incorporated it in the corporate plan 2000-2003. To a large extent this program has been implemented and the funding has been mainly through cash savings arising from the debt service freeze and other internally generated funds in addition to donor support.
- 1.6.6. NWSC financial situation has shown a marked improvement under the environment of PC1 and the Corporation is heading towards covering all its operational costs including its depreciation charges.
- 1.6.7. However, the Corporation is not in position to meet its debt service obligations as envisaged in the Performance Contract (PC1). For the Corporation to continue to operate in a financially sustainable manner, it is necessary for Government to continue with the debt service freeze. Until recently the Corporation has been confronted with the legacy of poor investment decisions which have led to oversized systems and underutilized systems capacity in several towns, this has meant that the huge burden of debt incurred in constructing these systems is not sustainable. Using the available internally generated funds to repay GoU on these unsustainable debts will mean that the Corporation will need to look at more expensive external sources to fund the expansion of coverage and therefore plunging it further into non-sustainable debt. In addition the Corporation will need funds to make extensions to serve the poor and meet critical rehabilitation works and counterpart funding requirements of on-going or planned investments rather than enter into new borrowing from external sources to finance such activities. Currently resulting from the freezing of the debt repayment, the corporation has been able to meet 40% of its CAPEX and has extended new connections at the rate of 8000 per year from the previous 4000 per year three years ago. Moreover, all indications are that NWSC operational indicators are beginning to reach efficient levels and further efficiency gains may not be attainable and therefore debt write off may be inevitable.

1.6.8. In regard to the quantitative targets, the Corporation has reduced UFW to about 39% (Kampala 45% and other areas 27%) against a target of 37%, increased billing efficiency and collection efficiency to 61% and 92% against a target 63% and 89% respectively, increased connections to 87,172 against a target of 70,000 and reduced the staff per a 1000 connection to 11 as compared to a target of 13.

1.7. It's against these achievements that the parties agree to enter into a follow up Performance Contract (PC2) to consolidate and build on these achievements towards greater efficiency and the increased involvement of the Private Sector in the operations of NWSC.

2. GENERAL PROVISIONS

2.1. Purpose of Performance Contract

2.1.1. The purpose of the Performance Contract 2 (PC2) is to further increase efficiency by consolidating and enhancing the financial and commercial sustainability of the operations of National Water and Sewerage Corporation (NWSC) and to prepare the Corporation for the transition towards a higher level private sector participation mode.

2.1.2. Following the expiry of the Government of Uganda (GoU) Debt freeze on 30th June 2002, NWSC was due to commence servicing its debt to Government as provided for in the previous PC1. However, this may not be possible despite the significant improvement in the financial performance of the Corporation. A preliminary analysis of the financial flows for the financial year 2002/03 indicates that NWSC will just be able to cover its operation and depreciation costs, but is not in position to service its GoU debt obligations.

2.1.3. This Performance contract provides for the continued maintenance of financial equilibrium and sustenance of the achieved financial viability to improve operations; expand services; and provide a good platform to attract a higher level Private sector operator in the NWSC. The Contract will build upon the achievement of PC1 while identifying other areas where significant/critical improvements can be achieved. Specifically the contract focuses on the three

key areas of Management & Operations, Sustainability and Tariff reform with emphasis to the provision of services to the Urban poor.

2.1.4. It is intended that the continuous improvements and experience gained by NWSC in pursuing targets specified in this contract as mentioned in para 2.1.3 above will inform the work on the final PSP as a complement to the input/advise from the Transaction Advisor.

2.2. Period of the Performance Contract.

2.2.1. The contract shall extend over a period of 3 years and will be deemed to have commenced on 1st July 2003 to the end of the financial year 2005/2006 (i.e. 30th June 2006). However, the contract may be terminated or amended before this date in event that it is necessary to allow for a smooth introduction of enhanced Private Sector Participation in the NWSC operated Urban Towns.

2.3. Parties to the Contract

2.3.1. The parties to this Performance Contract are the Government of the Republic of Uganda (GOU) and NWSC.

2.3.2. For the purposes of administering the contract, GOU will be represented by the following:

2.3.2.1. Permanent Secretary, Ministry of Water, Lands & Environment

2.3.2.2. Permanent Secretary, Ministry of Finance planning and Economic Development.

2.3.3. NWSC will be represented by:

2.3.3.1. Board Chairman, National Water & Sewerage Corporation

2.3.3.2. Managing Director, National Water & Sewerage Corporation

2.4. Contract Monitoring and Review

2.4.1. The terms of this Performance Contract shall be subject to review and/or modification by the parties during the period of the Contract. The procedures for monitoring and review are set out in Section 13.

2.5. Limitation of the Contract

2.5.1. This Contract shall in no way supercede, amend or modify the provisions of The Water Statute, 1995 or the provisions of The National Water and Sewerage Corporation Statute, 1995 and the PERD Statute, 1993. In case of a conflict between the provisions of this Contract and those of the statutes (*The Water, NWSC Statutes and the PERD statute*), the provisions of the Statutes shall prevail.

3. NWSC GOVERNANCE PROVISIONS

3.1. Appointments to the Board of NWSC are made by the Minister of Water, Lands and Environment. In making Board appointments GOU undertakes to take into consideration:

3.1.1. The needs of NWSC for a strong and competent board of directors, with appropriate technical & commercial skills, adequate representation of local governments and gender balance, which will oversee the development of policies, strategies and plans aimed at achieving the objectives of reform and the commercialization of NWSC.

3.1.2. The competencies and strengths of individual directors and mix of competencies and strengths needed by the Board as a whole.

3.1.3. The importance of a strong independent Board in steering the company through the reforms towards achievement of an enhanced PSP strategy.

3.2. GOU undertakes to permit full commercial freedom to NWSC and its successor entities in all areas of its operations (including capital expenditure, commercial borrowing to fund investment programs, staffing and salary levels, and tariffs), subject to the provisions of:

3.2.1. Legislation

3.2.2. The National Water Policy Document 1999.

3.2.3. The terms of this Performance Contract.

3.2.4. The NWSC statute 1995.

3.2.5. The PERD statute 1993.

3.2.6. Other Government Policy and directives in particular its policy on retrenchment of workers of privatized enterprises.

3.3. GOU, as national policy maker for the Water supply sector, as a shareholder of NWSC and as Regulator for the industry recognizes the need to enhance its technical and administrative capabilities to fulfill these functions effectively. It is recognized that technical assistance is needed by GOU in order to fulfill its obligations in this regard.

3.4. NWSC recognizes the need to develop and implement as a priority, new monitoring framework procedures between the Board of NWSC and its Top management on one hand and between the Ministry of Finance Planning and Economic Development, Ministry of Water, Lands and Environment and the Board of NWSC on the other hand.

3.5. In order to enhance and streamline the monitoring and approval framework the Board of NWSC and the Ministry of Finance Planning & Economic Development, represented by the Utility Reform Unit (URU); the Ministry of Water, Lands and Environment, represented by the Directorate of Water Development (DWD) undertake to do the following:

3.5.1. Formulate an Industrial restructuring Plan in line with the agreed sector strategy, and existing laws and develop a Road Map for the implementation of the Reforms. Specifically do the following;

3.5.1.1. Establish a Technical Committee to steer the implementation of the reforms in NWSC by December 2003.

3.5.1.2. Prepare a position Paper on the separation of functions ie. Asset management, Operations and Regulation by March 2004.

3.5.1.3. Prepare a Position Paper on the selected option after market testing by March 2004.

- 3.5.1.4. Develop a detailed Road Map for implementation of the agreed PSP option by September 2004.
- 3.5.2. Set out clearly the role of the sector institutions and the Board vis-à-vis the role of the Managing Director in the areas of policy making, strategy development, authority levels and approval procedures.
- 3.6. The NWSC board in particular undertakes to do the following;
- 3.6.1. Make recommendations on reporting procedures and the frequency and conduct of Board meetings, aimed at enhancing the effectiveness of NWSC as a whole and the progress of implementing the PSP industry restructuring plan.
- 3.6.2. To constitute a Monitoring and Evaluation Unit within NWSC with the objective of keeping track of all activities impacting reform and to collect and consolidate data and information on all the aspects of NWSC to inform the PSP transaction process. The specialised Unit should be headed by a manager who will be responsible for providing all necessary information pertaining to PSP reform related activities.
- 3.7. The above undertakings should be complete by end September 2004.

4. INDUSTRY RESTRUCTURING

- 4.1. In implementing the reforms in NWSC, all parties agree that the following will be effected:
- 4.1.1. The restructuring of the existing Government debt to sustainable levels to unburden the sector and facilitate the entry of the Private sector into the provision of water services.
- 4.1.2. Identify the major tasks to be undertaken in order to implement the agreed PSP option, and develop an action plan for the Implementation of the reforms.
- 4.1.3. The resolution of all outstanding verified Government arrears for services provided by NWSC in the past and prevent the accumulation of such arrears in the future as per agreed Memorandum of Understanding signed on 10th April 2003 between MoFPED and NWSC.

- 4.2. All the parties in this contract commit to the above activities that will lead to greater efficiency and Private Sector Participation in the Urban water Sector.
- 4.3. It is the intention of GOU to have a new industry structure in place by December 2005.
- 4.4. NWSC undertakes to fully cooperate with GOU in bringing about the successful completion of the industry restructuring. The NWSC Corporate Plan will incorporate the agreed restructuring framework.
- 4.5. GOU recognizes the major role, which NWSC plays in the Water sector, given their technical and administrative expertise, and undertakes to give due consideration to the views of NWSC in formulating plans for restructuring.
- 4.6. While it is recognized that restructuring the Water Industry carries substantial costs, these costs have not been provided for in the financial projections. This is recognized by GOU and it is accepted that in general no cost burdens will be imposed on NWSC but in cases where the activities are prudent in the normal course of NWSC business, it will be at the discretion of GOU to transfer the cost burdens to NWSC.
- 4.7. In all cases the imposition of such restructuring costs will be done in consultation with NWSC and the financial projections in this Contract will be so modified in order to meet the financial performance objectives as set out in **Appendix I**. No extra-ordinary restructuring cost burdens will be imposed on NWSC.

5. SUPPLY/CUSTOMER SERVICE OBJECTIVES

- 5.1. A summary of efficiency performance targets (extracted from Appendix I) as agreed and developed between GoU and NWSC is as presented in Table 1.

Table 1. Targets are as at end June.

Target	Yr 2003	Yr 2004	Yr 2005	Yr 2006
UFW	39%	38%	37%	36%
Billing Efficiency	61%	62%	63%	64%
Collection Efficiency ¹ - GOU Agencies.	106%	145% ²	103%	103%
Collection Efficiency- Non GoU.	99%	103%	103%	103%
Overall Collection Efficiency	100%	112%	103%	103%

5.2. NWSC undertakes to achieve the above targets during the contract period.

5.3. Over the duration of this contract NWSC will undertake a major program of network extension aimed at connecting a minimum of 36,000 new customers by 30th June 2006. The target connections are shown in Table 2.

Table 2. Number of connections by end June.

Year Ending June,	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
% of inactive Connections	21%	17%	15%	13%
Total Connections	87,172	99,593	111,940	124,730

5.4. NWSC is now in position to undertake and fund network expansion. To develop further its technical and managerial capability to deliver on these targets, NWSC will undertake the following:

5.4.1. Develop credible targets (in line with funding capability) as part of the next Corporate Planning cycle – July 2003

5.4.2. Identify a 3- year network expansion program as a major project to be funded by internally generated funds-December 2003.

5.4.3. Establish a project management team with appropriate skills and authority to complete the 3-year project – December 2003

5.4.4. Complete the 3- year extension program – June 2006

5.5. It is the understanding of GoU that the network extension project as targeted in this contract will be financed partly by the cash savings arising from the debt service restructuring and funds generated by NWSC for the duration of the contract. In order to accelerate the achievement of the expansion plan, NWSC will work towards establishment of the following funds from the surplus funds that will internally generated:

5.5.1. A “network expansion fund” to be earmarked for the implementation of the 3-year network expansion plan.

5.5.2. A “new connection fund” to cater for the connection costs especially to the poor.

5.5.3. A ‘Maintenance Fund’ for the residual surplus to maintain a minimum cash surplus deemed to be adequate to handle liquidity requirement.

5.6. When implementing the above network expansion program due regard will be taken to ensure that maximum percentage of active connections is maintained. Expected outcomes of the above actions are shown in the Table 3.

Table 3; Extension Implementation Indicators for NWSC.

Indicator	Target Date.
1. Corporate Plan with credible extension plan.	October 2003
2. 3-year network expansion plan.	December 2003
3. Extension project Management team established.	December 2003
4. Detailed Work plan to implement extension.	March 2004
5. Establish the “extension”, “connection” and maintenance” funds.	June 2004

5.7. NWSC recognizes that in order to maintain and sustain current improvements the corporation has to enhance the level of customer service and supply quality to its

¹ Collection efficiency defined as total collections (including arrears) as a percentage of billings

² High C.E. due to collection of Government Arrears Shs 5.7 billion

customers. The initial steps in promoting a “customer service” culture have been taken through the adoption of a Mission Statement, which highlights quality customer services as a goal.

5.8. Over the duration of this Performance Contract, NWSC will undertake a number of initiatives aimed at developing a customer awareness/service culture at all levels in the organization. NWSC will also put in place the necessary integrated information systems to deliver this customer service. While it is recognized that the achievement of a quality customer service culture may take a number of years, these initiatives will start the organization down that path and will deliver measurable results by the end of the contract period.

5.9. Specifically NWSC will undertake the following:

5.9.1. Review and operationalize the “Customer Policy” and promote awareness – December 2003

5.9.2. Review and operationalize the “Customer Charter” by – January 2004.

5.9.3. Review the tariff structure and revisit the supply/customer services objectives by simplifying the structure of the tariff, introducing the new social connection policy and establishing a connection fund and modifying the customer charter to cater for the poor.

5.9.4. Work towards the achievement of pro-poor targets as specified below;

5.9.4.1. Develop a set of criteria for determining who the “Poor” are by using such criteria as volume consumption benchmarks and specific geographical determination of poor areas in the towns served.

5.9.4.2. Develop a roll out plan to study the poor customers that could be connected, suggesting a social mission program in the study and negotiating with GoU on possible subsidy to serve these people.

5.9.5. Prepare a Master Plan for the development of an Integrated Information System focused on delivering quality customer service – March 2004.

- 5.9.6. Review existing fault reporting and data collection systems and recommend improvements – March 2004
Develop an appropriate set of customer service metrics and associated performance targets, for monitoring during 2003/2004 and thereafter – June 2004
- 5.9.7. Review the set of guidelines for staff at the customer interface, empowering them, within limits, to deal effectively with customer problems – December 2003
- 5.9.8. Complete a focused training program in quality customer service delivery for staff at the customer interface – December 2004
- 5.10. Expected outcomes from the above actions are shown in Table 4.

Table 4: Customer service indicators.

Indicator	Target date
1. Official "Customer Policy" prepared and in operation.	December 2003
2. Official "Customer Charter" prepared and in operation.	December 2003
3. Integrated MIS focused on delivery of quality service.	March 2004
4. Response time to control repair leaks reduced to 18hrs.	June 2004
5. Official guideline for Customer interface staff prepared	December 2003
6. Over 95% of all active accounts metered universally.	December 2004

6. OPERATIONS MANAGEMENT OBJECTIVES

6.1. PRODUCTION

6.1.1. In the production area, NWSC's key objectives are to maintain and rehabilitate the existing production assets, to maximise the efficient utilisation of the assets, to effectively manage the resources vested in the production area (staff, transport, tools materials etc.) and to develop longer term production options within the context of sustainable development.

6.1.2. Specifically NWSC will undertake the following:

6.1.2.1. Following from the achievements of PCI and the requirements of the sector reform implementation identify production and transmission maintenance and rehabilitation requirements and estimate their costs – March 2004.

6.1.2.2. In accordance with the sector reform implementation above, prioritize capital expenditure on the protection and maintenance of the identified requirements using a strict cost/benefit approach – August 2004

6.1.2.3. Maintain financial equilibrium meeting the Operation and Maintenance costs and the depreciation costs as stipulated in the specified target financial ratios below.

Table 5 Financial and operating efficiency indicators.

Year Ending June	2003	2004	2005	2006
Current Ratio (CA/CL).	0.46	0.30	0.23	0.17
Current Ratio (CA/CL) excluding interest payable on frozen debt.	2.33	1.74	1.35	1.02
Av. Receivables collection days.	139	112	91	80
Av. Inventory usage days.	30	30	30	30
Av. Creditor Payment period.	400	494	592	677
Av. Creditor Payment period excluding interest.	27	45	71	86
Total asset turnover.	0.165	0.170	0.166	0.158
Total fixed asset turnover.	0.185	0.188	0.180	0.168

6.1.2.4. Establish investment limits for the implementation of already approved expansion projects like Entebbe, Gaba III and any other identified expansion projects to the peri-urban towns and newly gazetted towns.

6.1.2.5. Establish investment limits for the rehabilitation and expansion of secondary and tertiary distribution networks in all NWSC areas.

6.1.2.6. Complete the Kampala Sanitation Master Plan study and the Sanitation Strategy for the other 14 towns under the NWSC.

6.1.2.7. Initiate and Implement the sewerage rehabilitation and extension programme.

Table 6. Operational Indicators.

Indicator	Target Date
1. Capital expenditure on rehabilitation plan in place	April 2004
2. Production Performance improvement action plan	January 2004
3. Kampala Sanitation Master Plan .	April 2004
4. Sanitation Strategy 14 towns	June 2005

6.2. DISTRIBUTION

6.2.1. In the Distribution operations area, NWSC's objectives are to develop and implement the materials management and works management systems required to carryout the refurbishment and extension of the distribution network, and to enhance the effectiveness of total resource utilisation. NWSC undertakes to take measures to reduce UfW losses to 39% and 36% by the year 2005, 2006 respectively.

6.2.2. Specifically, NWSC will undertake the following initiatives:

6.2.2.1. Complete a Performance Improvement Plan focused on enhancing the effectiveness of total resource utilization in the distribution area of operations – December 2003

6.2.2.2. Introduce a “new connection fund” mechanism in the tariff policy that will help accelerate provision of services to the poor and also curb the incidence of UFW.

Table 7. Distribution indicators.

<i>Indicator</i>	Target Date
1. Study works and materials management complete.	December 2003
2. Introduce the “new connection fund”.	July 2004

6.3. CAPITAL EXPENDITURE

6.3.1. A Detailed Capital expenditure program will be developed, NWSC will apply a benefit/cost approach to prioritize capital expenditure plans and will only proceed with priority projects to the limit of available funding. Approval of CAPEX will be on a case by case basis.

6.3.2. Consideration will be given to the following when developing criteria for evaluating projects:

6.3.2.1. Projects, which bring about a direct improvement to customer supply quality.

6.3.2.2. Projects which extend the life of existing assets.

6.3.2.3. Projects which clearly enhance the efficient utilisation of existing resources.

6.3.2.4. Projects which enhance security of supply.

6.3.3. NWSC will undertake to fully or partially finance a number of flagship investments which are listed below;

6.3.3.1. Extension of water services to Seeta and Mukono.

6.3.3.2. Refurbishment of the Gulu water supply and sewerage system so as to increase production.

6.3.3.3. Refurbishment of the Soroti, Arua and Bushenyi water supply systems.

6.3.3.4. Counterpart Funding to the Construction of a New Gaba III plant.

6.3.3.5. Counterpart funding to the refurbishment and expansion of the Entebbe Water Supply and sewerage Systems.

6.3.3.6. Carry out expansion of the water Distribution Network in all Towns operated by NWSC.

6.3.4. Details of the above investment program are attached in **Appendix II**.

7. HUMAN RESOURCE MANAGEMENT OBJECTIVES

7.1. NWSC's objectives in the areas of human resource management are to identify and remove barriers to achieving improved productivity; to rationalize overall staff numbers to levels which can be justified by business activity, to recruit and retain skilled staff thereby developing the capability of NWSC, and to rationalize the reward system.

7.2. Specifically, NWSC will undertake the following initiatives:

7.2.1. To consolidate on its existing programs that ensures the "bottom up" ways to improve staff productivity.

7.2.2. To institute a continuous performance appraisal scheme for the staff and management group – October 2003

7.2.3. To regularly review staffing levels, give due consideration to outsourcing as alternative to direct hire – December 2003.

7.3. For the purposes of developing a Reference Financial Projection for this Performance Contract a target staffing level of a ratio of 8 per 1000 connections is envisaged by the end of the contract period. However, it is estimated that with outsourcing from external suppliers and the achievement of the correct mix of skills and age profile within NWSC, the optimum staffing level could be considerably reduced.

7.4. In undertaking the top-down review of staffing levels referred to in paragraph 25 item (iii), NWSC will take into account this optimum staffing level and will address how this can be achieved. The revised staffing projections derived from this review will then be used by the Performance Contract Review Committee to

update the financial projections and the performance indicators as given in **Appendix I**. Table 7 is a summary of the staff level indicators.

Table 8 Staff level indicators.

<i>Year Ending June</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>
Staff Employed	950	980	1010	1040
Staff /1000 connections	11	10	9	8

8. MANAGEMENT EFFECTIVENESS OBJECTIVES

8.1. NWSC recognizes that one of the key success factors in realizing full commercialization is the enhancement of organization and management effectiveness. NWSC's objectives in this area are to implement effective governance procedures, to define accountability, to delegate appropriate authority, to institute clear goal-setting procedures and performance appraisal, and to enhance managerial effectiveness through appropriate training and development in line with the Industrial restructuring Plan.

8.2. Specifically, Management of NWSC will undertake the following initiatives:

8.2.1. Review the NWSC organization structure. Identify and implement any necessary organizational restructuring to conform to approved reform activities and to clarify accountabilities.

8.2.2. Continue to implement the current performance improvement programs under the current arrangements and uphold the institutional reform initiatives by the current management to effect the transformation of Areas into autonomous business units including extension and expansion of Kampala WSS Area contract, restructuring of the relationship between HQ and business units consistent with the Industrial restructuring Plan.

8.2.3. Interface with the work of the UWSS reform steering committee and in particular the sub-committee on NWSC responsible for contract monitoring.

8.2.4. Identify/fast-track promising functional managers to head-up key strategy development or change management teams – June 2004.

8.2.5. Put in place the necessary management information systems to improve organizational and managerial effectiveness consistent with the organizational changes.

9. FINANCIAL OBJECTIVES

9.1. It is accepted by both parties to this contract that the achievement of a financially viable and credit-worthy NWSC is the over-riding objective. Progress in achieving this objective will be measured against sound financial criteria as detailed in **Appendix I**

9.1.1. For the purposes of the Reference Financial Projections, a cost reduction mechanism has been incorporated.

9.2. Financing the NWSC Investment Programme

In the Reference Financial Projections, financing of investments is via a mix of internal cash generation and external long-term funding. Other assumptions relating to the Balance Sheet and Profit and Loss Account are detailed in **Appendix I**.

9.2.1. When evaluating investment projects, GOU and NWSC undertake to follow the following principles;

9.2.1.1. In the case of external Long-term funding, donors may be required to confirm that they are prepared to finance investments in assets for which operating responsibility may be transferred to the private sector.

9.2.1.2. If investments are considered commercially viable, then funds may be on-lent to NWSC on commercial terms.

9.2.1.3. If investments are a social mission imposed by GOU on NWSC, then the internal rate of return of the investment must be determined in order to calculate the necessary GOU subsidy to prevent the investments being a financial burden to NWSC.

9.2.1.4. Investments imposed as a social mission above (iii) should be implemented as separate units preferably under service or management contracts in order not to impose financial burden on NWSC. These contracts should be drawn with due regard to the sector reform recommendations.

9.3. It is recognised that the Corporation is not in position to service its long-term debt. It is also recognised that some of the debt incurred in the past was imposed by GOU as a social mission. GOU has now agreed to a rescheduling proposal submitted by the Corporation. GOU will freeze the debt servicing until the capacity of NWSC to service its debt is determined during the due diligence to be carried out when implementing the enhanced PSP transaction.

9.4. It is recognised that GOU as a consumer of the utility services in the past has not been settling its water bills as and when they fell due. GOU now undertakes to settle all the bills as provided for under the Memorandum of understanding signed between MoFPED and NWSC in April 2003.

9.5. Both GOU and NWSC recognize the key role of the donor community in assisting NWSC in its reforms and restructuring, in contributing to the financing of the investment programme, and in assisting GOU/NWSC with its township water supply programme.

9.5.1. NWSC undertakes to enhance its capability to service the information requirements of the Donor Community in a professional manner. NWSC undertakes to provide to the donor community all necessary data, information and planning tools to enable the donors assist in the provision of these services.

10. TARIFF POLICY

10.1. The parties to this Performance Contract agree that the current NWSC tariff is not a full cost recovery tariff and has a distorted structure. The tariff policy must therefore be reviewed based on the following principles:

10.1.1. The level of tariffs must in the long run cover the total costs of NWSC and must provide a return on the assets employed in the business.

10.1.2. NWSC's costs must be limited to those, which are necessary to deliver an acceptable level of service to its customers in an efficient and effective manner, and which provide for a adequate risk management costs.

10.1.3. In the long term the level of tariffs must be sufficient to provide for the rehabilitation, the on-going maintenance and eventual replacement of ageing assets, and to provide a partial self-financing component for future investments.

10.1.4. In the longer term, tariffs should be based on Long Run Marginal Cost (LRMC) principles to ensure the economic allocation of resources.

10.1.5. Tariff policy should be based on minimising the level of cross-subsidization between customer classes.

11. PROVISION OF INFORMATION

11.1. The following information will be supplied to GOU:

11.1.1. Corporate plan to be presented annually, prior to commencement of financial year, which will include 3-year financial projections.

11.1.2. Annual Revenue and CAPEX budget to be submitted to GOU prior to commencement of financial year beginning with FY 2003/2004;

11.1.3. Audited Accounts to be submitted to GOU not later than 3 months after year end;

11.1.4. Annual Report to be submitted to GOU not later than 6 months after year end;

11.1.5. Quarterly management accounts to be submitted to GOU not later than 4 weeks after quarter end.

11.1.6. Monthly returns on the Key summary indicators for all the NWSC areas 3 weeks after month end. Key summary indicators include Sales, collections and arrears separated between GOU and Private arrears.

11.1.7. Any other information that may be requested by GOU in order to make an informed assessment of the performance of NWSC.

12. APPROVAL PROCEDURES

12.1. Authority to incur expenditure which commits NWSC contractually on any matter should derive only from approved plans and budgets.

12.1.1. Approval to spend should be set not only against a framework of defined financial limits but should also take account of specific technical and other parameters issued by the Board of NWSC.

13. PERFORMANCE CONTRACT MANAGEMENT

13.1. A Sub-Committee of the NWSC reform steering committee will be constituted to review the contract. This Performance Contract Review Sub-Committee (PCRC) will be constituted by the NWSC reform steering committee and will include at least the following members;

13.1.1. one representative of the Ministry of Finance

13.1.2. one representative of the Ministry of Water, Lands and Environment

13.1.3. one external director of the NWSC Board.

13.2. The PCRC sub-committee should be constituted at the time of signing the contract. Responsibilities of the PCRC will include;

13.2.1. Performance against specific indicators will be reviewed quarterly. The continued financial viability of NWSC must, at all times, be mandatory;

13.2.2. Provide for the resetting of targets/projections, should it prove necessary.

13.2.3. Parties may, by agreement, meet at any time to review/update targets if there is a significant change in the environment or significant new factors;

13.2.4. The PCRC may agree to use Consultants to assist in the review process.

13.3. The report and recommendations of the PCRC following the quarterly and annual reviews will be submitted to both GOU and the NWSC Board within a period of 14 days after the reviews.

13.4. Overall Performance Targets are set out in **Appendix. I**

13.5. Senior Management reward structure:

13.5.1. The Top management team of NWSC is accountable to the NWSC Board for the achievement of the Corporate Plan Objectives and the financial performance objectives set out in this Performance Contract.

13.5.2. The reward structure for the Top management team will include a performance incentive element of 25% of annual basic salary. The Board, in deciding the appropriate bonus rate to apply in any year, will give due weight to the achievement of the targets set out in this Contract.

14. NWSC CORPORATE PLANNING PROCESS.

14.1. Both parties recognise that the Corporate Plan objectives and the Reference Financial Projections incorporated in the Performance Contract are based on a very preliminary corporate planning process, and on preliminary or incomplete information. However, as information continues to be available and more performance reviews are carried out a more detailed corporate planning process will be undertaken.

14.2. It is envisaged that the Corporate Planning Process will be the primary vehicle for updating the Reference Financial Projections contained in this Performance Contract.



THE REPUBLIC OF UGANDA

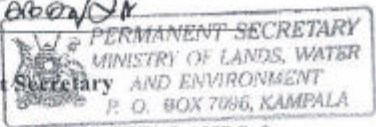
IN WITNESS HEREOF the parties have executed this Agreement by their duly authorised representatives on the date mentioned herein above.

FOR AND ON BEHALF OF THE GOVERNMENT OF UGANDA:

Permanent Secretary/
Secretary to the Treasury
MINISTRY OF FINANCE, PLANNING
AND ECONOMIC DEVELOPMENT

Permanent Secretary/
Secretary to Treasury
MINISTRY OF FINANCE,
PLANNING & ECONOMIC
DEVELOPMENT.

Permanent



Permanent Secretary
MINISTRY OF LANDS, WATER
AND ENVIRONMENT
P. O. BOX 7066, KAMPALA
MINISTRY OF WATER, LANDS &
ENVIRONMENT.

FOR AND ON BEHALF OF NATIONAL WATER AND SEWERAGE CORPORATION:

Board Chairman
NATIONAL WATER & SEWERAGE CORPORATION.

Managing Director
NATIONAL WATER & SEWERAGE CORPORATION

Appendix I

Operational & Financial Targets

SUMMARY

SUMMARY		Performance Contract 1				Performance Contract 2		
<i>Year Ending June,</i>		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>Ushs in millions</u>		-	-	-	-			
<u>OPERATIONS</u>								
UfW	(%)	42%	43%	40%	39%	38%	37%	36%
Sales per active connection	(m3/day)	1.7	1.5	1.3	1.2	1.1	1.0	0.9
Billing efficiency		58%	57%	60%	61%	62%	63%	64%
Active Connections	(nos.)	43,312	48,960	57,127	69,173	82,986	96,158	110,311
Inactive Connections	(nos.)	15,482	17,144	17,670	17,999	16,607	15,782	14,419
Total Water Connections	(nos.)	58,794	66,104	74,797	87,172	99,593	111,940	124,730
Overall collection Efficiency	%	97%	110%	105%	100%	112%	103%	103%
Staff Employed	(nos.)	1,426	1,213	1,092	889	950	980	1,010
Staff / 1000 connections	(nos.)	21	17	12	11	10	9	8
Staff Reduction	(nos.)	213	121	203	(61)	(30)	(30)	(30)
<u>INCOME</u>								
Annual Turnover	(Ushs)	25,839	29,279	34,052	37,628	38,524	40,883	42,876
Net Income	(Ushs)	(9,950)	(51,765)	6,030	(9,917)	(8,739)	(9,666)	(11,014)
<u>CASH FLOW</u>								
Net Cash Flow	(Ushs)	(3,993)	2,382	565	1,507	(1,427)	(2,005)	(415)
Cash Balance	(Ushs)	1,845	4,227	4,792	6,299	4,872	2,867	2,452
<u>CREDITOR - GoU</u>								
Interests Outstanding b/f	(Ushs)	9,020	14,198	21,236	30,788	41,831	52,874	63,917
Interest Due	(Ushs)	5,178	7,038	9,552	11,043	11,043	11,043	11,043
GoU Debt Swap	(Ushs)	0	0	0	0	0	0	0
Total Interest Payment	(Ushs)	0	0	0	0	0	0	0
Interest Outstanding c/f	(Ushs)	14,198	21,236	30,788	41,831	52,874	63,917	74,960
Principal Outstanding b/f	(Ushs)	3,670	7,340	12,504	17,552	22,852	27,284	31,716
Principal Due	(Ushs)	3,670	5,164	5,048	5,300	4,432	4,432	4,432
GoU Debt Swap	(Ushs)	0	0	0	0	0	0	0
Total Principal Payment	(Ushs)	0	0	0	0	0	0	0
Principal Outstanding c/f	(Ushs)	7,340	12,504	17,552	22,852	27,284	31,716	36,148
<u>DEBTOR - GoU</u>								
Arrears Outstanding b/f	(Ushs)	12,613	11,138	13,426	13,581	10,106	10,223	8,617
Annual Increase	(Ushs)	1,482	1,459	405	957	358	362	362
GoU Settlement	(Ushs)	(3,278)	(2,000)	(2,000)	(1,217)	(5,732)	0	0
GoU Debt Swap	(Ushs)	0	0	0	0	0	0	0

KEY INDICATORS - PRODUCTION & DELIVERY

		Performance Contract 1				Performance Contract 2		
Year Ending June,		2000	2001	2002	2003	2004	2005	2006
<u>KAMPALA</u>								
PRODUCTION		-	-	-	-			
Capacity	(mil m3/y)	45.0	45.0	45.0	45.0	46.0	47.0	50.0
Production	(mil m3/y)	31.8	33.6	34.0	36.5	37.7	39.1	40.3
Billed	(mil m3/y)	17.8	17.8	19.0	20.3	21.3	22.5	23.6
UfW	(%)	44%	47%	44%	45%	43.5%	42.5%	41.5%
Billing Efficiency		56%	53%	56%	55%	56.5%	57.5%	58.5%
Sales per Existing Connections	(m3 / day)	1.91	1.97	1.64	1.47	1.36	1.19	1.08
Sales per New/Newly Activated Connection	(m3 / day)	1.30	0.50	0.50	0.50	0.35	0.41	0.35
Average Sales per Connection	(m3 / day)	1.97	1.64	1.47	1.36	1.19	1.08	0.99
CONNECTIONS								
Active Connections	(nos.)	24,815	29,700	35,331	40,829	49,146	56,920	65,520
Inactive Connections	(nos.)	10,601	9,906	10,915	11,782	11,163	11,101	10,570
Writeoffs	(nos.)					471	1,005	888
Re-activation Target	(% of inactive)	6%	7%	6%	-7%	12%	5%	10%
Re-activation suppressed during year	(nos.)	669	695	700	(867)	1,357	508	1,021
Total Water Connections	(nos.)	35,416	39,606	46,246	52,611	59,838	67,016	75,202
Metered Connections	(nos.)	30,142	35,138	42,249	48,952	56,248	63,665	72,194
New Connections	(nos.)	4,434	4,678	5,390	6,821	6,960	7,266	7,579
% increase in connections	(%)	14%	13%	14%	15%	13%	12%	11%
% metered connections	(%)	85%	89%	91%	93%	94%	95%	96%
<u>OTHER AREAS</u>								
PRODUCTION		-	-	-	-			
Capacity	(mil m3/y)	33.4	33.4	33.4	33.4	34.5	35.5	36.0
Production	(mil m3/y)	13.5	12.8	12.9	14.9	15.4	15.9	16.4
Billed	(mil m3/y)	8.5	8.7	9.0	10.9	11.4	12.0	12.5
UfW	(%)	37%	32%	30%	27%	26%	25%	24%
Billing Efficiency		63%	68%	69%	73%	74%	75%	76%
Sales per Existing Connections	(m3 / day)	1.38	1.26	1.23	1.13	1.05	0.92	0.84

Sales per New/Newly Activated Connection	(m3 / day)	0.40	0.50	0.30	0.81	0.26	0.28	0.25
Average Sales per Connection	(m3 / day)	1.26	1.23	1.13	1.05	0.92	0.84	0.76
CONNECTIONS								
Active Connections	(nos.)	18,497	19,260	21,796	28,344	33,840	39,238	44,791
Inactive Connections	(nos.)	4,881	7,238	6,755	6,217	5,444	4,681	3,849
Writeoffs	(nos.)					421	381	468
Re-activation Target	(% of inactive)	15%	9%	3%	8%	15%	12%	14%
Net re-activation suppressed during year	(nos.)	970	439	217	538	956	664	632
Total Water Connections	(nos.)	23,378	26,498	28,551	34,561	39,284	43,919	48,640
Metered Connections	(nos.)	19,707	21,813	26,519	33,746	38,499	43,041	47,667
New Connections	(nos.)	1,557	2,177	2,374	4,727	4,540	4,734	4,921
% increase in connections	(%)	7%	9%	9%	17%	13%	12%	11%
% metered connections	(%)	84%	82%	93%	98%	98%	98%	98%
<u>ALL AREAS</u>								
PRODUCTION								
Capacity	(mil m3/y)	78.4	78.4	78.4	78.4	80.5	82.5	86.0
Production	(mil m3/y)	45.3	46.4	46.9	51.4	53.1	55.1	56.7
Billed	(mil m3/y)	26.3	26.5	28.0	31.1	32.7	34.5	36.1
UfW	(%)	42%	43%	40%	39%	38%	37%	36%
Sales per active connection	(m3/day)	1.67	1.48	1.34	1.23	1.08	0.98	0.90
Billing Efficiency		58%	57%	60%	61%	62%	63%	64%
CONNECTIONS								
Active Connections	(nos.)	43,312	48,960	57,127	69,173	82,986	96,158	110,311
Inactive Connections	(nos.)	15,482	17,144	17,670	17,999	16,607	15,782	14,419
Total Water Connections	(nos.)	58,794	66,104	74,797	87,172	99,593	111,940	124,730
Metered Connections	(nos.)	49,849	56,951	68,768	82,698	94,746	106,706	119,861
New Connections	(nos.)	5,991	6,855	7,764	11,548	11,500	12,000	12,500
% increase in connections	(%)	11%	12%	12%	15%	13%	12%	11%
% metered connections	(%)	85%	86%	92%	95%	95%	95%	96%

KEY INDICATORS - STAFF AND TARIFFS

		Performance Contract 1				Performance Contract 2		
		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
TOTAL STAFF ANALYSIS								
Staff Employed as of 1 July at start of financial year		1,426	1,213	1,092	889	950	980	1,010
Staff Employed year end		1,213	1,092	889	950	980	1,010	1,040
Staff / 1000 connections active		28	22	16	14	12	11	9
Staff / 1000 connections total		21	17	12	11	10	9	8
Staff Reduction/(Increase)		213	121	203	(61)	(30)	(30)	(30)
Wages	(mil Ushs/yr)	7,906	7,045	8,730	6,822	7,520	8,293	8,539
Average Wages per Staff	(mil Ushs/yr)	5.54	5.81	7.99	7.67	7.67	8.21	8.21
Staff costs as a percentage of Operating costs.		44%	42%	39%	29%	29%	30%	29%
TARIFFS								
Average Water Tariff								
	Kampala (Ushs/m3)	1,000	1,000	977	1,036	1,103	1,114	1,114
	Other Areas (Ushs/m3)	930	930	907	961	1,023	1,033	1,033
	All areas (Ushs/m3)	881	961	953	1015	1075	1086	1086
Average Service fee								
	Kampala Ush pm /conn	0	1,226	1,741	1,702	1,694	1,685	1,677
	Other Areas Ush/conn	0	1,670	1,529	1,561	1,553	1,546	1,538
	All areas Ush/conn	0	1,079	1,660	1,644	1,636	1,628	1,620

INCOME STATEMENT

			Performance Contract 1				Performance Contract 2		
Year Ending June,		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	
<u>REVENUE</u>									
WATER SALES									
Kampala	Ushs	15,821	17,607	18,589	21,392	23,508	25,051	26,275	
Other Areas	Ushs	<u>7,392</u>	<u>7,823</u>	<u>8,068</u>	<u>10,221</u>	<u>11,669</u>	<u>12,355</u>	<u>12,879</u>	
Total Sales	Ushs	23,213	25,430	26,657	31,613	35,177	37,407	39,154	
Service fees									
Kampala	Ushs	0	437	738	834	999	1,151	1,318	
Other Areas	Ushs	0	197	400	531	631	728	827	
Total Sales	Ushs	0	634	1,138	1,365	1,630	1,879	2,145	
CONNECTION CHARGES (for new connections)									
No. of Conn. (assumption)									
Kampala	Nos.	4,434	4,678	5,390	6,821	6,960	7,266	7,579	
Other Areas	Nos.	1,557	2,177	2,374	4,727	4,540	4,734	4,921	
Average connection Fee									
Kampala	Ushs/per conn	0.093	0.102	0.064	0.068	0.068	0.068	0.068	
Other areas	Ushs/per conn	0.062	0.075	0.068	0.051	0.051	0.051	0.051	
Kampala	Ushs	412	478	344	463	412	430	449	
Other Areas	Ushs	<u>96</u>	<u>164</u>	<u>161</u>	<u>239</u>	<u>269</u>	<u>280</u>	<u>291</u>	
Total connection fee	Ushs	508	642	505	702	681	711	740	
Other Water and Sewerage Revenues									
		512	397	645	747	600	450	400	
<u>TOTAL REVENUE</u>									
Kampala	Shs m	16,233	18,522	19,671	22,689	24,919	26,633	28,042	
Other Areas	Shs m	7,488	8,184	8,629	10,991	12,568	13,363	13,997	
Other Revenue	Shs m	512	397	645	747	600	450	400	
		-	-	-	-	-	-	-	
CORE INCOMES	Shs m	24,233	27,103	28,945	34,427	38,087	40,446	42,439	
OTHER INCOMES									
GoU Grants	Shs m		0	3,163	2,089	0	0	0	

Other Grants	Shs m			804	431	0	0	0
Adjustments	Shs m		1,854	818	244	0	0	0
Recogn of deferred income	Shs m	1,606	322	322	437	437	437	437
sub total	Shs m	1,606	2,176	5,107	3,201	437	437	437
TOTAL INCOME		25,839	29,279	34,052	37,628	38,524	40,883	42,876
EXPENDITURE		2000	2001	2002	2003	2004	2005	2006
Salaries & Wages	Ushs	8,519	8,975	8,730	7,290	7,520	8,293	8,539
Restructuring Costs	Ushs	1,517	1,491	1,765	1,050	300	100	100
Fixed Costs (Staff)	Ushs	10,036	10,466	10,495	8,340	7,820	8,393	8,639
Premises	Ush m	776	972	896	1,305	1,099	922	965
Static plant and pipe	Ush m	4,190	4,824	6,556	7,187	7,484	7,881	8,390
Transport and mobile plant	Ush m	1,070	963	810	965	863	865	870
Supplies and services	Ush m	1,531	1,983	2,553	2,993	2,624	2,763	2,836
Administrative expenses	Ush m	5,197	5,702	5,628	8,243	7,336	7,456	7,600
KRIP & KWSSA fee + incentives	Ush m	2,135	2,894	2,073	4110	4200	4200	4200
Provision for bad debts	Ush m	530	530	680	390	400	440	484
Provision for obsolete inventory	Ush m	120	60	0	0	0	0	0
Other admin expenses	Ush m	2,412	2,218	2,875	3,743	2,736	2,816	2,916
Financial expenses				165	143	150	150	150
Deferred charges written-off	Ush m	0	0	0	0	0	0	0
TOTAL OPERATING EXPENSES		22,800	24,910	27,103	29,176	27,376	28,430	29,450
EBITDA		3,039	4,369	6,949	8,452	11,148	12,453	13,426
<i>(earnings before interest, tax, depreciation, & Exceptional item)</i>								
Depreciation	Ush m	7,129	6,989	6,985	7,326	7,740	8,757	9,743
Exceptional item - Asset Impairment			41,752	(15,489)	0	0	0	0
EBIT		(4,090)	(44,372)	15,453	1,126	3,408	3,696	3,684
<i>(earnings before interest and tax)</i>								
Interest payable		5,877	7,416	9,617	11,043	12,147	13,362	14,698
Interest received		(17)	(23)	(194)	(11)	(11)	(11)	(11)
Net interest	Ush m	5,860	7,393	9,423	11,032	12,136	13,351	14,687
Net Income before tax (EBT)		(9,950)	(51,765)	6,030	(9,917)	(8,739)	(9,666)	(11,014)
<i>Earnings Before Tax</i>								
Tax credit charge/(Credit)		2,647	(923)	3,015	2,975	2,622	2,900	3,304
NET INCOME		(7,303)	(52,688)	9,045	(6,942)	(6,118)	(6,766)	(7,710)

CASH FLOW STATEMENT

	Performance Contract 1				Performance Contract 2		
<i>Year Ending 30 June,</i>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>CASHFLOW FROM OPERATIONS</u>	-	-	-	-			
Net Income (after interest)	(9,950)	(51,765)	6,030	(9,917)	(8,739)	(9,666)	(11,014)
Add: Depreciation & Amortization	7,129	6,989	6,985	7,326	7,740	8,757	9,743
Add: Interests	5,860	7,393	9,423	11,032	12,136	13,351	14,687
Add Asset Impairment	0	41,752	(15,489)	0	0	0	0
Add: Deferred Charges	(1,606)	(322)	(322)	(437)	(437)	(437)	(437)
Add back deferred charges written off	0	0	0	0	0	0	0
Add back provision of slow moving inventories	0						
Add back provision of bad debts	0						
Add loss on disposal of motor vehicles		36	83				
<i>Subtotal</i>	1,433	4,083	6,710	8,004	10,700	12,005	12,978
Working Capital Items							
GoU Debt Swap	0	0	0	0	0	0	0
Debtor - GoU	1,385	1,911	(1,208)	332	3,403	229	229
Other Debtors	<u>(2,497)</u>	<u>(436)</u>	<u>(1,080)</u>	<u>(487)</u>	<u>72</u>	<u>(346)</u>	<u>1,377</u>
Decrease/(Increase) in Debtors	(1,112)	1,475	(2,288)	(155)	3,475	(116)	1,606
Creditors: GoU							
Unpaid Loan Interest increase/(decrease)	5,178	7,038	9,552	11,043	11,043	11,043	11,043
GoU Swap							
Unpaid Loan Principal increase/(decrease)	3,670	5,164	5,048	5,300	4,432	4,432	4,432
Creditors - GoU	8,848	12,202	14,600	16,343	15,475	15,475	15,475
Creditors - Others	<u>(14,733)</u>	<u>(1,792)</u>	<u>(1,270)</u>	<u>(883)</u>	<u>(2,500)</u>	<u>(2,000)</u>	<u>(2,000)</u>
Increase/(Decrease) in Creditors	(5,885)	10,410	13,330	15,460	12,975	13,475	13,475
Increase in deferred income							
Increase/(Decrease) in Retirement benefits	509	459	(1,425)				
Decrease/(Increase) in Stocks	<u>533</u>	<u>(244)</u>	<u>562</u>	<u>(255)</u>	<u>(300)</u>	<u>(150)</u>	<u>(150)</u>
Add: Net Decrease / (Increase) in Working Capital Items	(5,955)	12,100	10,179	15,050	16,150	13,209	14,931
Less: Taxation Paid	0	(44)	(119)	0	0	0	0
Interest Received	17	23	194	214			
Interest paid	(701)	(11)	0	0			
Less: Other Non-Income Statement Payments	0	0	0	(2,726)	0	0	0
<i>Subtotal</i>	(5,206)	16,151	16,964	20,542	26,850	25,214	27,909
Less: Loan principal and interests	8,848	12,202	14,600	16,343	15,475	15,475	15,475
	0	0	0	0	0	0	0

Net Cash Flow from Operations	(14,054)	3,949	2,364	4,199	11,375	9,739	12,434
<u>DEBT SERVICING</u>							
Cashflow from Interests Payment	0	0	0	0	0	0	0
Cashflow from Principal Payment	0	0	0	0	0	0	0
Net Cashflow from Debt Servicing	0	0	0	0	0	0	0
<u>CASHFLOW FROM FINANCING ACTIVITIES</u>							
Small Towns Water Sanitation Project	4,195	4,796	4,984	3,195	0	0	0
Cost Overruns - Foreign (STWSP)	10,240	0	0	0	0	0	0
Cost Overruns - GoU	2,500	0	0	0	0	0	0
Interests on Cost Overruns - GoU	1,779	0	0	0	0	0	0
Loans repaid (Standard Chartered)	(417)	(83)	0	0	0	0	0
Other Projects	8,285	1,509	131	0	0	0	0
GoU Grants (contribution to projects)	0	0	0	1,946	2,989	4,370	3,347
Donor Grants	0	0	10,140	9,504	9,180	20,688	20,706
Net Cashflow from Financing	26,582	6,222	15,255	14,645	12,169	25,058	24,053
<u>CASHFLOW FROM INVESTING ACTIVITIES</u>							
Small Towns Water Sanitation Project	4,935	5,991	5,090	3,734	0	0	0
STWSP/Overruns etc	16,521	5,991	5,090	3,734	0	0	0
Mukono	0	0	0	0	1,000	1,300	1,500
Gulu	0	0	0	0	1,000	1,000	1,000
Soroti/Arua/Bushenyi Kabale Water Supply & Sanitation Project.	0	1,557	9,342	7,839	0	0	0
LVEMP	0	0	105	457	0	0	0
Gaba 1 Refurbishment	0	0	1,929	918	2,690	0	0
Other Projects	0	0	0	2,698	12,339	27,408	27,103
NWSC Minor Works	0	297	610	1,692	7,442	6,594	6,899
Net Cashflow from Investing	(16,521)	(7,845)	(17,076)	(17,338)	(24,971)	(36,802)	(36,902)
Sale of Property, plant & Equipment	0	56	22	0	0	0	0
NET CASHFLOW	(3,993)	2,382	565	1,507	(1,427)	(2,005)	(415)
Cash taken over from SWSP							
Cash Balance b/f, 1 July	5,838	1,845	4,227	4,792	6,299	4,872	2,867
Cash Balance c/f, 30 June	1,845	4,227	4,792	6,299	4,872	2,867	2,452

BALANCE SHEET

<i>Year Ending 30 June, Operation Year</i>	Performance Contract 1				Performance Contract 2		
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
ASSETS							
<u>Non current Assets</u>							
Property, Plant & Equipment	203,891	163,107	188,582	196,181	213,412	241,456	268,616
<u>Current Assets</u>							
Stocks/Inventories	3,098	3,342	2,779	3,034	3,334	3,484	3,634
Trade and other receivables (Debtors)	12,613	11,138	13,426	13,581	10,106	10,223	8,617
Taxation Recoverable	657	701	821	1,059	1,059	1,059	1,059
Bank Deposits	14	1,002	1,069	3,164	1,608	946	809
Bank & Cash balances	1,855	3,227	3,725	3,196	3,264	1,921	1,643
	18,237	19,410	21,820	24,034	19,371	17,632	15,761
Total Assets	222,128	182,517	210,402	220,215	232,782	259,088	284,377
EQUITY & LIABILITIES							
<u>Equity Reserves</u>							
GoU funding	55,660	57,170	57,301	57,788	60,777	65,147	68,494
Revaluation Reserve	6,817	6,524	6,183	5,696	1,093	1,093	1,093
Retained Earnings	55,427	3,446	12,978	2,085	2,085	2,085	8,567
	117,904	67,140	76,462	65,569	63,955	68,325	78,154
<u>Non-Current Liabilities</u>							
Borrowings	69,865	75,029	76,425	76,828	84,931	84,931	84,931
Deferred income taxes	8,632	9,342	6,181	6,181	5,085	5,085	6,181
Retirement obligations	4,381	4,817	3,073	3,102	3,102	3,102	3,102
Deferred Income		386	10,089	16,367	11,732	20,693	19,271
	82,878	89,574	95,769	102,478	104,850	113,811	115,796
<u>Current Liabilities</u>							
	-	-	-	-			
Trade and other payables	19,966	25,212	33,495	44,376	59,836	72,811	86,286
Borrowings-loans due within 1 year	83		3,652	7,303	3,652	3,652	3,652
Bank overdraft - unsecured	21						
Deferred Income	1,030	322	437	437	437	437	437
Retirement benefit obligations	246	269	588	52	52	52	52
Taxation	0	0	0	0	0	0	0
	21,346	25,803	38,171	52,168	63,977	76,952	90,427
Total Equity and Liabilities	222,128	182,517	210,402	220,215	232,782	259,088	284,377

SCHEDULES	Performance Contract 1				Performance Contract 2		
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
LOAN SCHEDULES							
Interests Outstanding b/f	9,020	14,198	21,236	30,788	41,831	52,874	63,917
Interest Due	5,178	7,038	9,552	11,043	11,043	11,043	11,043
GoU Debt Swap	0	0	0	0	0	0	0
Accrued Interests Paid	0	0	0	0	0	0	0
Current Year Interests Paid	0	0	0	0	0	0	0
Total Interest Payment	0	0	0	0	0	0	0
Interest Outstanding c/f	14,198	21,236	30,788	41,831	52,874	63,917	74,960
Principal Outstanding b/f	3,670	7,340	12,504	17,552	22,852	27,284	31,716
Principal Due	3,670	5,164	5,048	5,300	4,432	4,432	4,432
GoU Debt Swap	0	0	0	0	0	0	0
Accrued Principal Paid	0	0	0	0	0	0	0
Current Year Principal Paid	0	0	0	0	0	0	0
Total Principal Payment	0	0	0	0	0	0	0
Principal Outstanding c/f	7,340	12,504	17,552	22,852	27,284	31,716	36,148

		Performance Contract 1				Performance Contract 2		
DEBTOR SCHEDULES		2000	2001	2002	2003	2004	2005	2006
BILLINGS (Net of VAT)								
GoU	Ush m	5,674	5,957	4,252	7,103	7,561	7,637	7,637
Others	Ush m	17,539	20,107	23,543	25,875	29,245	31,649	33,662
Total Billings		23,213	26,064	27,795	32,978	36,806	39,286	41,299
		24%	23%	15%	22%	21%	19%	18%
Debtor days after provisions								
GoU	Ush m	527	384	642	367	181	168	157
Other	Ush m	81	82	65	65	62	61	43
Total		198	156	176	150	100	95	76
Total Collections (net of VAT)								
GoU	Ush m	5,973	7,482	3,298	7,522	10,964	7,866	7,866
Other	Ush m	16,617	21,100	25,998	25,620	30,122	32,598	34,672
Total		22,590	28,582	29,296	33,142	41,086	40,464	42,538
Collection efficiency (Total collections/billings)								
GoU	Ush m	105%	126%	78%	106%	145%	103%	103%
Other	Ush m	95%	105%	110%	99%	103%	103%	103%
Total		97%	110%	105%	100%	112%	103%	103%
Debtors outstanding -before provisions								
GoU	Ush m	8,185	6,274	7,482	7,150	3,747	3,518	3,289
Others	Ush m	19,409	18,243	16,639	17,455	16,578	15,628	14,618
Total		27,594	24,517	24,121	24,605	20,325	19,147	17,908
(Increase)/decrease in debtors			3,077	396	(484)	4,280	1,179	1,239
Proviions for bad debts annual								
	Ush m	530	530	680	390	400	440	484
of which GoU								
	Ush m	0	0	0	0	0	0	0
Provisions for bad debts balance								
	Ush m	0	0	0	0	0	0	0
Others	Ush m	15,507	13,701	12,424	12,814	11,619	10,324	10,691
Total		15,507	13,701	12,424	12,814	11,619	10,324	10,691
Debtors outstanding after provisions								
GoU	Ush m	8,185	6,274	7,482	7,150	3,747	3,518	3,289
Others	Ush m	3,902	4,542	4,215	4,641	4,959	5,304	3,927
Other debtors (non-billing)	Ush m	526	322	1,729	1,790	1,400	1,400	1,400
Total		12,613	11,138	13,426	13,581	10,106	10,223	8,617

Performance Contract 2					
Notes to Capital Expenditure					
DONOR FUNDED PROJECTS	Funding Source	2003	2004	2005	2006
Project Name		Shs m	Shs m	Shs m	Shs m
Small towns	GoU	473	0	0	0
	Donor-IDA	3,195	0	0	0
	NWSC	66	0	0	0
	Total	3,734	-	-	-
Kabale WSSP	GoU	1,101	0	0	0
	Donor-KfW	6,716	0	0	0
	NWSC	22	0	0	0
	Total	7,839	-	-	-
Kampala Peri Urban Project	GoU	0	0	0	0
	Donor	0	0	0	0
	NWSC	324	700	1,000	1,000
	Total	324	700	1,000	1,000
Kla Network Rehabilitaion	GoU	0	600	0	0
	Donor-KfW	792	3,850	1,959	0
	NWSC	592	750	750	0
	Total	1,384	5,200	2,709	-
Gaba 1 Refurb phase II	GoU	0	0	0	0
	Donor-EU	464	2,280	0	0
	NWSC	454	410	0	0
	Total	918	2,690	-	-
Entebbe WSSP	GoU	0	870	1,450	580
	Donor-KfW	0	1,000	7,160	6,258
	NWSC	0	700	200	200
	Total	-	2,570	-	7,038

				8,810	
Gaba III	GoU	0	967	2,418	967
	Donor-KfW	390	1,000	8,123	8,123
	NWSC	0	200	300	300
	Total	390	2,167	10,841	9,390
Urban Poor	GoU	370	400	400	400
	Donor-KfW	0	100	2,800	1,400
	NWSC	0	100	100	100
	Total	370	600	3,300	1,900
Kla Sanitation	GoU	0	152	102	0
	Donor-KfW	687	950	646	0
	NWSC	0	0	0	0
	Total	687	1,102	748	-
LVEMP	GoU	2			
	Donor	455			
	NWSC				
	Total	457			
	Funding Source	2003	2004	2005	2006
Summary Expenditure	GoU	1,946	2,989	4,370	1,947
	Donor	12,699	9,180	20,688	15,781
	NWSC	1,458	2,860	2,350	1,600
	Total	15,646	15,029	27,408	19,328

NWSC OTHER INVESTMENTS	2002	2003	2004	2005	2006
	shs m	Shs m	Shs m	Shs m	Shs m
Land & Buildings	109	6	700	400	400
Statis Plant	236	250	1,800	1,800	1,800
Network Extensions					
water	363	549	2,950	3,010	3,245
Sewerage	74	107	552	684	754
Mobile Plant	0	157	500	200	200
Furniture/Equipment	240	623	940	500	500
TOTAL	1,022	1,692	7,442	6,594	6,899

Appendix II

Investment Activities

INVESTMENT ACTIVITIES 2003 – 2006

a) Gulu Water Supply System

The Gulu system is currently over burdened by the influx of the population into the town. The system was designed to cater for 40,000 people, but the census population established the population in the town at over 100,000 people. There is thus urgent need to expand the production capacities. As external funding is sought, the NWSC will finance specific interventions of the rehabilitation of the Gulu water and sewerage systems, which will be implemented in a phased manner so as to allow financing from own cash generation. This will ensure that water supply in Gulu is improved.

During the period 2003 – 2006, the NWSC is to update of the detailed design works and the costs for the project. Intervention works will include the refurbishment of the water production systems, the pumping mains, the water treatment plant, storage facilities and restructuring of the distribution system.

Water production is targeted to increase from the current 1,327 cu.m per day to 1,445 cu.m per day. The number of new connections are targeted to increase by 489 over the period which will result into an extra 20,000 people with access to water.

b) Extension of Water to Mukono

In addition, the NWSC will partially finance extension of water to Mukono, which will entail the re-enforcement of mains from Kireka, and the erection of a Reservoir in Kireka in the first phase. The Mukono population is currently estimated at 47,305 people and the people currently get water from non-conventional sources such as springs and wells. The pipeline length to Mukono will be about 14 kms, with a preliminary distribution network of 20 kms. It is also planned to construct a 2000 m³ storage tank in Mukono. This would improve the water supplies to the people and boost industrial activities. It is estimated that a total of 1000 new connections will be made in the first phase of the project, with a final target figure of 3500 connections.

c) Soroti Intervention Works

The NWSC will carry out minor intervention works in the Soroti water supply and sewerage system which will entail the expansion of the network. It is estimated that a total of 750 new connections will be made increasing coverage to about 8,000 people. Production is envisaged to increase from 2,076 to 2,247 cu.m per day. These minor interventions will be carried out as funds are sourced for the major refurbishment of the Soroti Water and Sewerage system.

d) Bushenyi intervention Works

In Bushenyi, intervention works will center around expanding the production and intensifying the distribution network. It is targeted to increase production from 457 cu.m per day to 714 cu.m per day. It is projected that a total of 637 new connections will be made over the contract period increasing coverage to an estimated 4000 people.

e) Arua Intervention Works

The Arua works will entail the refurbishment of the primary distribution main from the reservoir and the restructuring of the secondary distribution system and mains intensification. It is also planned to acquire land for lagoons/stabilization ponds and develop a damping site for on-site sanitation disposal. It is projected that production will be increased from 1,012 cu.m per day to 2,049 cu.m per day. It is also projected that a total of 796 connections will be made during the period serving an extra 4000 people.

f) Mains extensions in all NWSC Areas:

In addition, the NWSC will invest in the expansion of its network. It is envisaged that a total of 750 Kms of mains extensions will be made over the three years resulting into an increase of about 36,000 water connections. These will be carried out using internally generated funds as detailed in the attached expansion plan. The recently gazetted area of Nansana will also be included, and it is estimated that a total of 1,000 connections will be realized.

g) Implementation of Donor Funded Projects:

With the assistance of donors, the NWSC will continue its investment drive to increase the water production capacities and expand the distribution network in its towns of operation. The investment activities will cover all the towns with major projects being carried out in Kampala (Gaba III), Entebbe, and the extension of services to the peri-urban and poor settlements. The other towns will under go minor rehabilitation and extension of services. Funding for some of these activities have been obtained from the German Government, however, one major undertaking of the NWSC is to increase the utilization of internally generated funds for investment.

h) Sanitation

During the period 2003 – 2006, the NWSC will continue with the implementation of the Kampala Sanitation Master Plan which is due to be completed in the year 2004. The recommendation of the study will establish the framework within which downstream activities will be implemented. However, in the interim, the Corporation will continue with its extension of the sewerage network using its internally generated funds. It is targeted to connect a total of 378 new connections during the plan period 2003 -2006.

DETAILS OF MAINS EXTENSIONS TO BE IMPLEMENTED

WATER

AREA	FY 2003/04			FY 2004/05		FY 2005/06	
	Distance (m)	Unit Price	Estimated Cost	Distance (m)	Estimated Cost	Distance (m)	Estimated Cost
<u>Kampala-KWSSA</u> extensions to Eastern, western, southern and northern parts of Kampala	50,000		922,000,000	57,300	3,102,000,000	74,300	1,110,000,000
<u>JINJA AREA</u> extensions to Waiaraka, Budondo areas	25500		229000000	24500	276000000	33000	369000000
<u>ENTEBBE AREA</u> extensions to Nkumba, Kitoro etc	14,000		166,600,000	18,000	250,000,000	21,500	329,500,000
<u>MBALE AREA</u> extensions to Bugema area Bufumbiro etc	10,300		82,400,000	11,000	123,000,000	11,000	123,000,000
<u>MBARARA AREA</u> extensions to kibanda, Kizungu	10,000		130,000,000	11,000	177,500,000	10,000	173,500,000
<u>TORORO AREA</u> extensions to Juba slum, Nagongera etc	5,800		75,400,000	14,500	234,500,000	20,000	560,000,000
<u>MASAKA AREA</u> extensions to Katigondo, Ndegeya, Kimanyi etc	20,500		566,000,000	21,900	445,200,000	25,500	230,750,000
<u>LIRA AREA</u> extensions to Angwtangwet, Agwata, Kirombe village etc	12,000		138,000,000	16,000	148,000,000	17,000	172,000,000

<u>GULU AREA</u> extensions to Lacor Area, Pece, Gulu PTC ect	15,300		254,200,000	13,000	149,000,000	14,000	163,000,000
<u>KASESE AREA</u> extensions to Kilembe hospital, Nyakasanga, Kigoro etc	5,700		58,000,000	6,500	52,000,000	7,000	56,000,000
<u>KABALE AREA</u> extensions to Kisoro road, Kakoma, Kagarama etc	10,500		86,000,000	17,000	124,000,000	23,000	184,000,000
<u>FORT PORTAL AREA</u> extensions to Saku road, Harugogo, Burongo	4,000		74,000,000	6,000	48,000,000	6,000	48,000,000
<u>BUSHENYI-ISHAKA AREA</u> extensions to Bweranyange, Rwemisenyi etc	4,460		35,680,000	11,000	88,000,000	8,000	64,000,000
<u>ARUA AREA</u> extension to Ociba road, Asaru, Abira road etc	12,650		119,400,000	12,400	103,200,000	13,100	105,000,000
<u>SOROTI AREA</u> extensions to serere road, Madera etc	4,450		35,600,000	9,500	91,000,000	9,500	91,000,000
TOTAL	205,160		2,972,280,000	249,600	5,411,400,000	292,900	3,778,750,000