Financing small piped water systems in Uganda

Busembatia Case Study

IFC - PPP Transaction Advisory
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The Rural Water Sector In Uganda (1/2)

• Water supply delivery “decentralized” to Local Governments in 1997, but with significant reliance on grants from Central Government

• In 2003, Cabinet approved another reform emphasizing:
  
  o The desire to extend service delivery to previously un-served areas;
  o The need to improve efficiency in served areas; and
  o The need to reduce the burden on the Government for direct service delivery especially in commercially viable activities
The Rural Water Sector In Uganda (2/2)

• In 2011, more than 80 small scale water systems were managed by Private Operators

• More than 20 local Private Operators (PO) have created their own association (APWO)

• Four of those 20 PO are managing more than half of the existing water systems
The Project

• With the support of the Austrian Development Agency, Government of Uganda (GoU) sought assistance from IFC to help them in addressing main challenges through
  
  • **Public and Private Sector Capacity Building:**
    o Implemented training on Contract Administration for 30% of Local Authorities and 100% POs in the sector
    o Reviewed and enhanced the existing generic Contract
  
  • **Transaction Advisory Support:**
    o Conducted detailed due diligence in ten (10) towns
    o Executed a transaction in one town (Busembatia)
  
  • **Access to Finance:**
    o Conducted an assessment of ability of local banks to lend to POs
    o Implemented training on the operations of small water supply systems for 7 local banks
Location of The 10 Small Towns

The map below provides an indication of the geographical location of towns in which IFC implemented a Due Diligence - All 10 towns are located in Eastern Uganda.
Due Diligence

Main Results
Result of the Private Operators Audit

- All the operators interested in the transactions were locally based
- Operators lacked access to finance which was limiting their expansion plans
- Most Private Operators audited had low technical capacity
- Most contracts signed with Local Governments had duration of less than 3 years which was limiting POs willingness to invest
## Main Results of The Technical/Financial Due Diligence

<table>
<thead>
<tr>
<th><strong>BUSEMBATIA</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population in 2009 (estimated)</td>
<td>14,700</td>
</tr>
<tr>
<td>Date of Construction of the Network</td>
<td>2002</td>
</tr>
<tr>
<td>Number of Water kiosks</td>
<td>8</td>
</tr>
<tr>
<td>Number of Connections</td>
<td>310</td>
</tr>
<tr>
<td>Source of Water and pump Capacity</td>
<td>2 Boreholes - 8m3/h each</td>
</tr>
<tr>
<td>Storage Capacity (m3)</td>
<td>100</td>
</tr>
<tr>
<td>Water System length (km)</td>
<td>10</td>
</tr>
<tr>
<td>Water Production (m3/year)</td>
<td>16,000</td>
</tr>
<tr>
<td>Water Sales (m3/year)</td>
<td><strong>13,000</strong></td>
</tr>
<tr>
<td>Consumption liter per day per capita</td>
<td>2.6</td>
</tr>
<tr>
<td>Domestic Customers Tariff (USD/m3)</td>
<td>0.40</td>
</tr>
<tr>
<td>Tariff Ceiling in Small Towns (USD)</td>
<td>1.1</td>
</tr>
<tr>
<td>Willingness To pay in Busembatia (USD)</td>
<td>0.9</td>
</tr>
<tr>
<td>Unaccounted For Water (UFW)</td>
<td>19%</td>
</tr>
<tr>
<td>Revenues in 2008 (USD)</td>
<td>6,150</td>
</tr>
<tr>
<td>Opex in 2008 (USD)</td>
<td>4,400</td>
</tr>
<tr>
<td>Collection Rate</td>
<td>71%</td>
</tr>
<tr>
<td><strong>New Investments to be pre-financed by PO (USD)</strong></td>
<td><strong>290,000</strong></td>
</tr>
</tbody>
</table>

*PO: Private Operator
Busembatia is 150 km away from Kampala*
Main Results of the Legal Due Diligence in Busembatia

“IFC’s Proposed” Management Contracts

• **Longer contract duration** – 5+ year minimum contract term, compared to previous 3 year contract

• **Sanitation coverage** included in addition to water supply service

• Adoption of “**Standard**” and “**Special**” conditions approach in generic performance and management contracts e.g. standard contract duration of 5 years can be modified to a longer contract duration, O & M service can be modified to cover the design and construction of new schemes, extensions etc.

• **Distinction between “minor/routine repairs” “major repairs” and “extensions”** for clarity and to avoid /minimize contractual disputes

• **New key performance indicators**
PPP Contractual Framework for Small Towns
Result of the Tender in Busembatia (1/2)

- Following a pre-qualification stage, three local companies were invited to submit a bid for a five year management contract.

- Contract was awarded to a local experienced PO who required the lowest subsidy.

- The new PO agreed to install 400 new connections by 2012 with no tariff increase for the duration of the contract.

- A local commercial bank – DFCU Bank – extended a loan to the winning bidder.
Result of the Tender in Busembatia (2/2)

- The majority of the investment was funded by GPOBA
- However the new Private Operator had to pre-finance the Capex
- The GPOBA grant is released upon certificate of commissioning and verification of output
- The tariff level and tariff adjustment procedures are predefined and included in the contract with the PO

*GPOBA- Global Partnership on Output-Based Aid : multi-donor trust fund administrated by the World Bank
Funding Available

To Private Operators
Access to Finance Constraints

The Private Operators Audit helped identify the following constraints to access financing:

- Lack of acceptable collateral security
- Poor record keeping
- Weak management structure
- Public sector involvement in the contractual operating structure
- Limited or no monitoring of PO operations
- Low sustainability and cost recovery
Grant Funding: GPOBA

- GPOBA is a multi-donor trust fund administered by the World Bank
- The fund subsidizes water projects with the objective of improving access to affordable safe water in Uganda’s Small Towns
- GPOBA can support the majority of the investment but PO has to provide pre-financing and in some cases participate in the capex
- The GPOBA grant is released upon certificate of commissioning and verification of output
GPOBA Grants Administration and Funds Flow

MoWE

DWD Implementing Agency

Monitoring and Verification Function

Small Town RGC

Local Water Authority

Performance Contract

Private Operator

Water users

GPOBA

Fiduciary Agent

Funds Disbursement Agent

Private Sector

Funds Administration Agreement

Memorandum of Understanding (MoU)

Implementation Agreement

Grant Agreement

Contracts

Control

Funds
GPOBA Disbursement Schedule

Brownfield (expansion) projects:
• No prepayment
• 80 pct. at commissioning
• 10 pct. once water is delivered from new connections
• 10 pct. report of the Ministry stating that there are no claims on the PO
Commercial Loan: DFCU Bank

- In Busembatia, DFCU extended a $100,000 to the winning bidder (Capex: $270,000)
- Minimum cash equity contribution of 20%
- Maximum grace period of 1 year for construction (no grace in Busembatia)
- Market interest rate of 19%
- Loan appraisal fee of 1% payable on disbursement of funds included
- Tenor: 2 years
## Project financial structure in Busembatia

<table>
<thead>
<tr>
<th>Organization</th>
<th>During construction</th>
<th>At Commissioning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selected Winning Bidder (equity)</td>
<td>60%</td>
<td>20%</td>
</tr>
<tr>
<td>DFCU Bank (loan)</td>
<td>40%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Infrastructure Subsidy - GPOBA</strong></td>
<td>0%</td>
<td><strong>80%</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
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</table>
Busembatia - Key Lessons

• Access to finance to be provided by local banks
  o One of the key constraints faced by POs is access to finance
  o Prior to IFC intervention, local banks were hesitant towards the water sector

• Importance of Mobilizing Subsidies
  o Identification of grant funding is key given the difficulties in achieving full cost recovery without it (Donor or Government)

• Implementation of capacity Building for POs and Local Authorities
  o Important tool to help Private Operators and Local Authorities to understand PPPs
  o Need to handhold Private operators throughout bidding process

• Improved PPP arrangement
  o Longer PPP duration of at least 5 years (instead of 1-3 years)
  o Processes in Small towns similar to the ones implemented in Urban areas
Busembatia water project

• Rehabilitation and extension of production/distribution network
• GPOBA Subsidy available @ Bid: $300,000
• Project cost = $290,000 (as per IFC estimate)
• Winning Bidder Proposal = $270,000
• Loan amount = $100,000
• Grant received by PO = $270,000
• Connections = 310 (2010) / 710 (+2 years)
• Water supply = 24 x 7
• Revenue = $6,150 / $15,000 (+2 years)
Thank You!

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