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Redesigning a Program from the Ground Up

Since 2001, the Government of Uganda (GoU) has transacted public-private partnership (PPP) arrangements in periurban and rural areas. Currently, the country has management contracts with private operators in 70 small towns. However, the contractual arrangements are generally weak and plagued with capacity challenges. Local government authorities do not understand the details of the contracts[1], resulting in an inability to effectively implement details of contracts at both the national and subnational levels. IFC launched the Uganda Small Scale Infrastructure Provider (SSIP) Water Program in 2005 to help the GoU improve on these existing, but flawed, PPP models and address issues of weak capacity in the water sector. However, three and a half years after launching the program, IFC had yet to deliver any results because of significant problems with the program's original design. This SmartLesson tackles the issue of proper program design and the lessons learned from the experience of the SSIP Water Program.

Background

IFC began designing the SSIP Water Program in 2005. Although IFC had no prior experience advising on "mini" transactions that involved subnational governments or small towns, the idea was for IFC to leverage its experience as transaction advisor for a variety of PPP deals, particularly water PPPs. Also, IFC would use the resources of its financial markets and small and medium enterprise (SME) departments to address the capacity and financing constraints of private operators in Uganda. In short, the program concept appeared to address the financing and capacity challenges that existed with private-sector participation in the water sector in Uganda. After spending two years designing the program, IFC proposed a program that was heavily based on capacity-building interventions. The program comprised the following components, listed in order of priority and focus:

- *Public-sector capacity building to address the weak capacity of local authorities and the Ministry of Water and Environment (MoWE) to monitor the operation and management of the water system*
- *Private-sector capacity-building interventions to improve the operational efficiencies of private operators, which are essentially SMEs, and help them get access to finance.*
- *Transaction structuring and implementation of PPP deals using international best practices.*
- *Access-to-finance interventions to encourage local banks to lend to private operators, and development of a risk-sharing product that would share the risk of lending to private operators between local banks and IFC, thereby extending the ability of local banks to provide loans involving a fairly high level of risk.*

1 In Uganda's water sector, there are generally two types of contractual agreements: (i) Performance Contract, which is a contract between the national government (represented by the Ministry of Water and Environment) and local governments in small towns. This contract gives local governments the mandate to procure the services of private operators through PPP arrangements to provide piped water services to the towns, and (ii) Management Contract, which is a specific contract between a local government and a private operator. This contract gives the private operator the mandate to provide piped water services to the towns in partnership with the local authority.

Busembatia is one of the towns within the Uganda SSIP Water Program. It has a population of 14,000. (Source: Hydroconseil)

Weaknesses of the Program's Original Design

While the original SSIP Water Program took two years to design, it did not successfully address the various problems with Uganda's water sector. Three and a half years after launching the program, IFC had yet to deliver any results because of significant flaws with the program's original design. The design suffered from the following issues:

- *Public-sector capacity-building activities were not linked to specific transactions or a specific area of capacity. Hence, a significant portion of the program's budget and time would have been dedicated to stand-alone capacity interventions that did not have a specific focus.*

- *There was no need to include a private-sector capacity-building component in the program because the German Technical Corporation (GTZ), a German agency helping developing economies, was already providing similar interventions to the Association of Private Water Operators (APWO), a membership-based organization of private operators operating in Uganda's water sector.*

- *Not enough pre-implementation studies were done on the current financing options available to private operators and on the willingness and capacity of local banks to lend to private operators. It was also not clear if a risk-sharing product was beneficial to both the banks and the private operators and, indeed, if the development of such a product was feasible for IFC.*

Other IFC departments, such as the SME Entrepreneurship Development Initiatives (EDI) program and the Financial Markets Department, did not buy into or sign off on the program's design, mostly because they did not have a clear understanding of the program and their specific roles within it. In addition, IFC did not communicate with development partners on the planned program, and as a result, IFC did not receive support for its program from strategically important partners in the country, such as GTZ.

Also, at the time, the World Bank was planning a pilot program to introduce its Global Program for Output-Based Aid (GPOBA) to Uganda's small-town PPPs.[2] This pilot has introduced design-build-operate contracts to increase the role of the private sector while expanding access to the poor through output-based aid (performance-based grant) connections. The proposed role for the IFC through SSIP at the time was to provide capacity building support to the private operators. But for the reasons described above, the SSIP was not able to mobilize this promised support, and the program's timelines did not match those of the GPOBA pilot transactions. Therefore, the SSIP missed out on the opportunity to get involved in this pilot program.

A New and Improved Design

It then took another year and a half for IFC, working with the GoU, development partners, and private-sector participants, to achieve a program design acceptable to all stakeholders. To achieve our desired goals, we have had to overhaul the program by developing a more robust and focused revised design that has delivered results. The revised program includes some original components, with the following priorities:

- *Transaction structuring and implementation of PPP arrangements in a selected number of towns. These will be used as model transactions with improved PPP contracts for replication within the sector.*

- *Public-sector capacity building that is linked to transactions in the selected towns, as well as to the key deliverables within IFC's proposed improved PPP contracts.*

- *Access-to-finance interventions that are focused on specific transactions and on improving the willingness and capacity of banks to lend to private operators.*

In addition to the revised program, IFC investment officers with experience have been added to the program team.

Benefits of the New and Improved Design

The program's core is now structuring transactions and implementing them in ten small towns. This entails conducting due diligence on all ten towns, after which a recommendation will be made to the GoU to adopt one or more type of options for water PPP arrangements. At the same time, because the aforementioned GPOBA pilot initially tendered only ten of 12 towns due to the duration of existing contracts, the GOU is considering that the SSIP transaction advisory services could be used for the remaining two towns. These towns are now part of IFC's seven transaction towns.[3]

2 GPOBA is a multi-donor program administered by the World Bank. Its donors include IFC, UK Department for International Development (DFID), Netherlands Directorate General for International Cooperation (DGIS), AusAID, Swedish International Development Cooperation Agency (SIDA) and the World Bank, and is a performance-based subsidy program that is intended to support basic service delivery by complementing public funding or user fees.

3 A decision on whether to go forward with the two towns in the existing pilot or to wait for the scaling-up which could involve all or many of the towns on which SSIP is providing transaction advice will be made in the next month.

Given the importance of this outcome, the planned public-sector capacity building will involve interventions on contract administration for local authorities and the MoWE, using the model contracts as case studies. The interventions will cover key aspects of the contract, such as adoption of techniques to improve the operations and management of water supply systems, the establishment of ownership of assigned risks, the implications of contract tenure, and conflict resolution processes.

By removing a component from the program that offers interventions for private operators, IFC has an opportunity to collaborate with GTZ, which has agreed to provide the needed interventions that will complement activities within the IFC program. Successful discussions between IFC and GTZ have interested other development partners active in Uganda's water sector and have garnered support for the overall program. Our partners have recognized that IFC, thanks to its experience transacting PPP deals, is most capable of offering the sector its expertise on transaction structuring and implementation, which is now the focus of the program.

IFC has downplayed the GoU's expectations on the development of a risk-sharing product for the banks because, in reality, there are only about 15 operators in the water sector, and it would be a stretch of resources to develop this product for such a small number of operators. Instead, the program will focus on interventions that will increase the interest of banks in lending to private operators.

By including investment officers with water PPP experience on the team, a pilot program that has never been implemented now has focus and specific deliverables that are beneficial to the needs of the clients.

Lessons Learned

1) There is no need to take on more than necessary.

In designing programs, it is important for us to understand our capacity to properly deliver, and to recognize our limitations. In most countries, other development partners support activities in specific sectors. In Uganda, many partners fund and assist a variety of development activities in the water sector. However, this is done with a coordinated approach under the guidance of the MoWE. Private operators are primarily SMEs and are beset by problems, such as weak accounting and reporting systems, lack of training for employees, and no thorough strategic thinking for operations or expansion.

Ground and elevated water storage facilities. (Source: Hydroconseil)

For the past few years, GTZ has been helping the APWO strengthen the capacities of its members to improve their operational and business efficiencies. IFC should have approached GTZ to provide the needed interventions for members of APWO, instead of including private-sector capacity building as a component of the program. By so doing, IFC could have focused on the component that reflects its core competence: transaction structuring and implementation.

2) Offer strategically aligned complementary technical assistance.

In the original proposal submitted to the MoWE, the program included a fairly broad public-sector capacity-building component that lacked focus. In fact, the overall program centered on this component, which meant that we spent four to six months conducting a needs assessment survey to ascertain the areas of capacity that needed attention.

Surprisingly, the survey report found that although many areas of capacity needed to be improved, attempts to do this were already being made by the MoWE and other development partners. Despite these efforts, the stakeholders could not properly administer and manage PPP contracts. Capacity-building interventions will now focus solely on the administration of the model PPP contracts proposed by IFC for the planned transactions.

3) All internal ducks MUST be in a row.

The program was designed to leverage resources from IFCs financial markets and SME EDI programs to help private operators gain access to finance. However, no formal approvals had been sought from these internal departments prior to submission of the proposal to the MoWE. Neither department, therefore, devoted resources to support and focus on the Uganda SSIP Water Program's activities. Further, the program promised to develop a risk-sharing product for local banks without understanding what it would take to deliver such a product, considering that Uganda's water sector has only 15 private operators.

When the Uganda project was being designed, a similar product was being successfully piloted in Ghana's education sector. Unfortunately, the fact that the Ghana and Uganda programs are in different sectors (education versus water) and have significantly different potential numbers was ignored.

4) The technical expertise of the team is critical.

Although the core competency of IFC's Infrastructure Advisory Services is transaction structuring and implementation, the original program team comprised individuals who had no experience with PPP transactions. For this reason, the original design was weighted heavily on capacity-building interventions that had no specific focus or bearing on the competencies of the department. As a result, time was wasted finding ways to address the many capacity challenges that exist in both private- and public-sector groups operating in the sector, instead of pursuing transaction opportunities.

5) When designing a program, do not underestimate the importance of strong engagement and clear communication with the client, development partners, and other stakeholders.

IFC did not sufficiently engage with development partners, the government, and stakeholders during the program's design phase. Had IFC done this, we would not have included the provision of private-operator interventions in the design. In fact, this is a role that GTZ has performed for many years in working to develop Uganda's water sector. The inclusion of a private-sector capacity-building component in the original program design significantly delayed approval for the proposal. Finally, IFC had no choice but to leave that component out of the proposal and agree with GTZ to take ownership of the much-needed capacity interventions for the private sector. With assistance from the MoWE, IFC could have identified development partners that could take on other aspects of the program such as access to finance and public-sector capacity building while IFC focused on its core competency, transaction structuring, and implementation.

Conclusion

Although the Uganda SSIP Water Program has been a long time coming, the client and the donor are keenly interested in applying the lessons from the program's design and implementation elsewhere in Africa. Given the revisions made, it is now clear that the essential elements of such a program should reflect the core competencies of IFC's Infrastructure Advisory Department and IFC's value addition to such a project.

Women fetching water at a public water pipe (PWP). The PWP is installed over a borehole and households pay nominal fees to fetch water from this source. (Source: Hydroconseil)