UGANDA
Small-scale water infrastructure program

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In small towns and rural areas of Uganda, where 90 percent of the population lives, water shortages are part of daily life. In these areas, 60 percent of the population lacks access to safe water, and waterborne diseases and infant mortality are widespread. Improved access and use of safe water and sanitation facilities are among the country’s key priorities. To achieve this goal, the government decided to decentralize rural water supply delivery.

To help Uganda achieve greater efficiency and improve access to water through public-private partnerships, IFC signed a mandate to implement the Uganda Small-Scale Infrastructure Provider (SSIP) Water Program in 2007. A set of pilot transactions was implemented to modify the flawed contractual arrangements in use, improve the capacity of the key stakeholders, and model strategies to access financing.

SEEKING SUPPORT

Uganda’s government had implemented PPPs in peri-urban and rural areas since 2001 and established management contracts with private operators in more than 70 small towns. However, these contractual arrangements were generally weak and plagued with capacity challenges, both at the national and regional level. Three program components were in need of support: transaction advice, public sector capacity, and access to finance. IFC also addressed financing constraints and developed a training program based on the proposed generic management contract to address weaknesses in the area of contract administration among public sector stockholders. Elements of sustainability were built in throughout key activities of the program to ensure continuity.

DUE DILIGENCE

First it was important to conduct due diligence in ten small towns, uncovering contracts of short duration and varying performance indicators. At that point, a generic contract was proposed with a minimum term of five years, appealing to both private operators and lenders. The geography of the areas in need was a significant area of research. Clustering towns
within close proximity to one another allowed for larger contracts that capture economies of scale, specifically on human resources and capital investments. However, since funding was secured for only one of the ten towns, this approach was abandoned. A bidding process was ultimately implemented solely for the town of Busembatia.

In the past, private operators in Uganda raised financing by using overdraft facilities provided by the banks or secured loans using other existing business, so improving access to financing was a priority. IFC identified alternative models with greater potential for success, including leveraging its relationship with local banks, which presented financial institutions for the first time with a viable business model for small town water operators.

**THE ROAD AHEAD**

Ultimately, Busembatia’s five-year management contract was awarded to Trandint Limited, which satisfied the technical requirement, secured a financing arrangement with lenders, and offered the lowest total bid price of $270,000—below the available subsidy of $300,000 allocated by The Global Partnership on Output-Based Aid (GPOBA). The new operator agreed to install 400 new connections during the first two years and avoid increasing tariffs for the duration of the five-year management contract.

Throughout the process, the advisory work was supported by the Austrian Development Agency. GPOBA provided funding for capital investment costs to support the private operator. Among the expected results of this arrangement: Residents of Busembatia will enjoy expanded access to water at the same tariffs until 2015, and 400 new water connections will be installed. Other results include:

- DFCU Bank, a Ugandan commercial bank, loaned approximately $100,000 to the winning bidder for the Busembatia contract.
- Seventy representatives from local authorities participated in two IFC-designed training programs for public sector stakeholders.
- USAID is using IFC’s relationship with local banks as a model for developing a risk-sharing product for banks to lend to private operators.

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