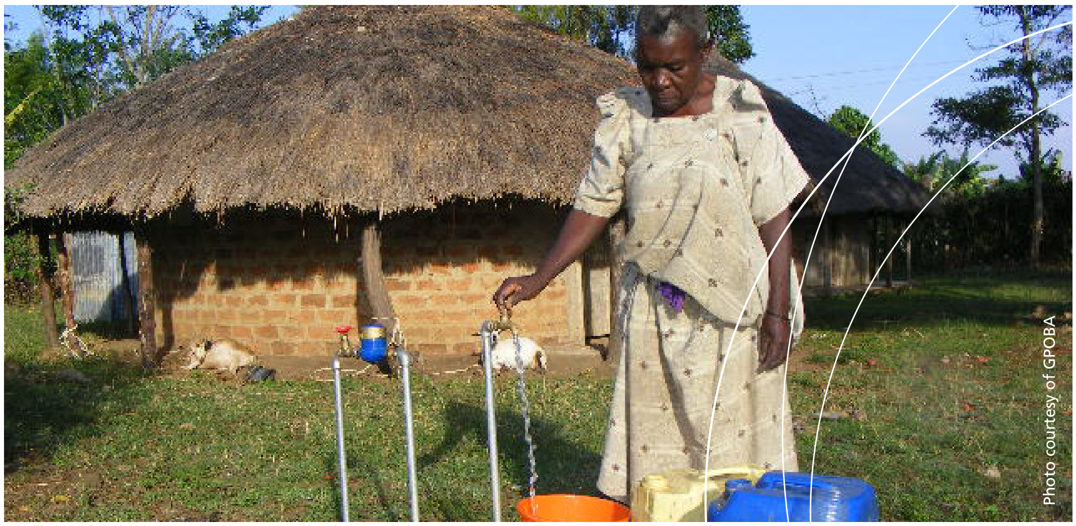
Public-Private Partnership Impact Stories

Uganda: Small Scale Infrastructure Provider Water Program



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. To help achieve greater efficiency and improve access to water through public-private partnerships (PPPs), IFC supported the government of Uganda in implementing the Uganda Small Scale Infrastructure Provider (SSIP) Water Program in 2007.

Challenges in the water sector in Uganda stem from a number of issues including weak capacity at all levels, and lack of access to financing for capital investments and expansion of piped water services. As part of the program, IFC implemented a set of pilot transactions to modify the flawed contractual arrangements in use, improve the capacity of the key stakeholders, and model strategies to access financing. In June 2010, the government of Uganda awarded the first five-year performance-based management contract to a private operator for the town of Busembatia. The winning bidder, Trandint Limited, offered the lowest total bid price of $270,000.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo is funded by the UK's Department for International Development (DFID), the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, the Swedish International Development Agency, and IFC.

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BACKGROUND

Improved access and use of safe water and sanitation facilities are among the key priority areas for the government of Uganda. To achieve this goal, the government decided to decentralize rural water supply delivery. Implementing this plan relied on local governments, which depend heavily on grants from the central government—which are financed in turn by donors.

Since 2001, the government had implemented PPPs in peri-urban and rural areas, 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.

IFC'S ROLE

The Uganda SSIP Water Program leveraged IFC's experience in PPP transactions and business development support and facilitated access to finance for private operators. It also took into consideration existing support by other major donors, such as the Joint Water and Sanitation Sector Program Support (JWSSPS) and GPOBA.

IFC provided support for three program components: transaction advice, public sector capacity, and access to finance. IFC also developed a training program based on the proposed generic management contract to address weaknesses in the area of contract administration among public sector stakeholders.

Elements of sustainability were built in throughout key activities of the program to ensure continuity after project completion, including developing a workshop curriculum that could be easily replicated.

TRANSACTION STRUCTURE

As part of its role as lead advisor, IFC conducted due diligence in ten small towns, uncovering contracts of short duration and varying performance indicators. To address these shortcomings and ensure ease of management and administration, IFC proposed a generic contract with a minimum term of five years that would appeal to both private operators and lenders.

IFC also analyzed the geography of the areas in need and proposed clustering towns within close proximity to one another. Clustering allows 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 could not be implemented and a bidding process was ultimately implemented solely for the town of Busembatia.

Prior to IFC's involvement, 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 to leverage its relationship with local banks in Uganda, which presented financial institutions for the first time with a viable business model for small town water operations.

BIDDING

Following a prequalification process, three local companies were invited to submit a bid for a five-year management contract in Busembatia. The 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 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.

POST-TENDER RESULTS

- Residents of Busembatia enjoy expanded access to water at the same tariffs for the next five years.
- Twenty-four hour service at 430 new water connections were installed in the first year of operation, ahead of the projected schedule.
- DFCU Bank, a Ugandan commercial bank, loaned approximately $100,000 to the winning bidder for the Busembatia contract. It has become a model that other local banks are implementing today.
- Seventy representatives from local authorities participated in 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.

** Unless otherwise stated, monetary values are presented in 2012 US dollars. Results are from a post-completion evaluation completed April 2013.*

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