

Small Scale Water Infrastructure, Busembatia, Uganda

Full Description

Project Summary:

Background

Busembatia is a small town located in Uganda with a population of about 14,500 people. Its water sources are limited and the ones it has are often contaminated, affecting the health and economic well-being of the people of Busembatia. A locally-run facility was able to provide water of an acceptable quality, but only served 200 people and provided a very low standard of service. The town was struggling to fund efforts to provide a more reliable supply of water without grants from either donors or the national government, as local funding for public capital investments was tightly constrained. While the private sector was active in operating water distribution networks in small towns throughout Uganda, this participation was limited mainly to basic management contracts, with little to no private financing of new investments.

Project Structure

In 2010, with support from the Austrian Development Agency, the Public-Private Infrastructure Advisory Facility (PPIAF), and DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group (PIDG), IFC helped to deliver a small-scale water PPP in Busembatia by providing three types of assistance: (i) transaction advice; (ii) public sector capacity building; and (iii) access to finance. The project aimed to leverage existing private sector participation in the operation of water distribution networks by developing a standard operation and maintenance contract suitable for small towns and rural growth centers that could be modified to include the design and construction of extensions to the distribution system. The management contract would have a term of five to ten years, as compared to the one to three years typical of existing management contracts in Uganda, to be more attractive to private operators and lenders. Following a prequalification process, three local companies were invited to bid for a five-year management contract in Busembatia. In 2010, the contract was awarded to Trandint Limited, one of the largest local water system operators in Uganda. Trandint Limited was selected because its proposal met the minimum technical requirements, it had already secured a financing arrangement with lenders, and it offered the lowest bid price of USD 270,000.

Under the management contract, the private operator assumed exclusive responsibility for managing the assets and providing services to Busembatia town, paying utility expenses and taxes, and collecting user charges in accordance with a schedule of tariffs and rates agreed upon with the local authority and fixed in the contract. The local authority maintained responsibility for setting tariffs pursuant to an approved business plan, ownership of the underlying assets, and responsibility for managing critical situations should there be a termination of contract or a dispute. Tradint Limited further agreed to install at least 400 new connections during the first two years of the contract (by 2012) and not to seek a tariff increase throughout the duration of the management contract.

While prior experience in Busembatia and similar towns in Uganda indicated that tariffs would be sufficient to cover operation and maintenance costs, the majority of the capital investment would be funded by performance-based subsidies provided by the Global Partnership for Results- Based Approaches (GPRBA), formerly known as the Global Partnership on Output-Based Aid (GPOBA). This grant funding, however, would be released in phases throughout the project and could only be disbursed upon certification of commissioning and verification of outputs. Accordingly, the private operator would need to pre-finance the investment to access the outputbased grants.

For pre-financing, Tradint Limited obtained a loan of USD 100,000 from a local commercial bank, DCFU Bank. This was the first time in Ugandan history that a local bank provided financing for a small-scale water supply project.

Lessons Learned

A total of 430 connections were installed during the first year of the project alone. About 750 water distribution stations in Busembatia now provide an uninterrupted water supply that serves thousands of people in the area. In addition, water production has increased from eight to twenty-one cubic meters per hour and collection rates have increased from 70 to 85 percent.

The participation of IFC as transaction adviser and the availability of the grant from GPRBA helped change the situation in Busembatia.

- The longer contract duration of five years, compared to the previous practice of only three years, provided greater assurance of investment recovery.
- IFC's intervention helped to stimulate local banks' interest in the water sector and increase the understanding of PPPs among local stakeholders.
- The output-based grant helped incentivize local private sector participation in the extension of Busembatia's water supply system.¹

Footnote 1: Source(s): https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/a-water-projectrevives-an-ugandancommunity accessed 13 February 2019

https://www.ifc.org/wps/wcm/connect/838c700045139b7099359dc66d9c728b/WBG_AfricaWaterPPPs.pdf?MOD=AJPERES accessed 13 February 2019

https://www.ifc.org/wps/wcm/connect/1ebe93004b9ae888bcc5ff1be6561834/T_3b_UgandaSSIP_BotbaNjock.pdf?MOD=AJPERES accessed 13 February 2019

Related Content

[Innovative Revenues for Infrastructure \(Download PDF version\) - Coming soon!](#)

[Additional Resources](#)

[Climate-Smart PPPs](#)

[Finance Structures for PPP](#)

[Financing and Risk Mitigation](#)

[Page Specific Disclaimer](#)

This is a new section of the PPPLRC website and is currently in draft form. [Your feedback is welcome](#): If you would like to comment on the content of this section of the website or if you have suggestions for links or materials that could be included please contact us at ppp@worldbank.org.

To find more, visit the [The Municipal Public-Private Partnership Framework - Project Summaries](#) section, the [Guidelines to Implementing Asset Recycling Transactions Section Overview](#) and [Content Outline](#), or download [Full Version of the Report](#).