

IMPACT STORIES

PPIAF Supports Small-Scale Water Providers in Uganda



To complement and support the Uganda Small-Scale Infrastructure Provider (SSIP) Water Program, PPIAF support was sought in 2009 to assess private operators' ability to expand service delivery in Uganda's water sector, which included reviewing the terms and conditions of available financing and the constraints private operators face. The recommendations from the PPIAF-funded study were implemented by the International Finance Corporation (IFC), who organized training sessions to present the Uganda SSIP Water Program to local banks in Uganda to assess their interest in financing private water operators. Following the training event, two banks expressed interest to provide pre-financing loans to the pre-qualified bidders for a tender in Busembatia, one of the small towns in the Uganda SSIP Water Program. The first five-year management contract was awarded in June 2010 to a private operator for the expansion of piped water services in Busembatia. This private operator was able to receive a loan from DFCU Bank, a Ugandan commercial bank, of approximately \$100,000 for the expansion of piped water services. The new operator agreed to install 400 new water connections during the first two years of the contract, which is expected to benefit 13,000 people.

In small towns and rural areas of Uganda, where 90% of the population lives, water shortages are part of daily life. In these areas, 60% of the population lacks access to safe water, and water-borne diseases and infant mortality are widespread. Increasingly, the government of Uganda is reliant upon private operators to assist in the expansion of access to safe water supply within the country. These private operators are typically small and medium enterprises that are often unable to access financing from local banks to operate and expand their businesses.

To help the Ugandan government achieve greater efficiency and improve access to water, the IFC was appointed by the Ugandan Ministry of Water and Environment as an Advisor to the Department of Water Development to assess the feasibility of various public-private partnership (PPP) options for private operators to increase sustainability and efficiency in the distribution of water to small towns and rural areas. The resulting Uganda SSIP Water Program, initiated in 2007, aimed to structure and implement PPP transactions in five small towns in the eastern region of Uganda (Kamuli, Nawanyago, Palisa, Tirinyi, and Nankoma), which would serve as replicable models for the water sector. During implementation of program activities, an additional five towns, including Busembatia, were added. The program comprised three components: 1) the design of access to finance interventions to facilitate financing for private operators; 2) transaction structuring and implementation of water PPPs; and 3) provision of related public sector capacity building interventions for local government officials and technical staff from the Ministry of Water and Environment.

PPIAF SUPPORT

The government of Uganda, together with the IFC, sought Public-Private Infrastructure Advisory Facility (PPIAF) support in 2009 for a study to assess private operators' ability to expand service delivery in Uganda's water sector. The objectives of the study were to 1) define the characteristics of the private

operators participating in PPPs in Uganda's water sector; 2) examine their constraints and potential remedies to improve their service delivery; and 3) assess the terms and conditions of private financing available to the private operators. The study provided recommendations to address the constraints of high operating costs and lack of access to finance, such as:

- Educate banks about private operator operations and activities to increase assurance of the repayment of loans
- Extend the duration of the management contracts from three to a minimum of five years to allow private operators to invest over a longer period and improve service delivery, as well as recover the initial funds invested in the water schemes, which would also give their potential financiers confidence about the possibility of recovering their loans
- Cluster small towns together to improve the viability of businesses, make supervision more efficient, and allow for larger contracts that capture economies of scale

OUTCOMES

The IFC incorporated the recommendations from the PPIAF-funded study in the Uganda SSIP Water Program. In particular, the IFC proposed a generic contract with a minimum term of five years that would appeal to both private operators and lenders. The IFC also proposed clustering towns within close proximity to another, but since funding was eventually only secured for one town, this approach could not be implemented. Furthermore, the IFC identified alternative financing models with greater potential for success including leveraging its relationship with local banks in Uganda, which were presented with a viable business model for small-town water operations for the first time.

Findings and recommendations from the study were also used to design and implement an effective training session to present information on the Uganda SSIP Water Program to local banks in Uganda and assess their interest in providing financing to private water operators. This training provided a platform where the Ministry of Water and Environment and the Association of Private Water Operators could engage for the first time with local banks to describe the operation of privately-operated water schemes. The training also addressed weaknesses in the area of

contract administration among public sector stakeholders based on the proposed generic management contract.

Following the training event, two banks expressed interest to provide pre-financing loans to the pre-qualified bidders for a tender in Busembatia, one of the small towns in the Uganda SSIP Water Program. These loans would be refinanced by a subsidy provided by the Global Partnership on Output-Based Aid (GPOBA) upon verification of the water connections and water supply.

As a result, the first five-year management contract was awarded in June 2010 for the town of Busembatia to a private operator, Trandint Limited, who had the lowest bid with a required subsidy of \$270,000 for the expansion of piped water services. This winning private operator was able to receive a loan from DFCU Bank, a Ugandan commercial bank, of approximately \$100,000.

DONOR COORDINATION

This PPIAF activity complemented the Uganda SSIP Water Program, in partnership with the Austrian Development Agency via the DevCo vehicle. It also complemented the pilot output-based aid scheme designed and funded by GPOBA in 10 small towns and rural growth centers.

IMPACTS

The new operator agreed to install 400 new water connections during the first two years of the contract, which is expected to benefit 13,000 people.

RELATED PPIAF ACTIVITIES IN UGANDA

- 2000: Country Framework Report, **\$400,000**
- 2007: Public-Private Partnership (PPP) Unit Feasibility Study, **\$325,000**
- 2009: Private Water Service Delivery Access to Finance, **\$74,810**