Commercialisation as Organised Hypocrisy: The Divergence of Talk and Action in Water Services in Small Towns in Uganda

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ABSTRACT: The topic of commercialisation in the water services sector has been subject to heated debate over the past years. By drawing on an analysis of the service of small towns by the National Water and Sewerage Corporation of Uganda, we argue that multiple interpretations of the commercialisation of services can coexist within a single water utility. Whereas the water utility claims to adhere to a model of commercial water provisioning, the implemented model shows significant deviations from the ideal. In this article, we elaborate on the organisational strategies that help sustain a dissonance between what is prescribed in the discourse and what happens on the ground and we mobilise the concept of organised hypocrisy to describe these strategies. We highlight that the water utility needs to show adherence to a commercial public utility model in order to access resources from donors and the national government, while it must at the same time provide actual water services to these towns. The collective celebration of the success of the discursive model of commercialisation, despite the deviations to the model during implementation, promotes the persistence of this model in the international policy domain.

KEYWORDS: Commercialisation, water supply services, organised hypocrisy, Uganda

INTRODUCTION
Between 1993 and 2003, many countries adopted new water policies for regulating the provision of water supply and sanitation services. New legislative and policy frameworks that envisaged a greater role for the private sector in the provision of water supply and sanitation services were developed by countries such as Senegal (1995), Uganda (1998-2001), Mozambique (1999), Indonesia (2004), Mexico (1992), Namibia (2000), Zambia (1994-2001), Kenya (2002), Tanzania (2002) and South Africa (1998). Although such private sector involvement has remained limited (Schwartz, 2008), the privatisation decade (Franceys, 2008) had a significant impact on the principles that public water operators are expected to adhere to, following which the provision of public water services on a commercial basis became the dominant model for service provision. Underlying the prominence of commercialisation in the water services sector is the argument that "[w]ell-run public utilities of the developing world have much in common with efficient private providers" (Marin, 2009: 147). It was believed that until the adoption of the commercial public utility model many of these utilities were run inefficiently, did not respond to customer demands, and were trapped in a cycle of low investment and poor service levels. Commercialisation in the water services sector revolves around two main principles that are believed to address the above-mentioned issues. First, water utilities adhering to commercial principles should strive to operate on the basis of full cost recovery by charging tariffs that allow for the collection of sufficient revenues. Second, commercialised water utilities are meant to be autonomous entities operating at
arm’s-length from government agencies and thus avoiding politicisation of the day-to-day management of the utility (Foster, 1996; Bakker, 2007; Mara and Alabaster, 2008; Hughes, 2012).

In recent years there has been increasing recognition that the way in which commercialisation is implemented differs from one location to the next depending on context; as a result, policy models for water provisioning (including commercialised models) are consistently adjusted during implementation. It is argued that “[t]here is no uniform template of neoliberal reform in the water sector and neoliberalizing transformations are not simply imposed from elsewhere as fixed templates” (Yates and Harris, 2018: 77). This suggests that there is a need to distinguish between an abstract or discursive model that is prescribed as a policy and the model that is actually developed for implementation in these distinct contexts. Despite the recognition of this disconnect, most studies of policy implementation of water services provisioning tend to conduct investigations with the aim of promoting or critiquing the discursive policy model, rather than aiming to better understand its implementation.

In this article, we embrace the idea that policies are adjusted or translated to fit local contexts and that they will therefore most likely differ from the policy prescription. We elaborate further on how these two models – the prescribed and the practised – are different but coexisting manifestations of a single concept. By exploring the organisational strategies of a water utility, we argue that the two models serve different purposes, cater to different audiences, and involve different actors. Using the concepts of multiple policy domains (Berman, 1978; Maynard-Moody and Herbert, 1989; Mollinga, 2008), institutionalised organisations (Meyer and Rowan, 1977), and organised hypocrisy (Brunsson, 1989), we argue that multiple manifestations of commercialisation within a single water utility are a necessary strategy if public water utilities are to address the multiple demands with which these organisations must comply.

We support our argument by using the case of the National Water and Sewerage Corporation (NWSC) in Uganda. Primary data collection was conducted in May 2017 and between November 2017 and January 2018; it focused on the head office of the NWSC in Kampala and on the branch offices for the Bushenyi-Ishaka and Kitgum areas. The 12 semi-structured interviews at the headquarters of the NWSC were geared towards understanding 1) infrastructural development approaches in small towns serviced by the NWSC, 2) the finances of branches servicing small towns (including revenue generation, and capital and operational expenditure), and 3) levels of service provided to consumers. In addition to the semi-structured interviews, a focus group discussion was organised at the NWSC head office in February 2018. This focus group discussion involved 35 area and branch managers and focused on the infrastructural, operational and financial approaches implemented by NWSC branches.

The semi-structured interviews with staff of the Bushenyi-Ishaka and Kitgum branches of the NWSC focused on establishing how commercialisation of water services was practised within these areas. Nine interviews were held with staff at the Bushenyi-Ishaka branch and eight at the Kitgum branch, with interviewees including area managers, heads of operations and finance, and heads of commercial sections; technical staff in both areas were also interviewed. These semi-structured interviews focused on 1) financial flows, 2) infrastructure and technology choices, 3) service levels provided to consumers, and 4) the drivers of decisions relating to the operations of the branch.

In addition to primary data collection through semi-structured interviews and a focus group discussion, the development of the case involved extensive collection and analysis of secondary data. NWSC annual reports for the period 2002-2017 were reviewed, as were the NWSC’s Five Year Strategic Plan (2012-2017) and Five Year Strategic Direction 2016-2021 reports, and academic publications concerning the NWSC. This secondary data was reviewed in order to gain insight into the performance of the NWSC and also to determine how the NWSC presents its functioning and operations to external stakeholders. In order to gain in-depth understanding of infrastructure development policies and operations in the branches, secondary data for the two branches was also reviewed; this included operational reports, financial statements, annual capital expenditures and operational expenditure
budgets, biannual performance evaluation reports, and audited annual reports for the period 2013 to 2017.

Before presenting the case of the NWSC, we will elaborate on the concept of the commercialisation of water utilities, and then go on to elaborate on the concepts of multiple policy domains, institutionalised organisations, and organised hypocrisy.

**THE PRINCIPLES OF COMMERCIALISATION**

A combination of poor public sector management practices, increasing urbanisation, and limited investments in water supply and sanitation "led to the 'three lows' that are often associated with public [water] services: low rates of cost recovery, low productivity, and ultimately low service quality and coverage" (Spronk, 2010: 157; Schwartz, 2008; Furlong, 2015). It has been argued that these three 'lows' are the result of the politicisation of water services provision (Foster, 1996; Baietti et al., 2006), which undermines the ability of the water utility to operate efficiently and to recover costs. In order to turn around the situation of utilities that are trapped in these three 'lows', utilities have been steered towards the adoption of commercial principles, or commercialisation, at the core of which are principles that emphasise that the utility should operate autonomously and on the basis of cost recovery. Table 1 provides an overview of the different definitions of commercialisation as discussed by various authors. Although there are some minor differences in the definitions of commercialisation, there appears to be considerable agreement on its main principles (Bakker, 2007; Hughes, 2012; Kitonsa and Schwartz, 2012; Furlong, 2015; Moriarty et al., 2013).

Table 1. Principles of commercialisation.

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<tr>
<td>Cost recovery</td>
<td>Profit based</td>
<td>Full cost recovery</td>
<td>Full cost financing</td>
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<tr>
<td>Profit based</td>
<td>Cost efficiency</td>
<td>Autonomus entities</td>
<td>Autonomous entities</td>
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<tr>
<td>Direct accountability</td>
<td>Flexible management</td>
<td>Performance management</td>
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Source: Tutusaus (2019).

According to policy prescriptions of commercialisation, public water utilities should be in a position to determine the amount of, and to collect, a water tariff that allows them to operate on the basis of cost recovery (Baietti et al., 2006). According to literature emanating from international development banks, recovering costs is achieved largely by ensuring sufficient revenue generation and operating efficiently; in this way investment and operational costs are kept low (Baietti et al., 2006; Marin, 2009). Only by raising sufficient revenues and keeping costs low can the utility provide the desired level of service in a financially sustainable manner. Autonomy is important in this respect as organisational and managerial autonomy allows the utility to develop operational (cost efficiency) and pricing (tariff setting) strategies that enable it to achieve this financial sustainability (Braadbaart et al., 2007).

In order to describe the ability of a water utility to operate on the basis of cost recovery, different and interlinked elements are important:

1. **Revenue generation**: This relates to the income generated by the water provider, often referred to as the 3Ts of tariffs, taxes and transfers (World Bank, 2017).
2. **Costs**: In providing water services a water operator incurs different types of costs; the most common distinction between costs relates to capital expenditure (CapEx) and operational expenditure (OpEx) (Fonseca et al., 2011).

3. **Time of engagement**: This element refers to the period in which the water operator is allowed to operate a specific water system, and the timeframe within which revenues and costs for providing services must be balanced; in case time is relatively limited, the operator needs to either generate substantial revenues (increase tariffs, acquire subsidies, etc) or significantly reduce costs of operation and investment. If the operator has more time to balance revenues and costs, it can spread out the recovery of costs over a longer time period, which, in principle, allows for lower tariffs and/or more investments in the system.

4. **Market characteristics and size**: The balancing of revenues and costs happens in relation to the particular configuration of consumers that the operator serves. Important dimensions of the market composition include the size of the market in terms of the number of consumers and the quantities of water consumed, the income level of consumers, population density, the degree to which the water provider competes with other water providers, and the availability of alternative water sources.

5. **Biophysical and governance context**: The four previous dimensions interact to reveal how commercialisation is implemented; these dimensions, however, do not operate in a vacuum, but are strongly impacted by the biophysical and governance context in which the water provider operates. The biophysical context impacts the cost of providing services and consumers’ access to alternative sources (market conditions). The governance context consists of a policy and legal framework that regulates the operations of the water provider, the institutional landscape in which the provider operates (government agencies, donors, etc), and the relationship of the provider with civil society and the consumer. The governance context greatly impacts the ability of the provider to generate revenues and influences the type and level of costs that the provider will have to incur.

Figure 1. Determinants of cost recovery.

![Diagram showing the determinants of cost recovery](source: Based on Komives (2001), as cited in Tutusaus (2019).)
MULTIPLE POLICY DOMAINS, INSTITUTIONALISED ORGANISATIONS, AND ORGANISED HYPOCRISY

Literature on policy translation suggests that during implementation any policy will deviate from what was originally envisioned (Mukhtarov, 2014). Each utility will encounter different circumstances on which to base its programme for revenue generation, and will restructure internal processes to accommodate these circumstances. The operational context strongly influences investments, operations and maintenance related to the water services system. In adapting to this context, implementation decisions are made that may entail an adjustment of policy principles; as such, the implemented policy model is likely to deviate from the prescribed policy model, resulting in multiple coexisting policy domains.

The distinction between different policy domains has a considerable history. In the 1970s, Berman (1978) distinguished between a central government policy level and a local 'micro-implementation' level; this shows strong similarities to Maynard-Moody and Herbert’s (1989) distinction between an administrative policymaking process and a legislative policymaking process. The central distinction in Maynard-Moody and Herbert’s (ibid: 137) two policymaking processes “is that administrative policy making is dominated by ideas, norms, routines, and choices of non-elected public employees, whereas legislative policy making is dominated by the perspectives of elected officials”. Matland (1995) similarly distinguishes between levels; however, he attributes much more agency, and perhaps relevance, to the work of implementers when he argues that central planners only can indirectly influence microlevel factors. Therefore, there is a wide variation in how the same national policy is implemented at the local level. Contextual factors within the implementing environment can completely dominate rules created at the top of the implementing pyramid, and policy designers will be unable to control the process. (ibid: 148)

The different levels and policymaking processes identified by Matland (ibid) and Maynard-Moody and Herbert (1989) also appear in the multiple domains of water politics presented by Mollinga (2008); he conceptualises five different domains, which includes a domain of “everyday politics” which mainly focuses on matters of day-to-day policy implementation, and a domain of national water policy. These domains, as outlined by Mollinga, resonate with Berman’s (1978) local and central levels and with the administrative and legislative policymaking processes suggested by Maynard-Moody and Herbert (1989). Mollinga argues that the domains, although interlinked, can be distinguished “because they have different space and time scales, are populated by different configurations of main actors, have different types of issues as their subject matter, involve different modes of contestation and take place within different sets of institutional arrangements”. What the multiple domains of the above-mentioned authors also have in common is their suggestion of a strong interaction between domains. Maynard-Moody and Herbert (1989: 137) suggest that “[t]he argument that the two processes are distinct does not deny their essential overlap” and that “[t]he two policy processes, legislative and administrative policy making, are loosely and variably coupled”. Mollinga (2008: 13) even identifies the linkages between the different domains as a separate fifth domain which analyses “how policy issues and water contestations travel across different domains”.

Organisations like public water utilities, which provide a basic service and operate in a complex institutional environment, depend for their survival on the support they receive from that environment. Since the 1970s and 1980s, institutional theorists in the field of sociology and organisational theory have explored how formal organisational structures are influenced by the institutional environment in which they operate. In this literature, one of the seminal articles argues that, “the formal structures of many organisations in post-industrial society dramatically reflect the myths of their institutional environments instead of the demands of their work activities” (Meyer and Rowan, 1977: 341). In such a case, "organizational success depends on factors other than efficient coordination and control of productive activities. Independent of their productive efficiency, organizations which exist in highly elaborated institutional environments and succeed in becoming isomorphic with these environments gain the legitimacy and resources needed to survive" (ibid: 352). By becoming isomorphic with the complex
institutional environment in which the organisation functions and on which it is dependent, the institutionalised organisation becomes "legitimate" (ibid: 349). This legitimacy then opens doors for the organisation to have access to resources which would otherwise be limited. In other words, "organizations must demonstrate congruence with the values and norms of their environment in order to receive support" (Brunsson, 1986: 165).

In addition to being congruent with the values and norms of their environment, these organisations must also produce the results for which they have been established, and should preferably do so effectively and efficiently. Water utilities are the main vehicle for ensuring citizens' access to water services, and they are required to provide this service. Successful provision of water service, however, may represent a different domain than successful congruence with the institutional environment. Successful service provision needs to be achieved in the everyday domain, and the level of success is reflected in the level of water services provided; it is often expressed in terms of service coverage, affordability, and ease of access and/or quality of the water provided. Congruence with the external environment, on the other hand, is much more an element of the national and global policy domains.

In order to juggle these often contradictory objectives, organisations employ three instruments: talk, decisions and actions (Brunsson, 1986). Although these instruments "are important in their own right" (Pollit and Hupe, 2011: 938), they are also intuitively interlinked. Talk, which Brunsson (1986: 170) defines as "the spoken word", and decisions, which represent a type of talk that indicates a will to act, are "used for mobilizing and coordinating internal actions". For talk and decisions to be indicators for actions, it is important that talk, decisions and actions align; however, talk and decisions can also be externally oriented rather than serving the purpose of guiding internal actions. "They are then used as ideological outputs of the organization, beside the output of products. By talking about themselves and others to external audiences, organizations are able to describe who they are and what their environment looks like, what and whom they like and dislike, what they try to do, what they actually do, why they succeed or fail" (ibid: 170-171). Externally oriented talk and decisions may be captured in organisational policy documents or strategic plans; they may be presented at (inter)national conferences; they may be disseminated through articles, brochures and (social) media.

Brunsson (1986) referred to the possible inconsistency that exists between the talk, decisions and actions of an organisation as "organisational hypocrisy".¹ Meyer and Rowan (1977: 356) refer to this phenomenon as "structural inconsistencies in institutionalized organizations", in which the institutionalised myths that must be celebrated deviate from the efficient production of its activities. They highlight how "conflicts between categorical rules and efficiency arise because institutional rules are couched at high levels of generalization whereas technical activities vary with specific, unstandardized and possibly unique conditions". Or, as highlighted by Brunsson (1986), "[t]o talk is one thing; to decide is a second; to act is yet a third". Such inconsistency or hypocrisy is not necessarily to be understood in a negative way; particularly for organisations which may face multiple conflicting demands and pressures such as achieving both social and commercial objectives, it may be useful and even rational to dissociate the talk and decisions of the organisation somewhat from the actions of the organisation (Pollit, 2001). In other words, organisations may be required to adhere to a particular type of talk in order to accommodate the norms prevailing in a particular domain, but they may then implement an action that diverges from this talk in order to achieve an objective in a different domain. Organised hypocrisy is then viewed as a rational strategy which allows organisations to achieve multiple, and to some extent conflicting, objectives. From this perspective, the deviations between talk, decisions and actions that characterise organised hypocrisy "may even be a major promotor of success" (Brunsson, 1993: 2).

¹ Although we realise that the term hypocrisy may have a negative connotation, it is understood here to refer to a rational strategy that an organisation needs to employ in order to operate in a complex environment; our use of the term corresponds to its original use by the organisational theorist Brunsson (1986).
COMMERCIALISATION IN THE NATIONAL WATER AND SEWERAGE CORPORATION

The National Water and Sewerage Corporation was established in 1972 as a parastatal organisation (Decree No. 34), following the recommendations of the African Development Bank (Mbuvi and Schwartz, 2013). At the time of its establishment, the NWSC was responsible for supplying water to the three main Ugandan cities of Kampala, Jinja and Entebbe; smaller towns were managed by local governments, which were allowed to engage private operators to manage and operate their water systems. By the 1990s, a number of larger towns had been transferred to the NWSC, bringing the total number of towns serviced by the water utility to 12, while the many small towns continued to fall under the responsibility of local governments (Kitonsa and Schwartz, 2012). In its operations, the cities that the NWSC serviced were referred to as service areas, or simply areas. Although these areas operated distinct and unconnected systems, they were strongly controlled and managed from the NWSC headquarters in Kampala.

Figure 2. Map of Uganda, with Bushenyi-Ishaka and Kitgum.

In the late 1990s, the NWSC showed a performance that closely resembled the three 'lows' mentioned earlier. As Schiffler (2015: 144) reports,

in Kampala there was an imbalance between greatly enhanced water treatment capacity and water connections, which lagged behind. The Corporation billed only half the water it produced, and of the amount billed, it collected only 60%. It had far too many staff for a company of its size. Staff costs accounted for 64% of the total operating costs. Its debt was too high and (...) senior management did not really empower mid-level managers.
The lack of autonomy of the NWSC appears to be an important reason for this dismal performance. The NWSC was run "analogous to political-family businesses. (...) Service expansion was politically driven" (Mbuvi and Schwartz, 2013: 379).

In the second half of the 1990s, the NWSC’s debts amounted to US$53 million, leaving the organisation on the verge of bankruptcy (Muhairwe, 2009). The situation in which the NWSC found itself became one of the justifications for the reforms rolled out more widely in the country by the World Bank. The German engineering company, H.P. Gauff, was contracted to run the Kampala Revenue Improvement Programme (KRIP) from 1998 to 2001 (NWSC, 2003). This first private sector participation contract with H.P. Gauff was seen as a first step in a “transition to full-fledged privatization” (Muhairwe, 2009: 12). At the same time, Dr. William Muhairwe took office as the new managing director of the NWSC. His "aim quickly became to show that NWSC could improve its performance without private sector participation, or in other words, that there was a viable public sector alternative to privatization" (Schiffler, 2015: 147). In resisting privatisation, the top management of the NWSC sought support from a broad coalition of actors both internally (NWSC board of directors, area managers, and staff) and externally (media, Uganda Public Employees Union, senior government ministers) (Mbuvi and Schwartz, 2013). Muhairwe also tried to downplay the achievements of the management contract, claiming that it was "largely a failure" (Schiffler, 2015).

As an alternative to full privatisation, Muhairwe proposed the commercialisation of the water sector in Uganda; this consisted of the introduction of management principles and practices which are usually associated with the practices of the private sector, including efficiency orientation, competition, performance management and entrepreneurialism (Mbuvi and Schwartz, 2013: 380). These changes required a revision of the corporate culture and mindset of NWSC staff; according to Muhairwe (2009), it was this mindset and corporate culture that posed the greatest obstacle to turning around performance in the utility (Schiffler, 2015; for a discussion on the 100 Days Programme – the change management programme implemented in the NWSC – see Schouten and Buyi, 2010).

The introduction of the aggressive change management programme in the utility improved the performance of NWSC significantly between 1998 and 2004, as shown in Table 2. The NWSC expanded its services by over 25% in three years, increased billing collection to 98% in the same period, and reduced non-revenue water (NRW) from 49% to 33.3%. These performance improvements strengthened the bargaining position of the utility vis-à-vis external (donor) agencies as well as the responsible Ugandan ministries (finance, water and environment) (Mbuvi and Schwartz, 2013). While these changes were taking place in Uganda, the donor community, and especially the World Bank, was already looking for an alternative approach to privatisation, which they had until then promoted. From 2003 onwards, the World Bank decided to re-engage with public water utilities in different forms (Baietti et al., 2006). The commercial public water utility proposed in Uganda by Muhairwe addressed the concerns of the large donors in the water sector (i.e. the World Bank) as it emphasised the benefits of private sector practices yet maintained water in the public domain.

The successful transformation of the NWSC in this period helped 'commercialisation' become part of its identity within the country, the region, and in the global water sector. NWSC management travelled the globe to present their success story at international conferences such as the World Bank’s World Water Week, and the NWSC was “showered with awards” (Schiffler, 2015: 154). During these presentations, the National Water and Sewerage Corporation emphasised that it was "a successful example of a commercial public utility that combines public sector control with private sector efficiency" (Muhairwe, 2009). The Five Year Strategic Direction (2016-2021) identified financial growth and sustainability as one of the four

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2 Although the commercialised public utility has a long history (Blokland et al., 1999), the link with the turnaround in performance in "one of the poorest countries in the world" (Schiffler, 2015: 159) made NWSC a textbook example of a commercialised public utility.
strategic priority areas (NWSC, 2016b). Similarly, the corporate profile defined the utility as an organisation that was capable of "operat[ing] on a commercial and viable basis" (NWSC, 2018a). The 2016/2017 annual report highlighted how the utility "registered (...) an unprecedented operating profit before depreciation of Uganda Shs 70 billion [about US$18.87 million.]" (NWSC, 2018b: 23). The same annual report also trumpeted the corporation’s application of sound business practices.

Table 2. NWSC performance, 1998-2010.

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<th>Indicators</th>
<th>1998</th>
<th>2004</th>
<th>2010</th>
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<tr>
<td>Unaccounted-for-water</td>
<td>49%</td>
<td>37.6%</td>
<td>33.3%</td>
</tr>
<tr>
<td>Staff productivity (staff per 1000 connections)</td>
<td>36</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Service coverage</td>
<td>48%</td>
<td>65%</td>
<td>74%</td>
</tr>
<tr>
<td>Connections</td>
<td>34,272</td>
<td>100,475</td>
<td>246,459</td>
</tr>
<tr>
<td>Collection efficiency</td>
<td>71%</td>
<td>98%</td>
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The expansion to small towns

By 2010, the mandate of the NWSC had been expanded to 23 urban centres, which amounted to approximately 58% of the Ugandan population (Kitonsa and Schwartz, 2012). The Ministry of Water and Environment of Uganda decided in 2013 to enlarge the mandate of the NWSC to progressively absorb the management and operations of small towns and villages. Water services in these settlements were to transition progressively from individual contracts with local private operators to being operated as branches of the NWSC. The arrangement with private operators had been causing discontent at the Ministry as systems were not being maintained or had been abandoned, funds were not being allocated transparently to improve operations, and access rates were not improving (Tutusaus, 2019). By February 2018, the mandate of the NWSC had been expanded to include over 260 additional towns; this was accompanied by a clear policy direction from the Government of Uganda. The ruling government’s Second National Development Plan 2015/16-2019/20 (NDPII) and its strategic Uganda Vision 2040 demanded an increase in safe water coverage from the current 71% to 90% by 2030. These goals have been incorporated by the NWSC into their Five Year Strategic Plan (2012-2107) and Five Year Strategic Direction 2016-2021 documents. The flagship programme of the NWSC is the Service Coverage Acceleration Plan (SCAP100), which envisions 100% service coverage in urban areas by 2020 (from the current 77%), and 79% coverage in rural areas (from the current 65%). This ambition to expand services envisions a minimum of one clean, safe water source per village/town (NWSC, 2016b), and thus requires that a considerable effort be dedicated to the expansion of infrastructure in small towns.

PRACTISING COMMERCIALISATION: DEVIATIONS FROM THE MODEL

The NWSC has struggled to reconcile their new mandate of servicing small towns with their deeply rooted identity as a successful commercial public utility; central to this challenge is their ability to operate on the basis of commercial principles in such small towns. As we explain in this section, the conditions in Uganda’s small towns, prevented the NWSC from fully implementing the commercial principles as prescribed. We describe here the elements that differed most significantly from the policy ideal.

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3 The strategic priorities are financial growth and sustainability, which is then operationalised through eight ‘key deliverables’: enhancing viability of new towns, value for money investments, investment financing, income diversification, cost optimisation and efficiency, revenue growth, compliance and governance, and integrated information and communications technology solutions (NWSC, 2016a).
Reducing costs

In order to balance costs and revenues in their operations in small towns, the NWSC has particularly leaned towards reducing costs, rather increasing water tariffs which would normally be the standard policy solution. At an earlier stage, the NWSC opted for a uniform national water tariff which did not necessarily reflect the cost structure of the respective systems. The development, maintenance and operation of infrastructure to produce and distribute drinking water costs money. In Uganda’s small towns, physical conditions and variability in demand can mean that the cost of producing and distributing water to customers is two to three times higher in those small towns than it is in Kampala (Omuut, 2018). Because of the impossibility of increasing tariffs, the service providers found ways to improve their financial position by reducing costs. Cost reduction strategies implemented in the case study locations included:

1. Reducing water treatment (costs): In Bushenyi-Ishaka, the operator reduced water treatment, and thus costs; their justification was that the systems used spring water whose quality was 'sufficient' and thus required less treatment.

2. Economising on network maintenance: In the branches, the operators reduced maintenance costs by minimising repairs and maintenance or by delaying maintenance work; in this way, they kept the system running or even marginally improved it while spending little. (As highlighted in the next section, the providers appeared to prioritise investing in extensions of the system rather than in maintenance and upgrading of the existing system.)

3. Economising on labour costs: Branches were organised in such a way that a cluster of systems made use of one or two specialised employees; for example, one quality assurance engineer would serve a cluster of branches.

The measures taken by the NWSC to reduce treatment costs and economise on labour costs do not necessarily conflict with the way commercialisation is promoted by organisations such as the World Bank; they could, in fact, be seen as increasing the efficiency of operations without impacting the level of service. The strong focus of the branches on cost reduction was highlighted by our study. Cost recovery is achieved not only by reducing redundancies or trimming the fat from the organisation (as the commercial principles of the original model would have it) and then charging cost-recovering tariffs; it is also pursued by transferring or avoiding the normal, legitimate costs of any water provider. Delays in network maintenance, for example, contribute to the running down of the infrastructure and to compromising the service offered in the short to medium term, and will not necessarily improve future operations; such cost-cutting measures defy the logic of commercialisation which says that the adoption of these measures will lead to sustainable services.

Increasing revenues by selectively expanding the market

The generation of revenues remains a cornerstone of the introduction of commercial principles, and so it remains an important component of NWSC policy when taking over small towns in Uganda. In addition to the limitations of tariff setting for the NWSC’s branches, raising sufficient revenues for small towns in Uganda can be challenging for a number of reasons. First, small towns are characterised by a small customer base and very low population densities, which hampers the realisation of economies of scale and density. As a result, centralised systems may not represent a (financially) viable service modality, as the costs of such infrastructure cannot be recovered from the revenue that the provider can obtain from the users that constitute its market (Adank, 2013). Second, an apparent mismatch exists between technical and financial capacity at the local level and the requirements demanded by increasingly complex water supply systems (Mugabi and Njiru, 2006; Mara and Alabaster, 2008). Many small towns simply do not have sufficient capacity to operate and maintain relatively complex water systems and to
adhere to existing regulations. Apart from lacking the ability to set tariffs, the providers also realise that adjusting the tariff is likely to influence the quantity of water consumed if alternative sources of water are available for the consumer. The existence of alternative water sources means that consumers may opt to access multiple sources, using water from different sources for different uses depending on the (perceived) quality of the different water. As the quantity of water consumed for drinking and cooking is relatively small in comparison to that used for other purposes such as cleaning, the consumer may use only a little of the relatively expensive water from the piped network. This directly impacts the revenue generating potential of the water provider in two ways. First, the availability of alternative water sources may reduce or eliminate the willingness of consumers to pay for more expensive water. Second, in case consumers do decide to connect to the piped network, their consumption may be low. This makes it relatively less attractive for the operator to expand services to these areas, as it will increase the time period required to recover investments. Because branch operators are not able or willing to raise tariffs, they prioritise expansion of the market they serve as a way of generating additional revenue. This expansion of services in small towns is done very selectively in order to ensure that the investment costs of network extensions can easily and quickly be recovered from the households that will be served. As such, the initial expansion of the network of small towns served by the NWSC mainly adhered to the logic of first connecting those areas that were deemed most profitable, either because connections were guaranteed or because higher population densities were expected to lead to a higher rate of connections per kilometre of pipe.

THE EXTENSIVE USE OF CROSS SUBSIDIES

In pursuing cost recovery, the NWSC focuses on the recovery of operational costs, which only represent a portion of the total cost structure generated by any given water system. The definition used by the NWSC does not include non-operational costs such as the depreciation of assets or the interest payments on debts entered into to develop those assets. Depending on the source used, the NWSC has been able to maintain an average working ratio of between 0.78 and 0.84 for the 2016/2017 financial year (NWSC, 2018b), thus enabling the utility (at the national level) to recover its operational costs; however, a closer look reveals that "most towns prove not to be viable according to this definition of financial sustainability" (NWSC 2016b). In reality, the NWSC uses the surpluses generated in typically urban 'well-functioning' systems in main cities such as Jinja, Mbarara or Entebbe to cross-subsidise those systems that are not able to generate sufficient revenues to cover their own operational and maintenance expenses. This is perhaps best illustrated by looking at regional variations in the areas served by the NWSC. The Kampala region, which covers the metropolitan area of Kampala and includes close to half the connections operated by the NWSC, has a working ratio of 0.54 (Omuut, 2018). Only through cross-subsidisation from the more profitable large urban areas is the NWSC able to maintain an average working ratio below 1. Although the National Water Policy (1999) allows for cross-subsidisation through increasing block tariffs,

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4 It is noteworthy that a recent review of literature on small drinking water system governance in industrialised countries reveals similar challenges (McFarlane and Harris, 2018). Systems in small communities in either semirural or peri-urban areas in industrialised countries suffer equally from a small customer base and lack of financial support; they also have a similarly limited capacity and operational and managerial support for complying with regulatory requirements related to service levels and, more importantly, to public health standards (ibid). The loosening of standards imposed on these systems, in order to reduce the operational and financial burden, has been criticised for creating a two-tier protection level for users depending on their point of access (Daniels et al., 2008 in McFarlane and Harris, 2018).

5 Alternative sources may include springs or rivers that consumers can easily access, or other delivery options such as municipal standpipes or shallow wells that allow access to water at lower prices.

6 Franceys et al. (2016: 79) suggest that the costs that need to be recovered are "investment costs (both hardware and software, with the implication of a subsidised 'cost of capital') to install a WASH service (CapEx + CoC); regular, recurrent operating and minor maintenance costs (OpEx) plus major maintenance and renewal costs (CapManEx – again both hardware and software)".

7 Interview with senior manager at NWSC Headquarter on 13 January, 2018.
the cross-subsidisation that occurs with respect to small towns is between large urban centres and other (smaller) towns. Commercialisation as it currently exists within the NWSC essentially revolves around a few highly profitable centres such as Kampala and Jinja, which are used to cross-subsidise the majority of towns serviced by the NWSC. Commercial viability thus exists at the overall company level, but not at the area or branch level. Commercialisation without the support of cross-subsidisation thus appears to be mainly feasible for the large urban centres.

ENGAGING WITH GOVERNMENT AGENCIES AND DONORS

A cornerstone of commercialisation is that operators should be able to operate autonomously and independently from any governmental agencies. The small towns in Uganda, however, highlight that their practice of commercialisation also shapes the way autonomy is understood.

The NWSC, having been established as a commercial public utility, is meant to operate on the basis of cost recovery; in light of this, the Government of Uganda borrowed money which it in turn loaned to the NWSC, and which the latter was then required to repay. In 2006, however, Dr. Muhairwe, the managing director of the NWSC at that time, argued that full cost recovery in developing countries was "a myth"; he stated that full cost recovery would require tariffs that ordinary Ugandan citizens could not possibly afford (Schwartz, 2008). Based on this argument, Muhairwe requested the Government of Uganda to forgive the loans that it had made to the NWSC (Schiffler, 2015), and in 2008 the international loans, valued at US$90 million, were converted into equity. Although it appears rather paradoxical, this debt reduction was justified on the basis that it would make the NWSC more "commercially oriented" as it would make it easier for the utility to take out loans from the local capital market. The NWSC also initiated plans to take out US$18 million in loans through the bond market. Under the influence of the global financial crisis, however, the Ugandan Ministry of Finance stopped the bond issue from going ahead, citing the need to first use conventional concessional financing sources. Although foreign loans were denominated in hard currency, their overall conditions – longer maturity and lower interests – were considered better than local bond financing. But these loans would be borrowed by the government and – as opposed to the previous practice – would not be on-lent to NWSC (Schiffler, 2015: 156).

To date, market finance has not played a role in the financing of investments (Schiffler, 2015).

Almost all infrastructure development by the NWSC is either subsidised by the Ugandan government directly or through development partners (GOU-NWSC-PCS, 2015). Each financial year since 2013, the Government of Uganda has allocated USh3 billion (US$815,000) for the expansion of infrastructure in small towns, to be used at the discretion of the NWSC. In addition, the Ugandan government contributes financially to other programmes such as SCAP100. The projects funded by international development partners occur on an ad hoc basis.

The financial support of the national government and donors illustrates a high level of collaboration between the water operators and national and international government agencies. By mobilising financial support from these governments, NWSC is able to access external funding to cover their investment costs. While the NWSC claims to use internally generated funds to develop infrastructure in small towns, in practise the Ministry of Environment and Water continues to transfer the funds used to

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8 The bond issue was assisted by the World Bank, which supported the NWSC in its endeavour to access funds through the bond market (Schiffler, 2015).
9 Interviews with 4 senior managers at NWSC Headquarters on 22 November, 2017 (Interviewee 1), 24 November, 2017 (Interviewee 2) and 5 December, 2017 (Interviewees 3 and 4).
10 Based on interviews with 9 senior managers at NWSC Headquarters. These interviews took place between 15 November, 2017 and 10 January, 2018.
develop infrastructure. Although the water operators are perhaps still perceived as being autonomous, the way in which this autonomy is understood appears to be different from the way in which it is discussed in the literature. 'Autonomy' for service providers in small towns in Uganda appears to mean working closely with government and depending on it for investment funding, rather than working independently from government.

The relationship of the NWSC with the Ministry means that the water utility is largely an executive arm of the government; the NWSC is thus integral to the government’s policies for expansion of water services to all. Collaboration on the mobilisation of funds as well as on the realisation of a common policy of extending water services in the country needs to be recognised as an interlinkage of political and non-political actors at the national level and with international parties, particularly, in this case, with donor organisations.

THE PERSISTENCE OF ORGANISED HYPOCRISY

Where necessary, the NWSC adjusts and qualifies its loyalty to commercialisation. In the previous section we provided a few examples of this divergence; we also provided the reasons these adjustments were deemed necessary by the water utility. We argue that despite the existence of these discrepancies the ideal of commercial water operators is one that remains largely unquestioned and unchallenged. In this section we delve into the explanations of why the ideal retains its legitimacy despite the challenges inherent in its actual implementation. We anchor our discussion in the idea that these challenges are known not only to the implementing agencies, but also to those who continue to promote the policy ideal in the national and international policy domains. Because the adjustments are recognised to exist in different organisations, we argue that this represents a rational strategy on the part of the utility to clearly distinguish between what they do in the everyday domain and what they say they do in national and global policy domains. In order to explain this, we resort to the concept of organised hypocrisy.

The model of the commercial public utility does not only exist as a tool to provide guidance to utilities for reform. The policy model as the ideal of a working utility also represents an agreement between different actors (water organisations, donors, government agencies) on how water utilities should operate. The model represents a consensus on principles which is the result of the interactions of different interests prevalent in the international policy domain, in the national policy domain, and in the practices of the operators that are visible in the everyday domain. In this consensus, the model of the commercially oriented water provider has become synonymous with 'efficiency' and 'effectiveness'. Full cost recovery has been institutionalised in the water services sector to the extent that it has become an "undisputable principle" (Rusca and Schwartz, 2018), in which subsidies are seen as "anathema" and as an unsurmountable obstacle to effective water operations (Mitlin, 2008: 38). Even though the water providers in small towns are not able to reach this ideal, "the mere possibility of achieving it and the sense of 'progress' attached to any shift in its direction suffice to make it an attractive, useful focal point" (Molle, 2008: 132). Despite its actual operational performance, the 'concept' is so strong, and its claimed 'solutions' so undoubted that it has gained "a life of its own" (Molle, 2008: 131); it is therefore a model that water operators, national governments and donors are willing to participate in and propagate. The 'talk' of the NWSC can be interpreted as adhering to this consensus in the national and global policy domains.

THE CONFLUENCE OF INTERESTS

The model, furthermore, is able to cater to, and safeguard, the interests of different actors, all under the umbrella of the same model. In the case studied, the water utility requires (continued) government support in order to continue operating and offering quality service to people in small towns in Uganda; this support is received from donor agencies and the national government. These same actors request
that the NWSC operate on a financially sustainable basis. For all involved, it is important to continue subscribing to the ideal that the NWSC is able to operate viably under such conditions while also contributing to the provision of services to all.

In order to realise the mandate of expanding services, the NWSC needs to mobilise funds externally; external (donor) agencies willing to provide those funds are equally interested in the mandate of expanding services. Donor agencies have committed themselves, in their water, sanitation and hygiene (WASH) policies, to specific targets relating to the extension of water services. For donors, it is desirable to be associated with water utilities that both highlight the ideal model of commercialisation and are able to extend services; donors are thus able to showcase that their promotion of the commercial public water utility has been successful. It is of secondary importance to these donors that the implementation of commercialisation deviates from the ideal model (Tutusaus, 2019).

Similarly, national and local governments have an interest in ensuring service extension within their countries and municipalities, as this contributes to the achievement of Sustainable Development Goal 6.1. At the same time, these governments promote the idea that the NWSC should operate on the basis of cost recovery as stipulated in the National Water Policy of 1999, as they realise that commercialisation has become an undisputed principle for water sector donors. The government is best able to address this conflicting demand by highlighting the NWSC as a commercial public utility while selectively ignoring deviations from this ideal.

THE EMBODIMENT OF THE MODEL

Those evaluating the success of the model, or the success of the utility in implementing it, are the same actors that are in charge of promoting and spreading the validity of these models through funded programmes. These actors are not necessarily interested in questioning the model or finding ways to reduce the divergence between talk and action; rather, their priority is to show that these models are successful, or achievable. In fact, their programmes and existence are based on the propagation of the 'agreed upon' principles. As a result, the adjustments made to the model during everyday implementation are not interpreted as fundamentally questioning the principles of the model, but rather as confronting hindrances that can be overcome; they are thus seen as temporary adjustments that are a necessary part of the process of successfully implementing the model (Tutusaus, 2019).

At the same time, water operators, which often undertook reforms to implement the policy, have no particular interest in challenging the model. The NWSC has come to view this particular model as a strong part of their identity, as illustrated in the way that the NWSC presents itself. Muhairwe’s (2009) presentation of the NWSC as "a successful example of a commercial public utility that combines public sector control with private sector efficiency" shows the degree to which the NWSC has become synonymous with the model. The NWSC’s embodiment of a particular model is strongly linked to both its donor and government dependencies; becoming the embodiment of a donor-approved model allows it access to the funding that it requires. The NWSC has become "the institutional embodiment of past policy choices. (...) agencies and programs are created to implement specific policies. But once established they develop their own norms and procedures that become difficult to change or redirect" (Maynard-Moody and Herbert, 1989).

THE SPEED OF LEARNING

Last, the adjustment to the policy ideal of commercialisation, as implemented by operators, occurs in the domain of the everyday. At this level, a variety of adjustments can be observed that respond to the specific challenges and contexts in which they are implemented; what happens during implementation is always specific, unique and rich in detail. At the same time, the policy model is designed, communicated and promoted in the global and national policy domains where national organisations (governments) and
donor agencies are present. These last two actors in the global policy domain require a simple and abstract model, which is 'applicable' to a broad range of circumstances and contexts; for this reason, there is limited interest in reflecting on the operational realities and experiences of water operators implementing a particular model. As a result, very little is learned from the everyday implementation of the model of commercialisation. If the ideal model is successful, few or no modifications are required; only if its success is sufficiently challenged are conceptual changes to the model pursued. Such adaptations, however, entail negotiations between the actors, and this requires a relatively long time horizon; as such, the commercialisation model that figures in the global and national policy domains is much less dynamic and much more stable than the operational practices of water providers.

**CONCLUSION: CHANGE OF LANGUAGE TO DISCUSS PRACTICES**

Despite the challenges in complying with the principles presented by the models of commercialisation, the NWSC portrays an image of their operations that closely mimics that of the original model. What is peculiar about these adaptations is not so much that the NWSC makes these adjustments in the first place, as most of the adaptations are understandable considering the context in which the operator functions; what we find more peculiar is how the actors involved, from utility to government agencies and donors, portray an image of the water operator that appears to coexist with the realities of its actual operation.

Water operators like the NWSC, which are dependent on financial resources and support from external donor agencies or government organisations, necessarily need to distinguish their talk from their actions. By perpetuating the principles of commercialisation when addressing the global and national policy domains, they are able to access external financial resources; at the same time, these principles need to be modified by the NWSC in the everyday practices of service provision. The water utility is essentially forced into a strategy of organised hypocrisy (Brunsson, 1993), in which it is required to consciously diverge its actions from its talk. As explained by Brunsson (ibid: 9): "[H]ypocrisy appears to be exactly what we demand of modern organizations: if we expose organizations to conflicting demands and norms, and expect that they should respond to them, then we must also expect hypocrisy". Important consequences ensue from the disconnect between the pressure to operate in a commercially viable way and the way that everyday practices are modified in the process of service provision. The case of the NWSC suggests that, on the one hand, water utilities are forced to seek efficiency gains in order to reduce costs and (selectively) increase the consumer base served. Since adopting the commercialisation discourse in the late 1990s, the water utility has shown impressive performance improvements; although a large part of these performance improvements can be attributed to the internal operations of the NWSC, they are also explained by the NWSC’s ability to engage with its external stakeholders (donor agencies and the national government). In this context, it appears to have been successful in the Ugandan context to adhere to the talk of commercialisation while practising an adapted form.

On the other hand, however, concerns can be raised as this approach has a strong impact on the level of service that is eventually delivered to the consumers. For those already connected to the network, the push for service expansion to unconnected households impacts the quality of the service they receive, as maintenance or upgrading of the existing system is forfeited to allow for the provider to expand its consumer base. In order to improve their chances of operating on a commercially viable basis, the NWSC makes compromises on rehabilitation of infrastructure and on maintenance; this may result in lower levels of service in terms of the quality of water delivered and the continuity of service provision. The cases studied suggest that there is a trade-off between the pursuit of commercial viability and the level of service that the consumer receives.

The possibility of lower levels of service for existing consumers also suggests the existence of a paradox in the underlying reasoning of the ideal model of commercialisation and the actual practice of commercialisation. In the ideal model of commercialisation, the water operator acts independently of
government and operates on the basis of cost recovery. This is argued to be a desirable situation as it essentially means that the water operator is largely accountable to its consumers since the revenue required to cover costs must be collected from them. The model of commercial water provision thus emphasises a consumer orientation (Baietti et al., 2006; Schwartz, 2008). In the practice of commercialisation, however, the water operators need to ensure that the agendas of the donors and national government are also addressed; this means adopting the targets of these agendas as part of their performance objectives. What happens, therefore, is that the relationship of accountability shifts from consumers to government and donors; the practice of commercialisation thus leads to a weaker consumer orientation than the discursive model would suggest.

In this article we document the context-specific interpretation by a water utility of cost recovery and autonomy. However, these operational realities – the changes, modifications, deviations to the model as presented and discussed – rarely 'speak back' to the model; as a result, it is practically impossible to prompt a revisiting, questioning or challenging of the model’s assumptions. Put another way, despite the frequent and routine interactions between actors at different levels, very little policy learning (change) is happening. Mollinga (2008) identifies a political domain that is made up of the connections between different political domains; however, in this interconnecting domain the influencing only happens in one direction, from the policy ideal to the implementation.

Drawing on practice-based language in order to talk about commercialisation and water service provision usefully opens up a discussion concerning the range of possible ways in which operators achieve results. Instead of being concerned with whether or not organisations are commercial, or whether or not they are financially sustainable, a vocabulary based on what the operators are actually doing and why allows us to revisit assumptions about why they do what they do, anchoring these in what is rather than in what should be. Operators that are presumed to have been established to function as autonomous entities not only have a hard time escaping the influence of local or national politics, but often need this political support in order to continue providing services. Allowing for a broader discussion of how water services are provisioned for, and the different types of support that operators may or may not therefore receive, will provide much-needed inspiration for new ways of imagining and implementing water services provisioning; in the process, utilities will be better able to embrace their practices and to reconcile their talk with their walk.

REFERENCES


