



IFC

INTERNATIONAL FINANCE CORPORATION
WORLD BANK GROUP

Financing small piped water systems in Uganda

Busembatia Case Study

IFC - PPP Transaction Advisory
Washington, D.C. October 8, 2013

Table of Content

- **Rural Water Sector in Uganda**
- **The project**
- **Due Diligence :**
 - **Result of the Private Operators Audit**
 - **Technical/Financial Results**
 - **Legal Results**
- **Results of The Bidding Process**
- **Funding Available To Private Operators in Busembatia**
 - **Grant Funding: GPOBA**
 - **Commercial Loans : DFCU**
- **Project Financial Structure**
- **Key Lessons**

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 :
 - The desire to extend service delivery to previously un-served areas;
 - The need to improve efficiency in served areas; and
 - 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)

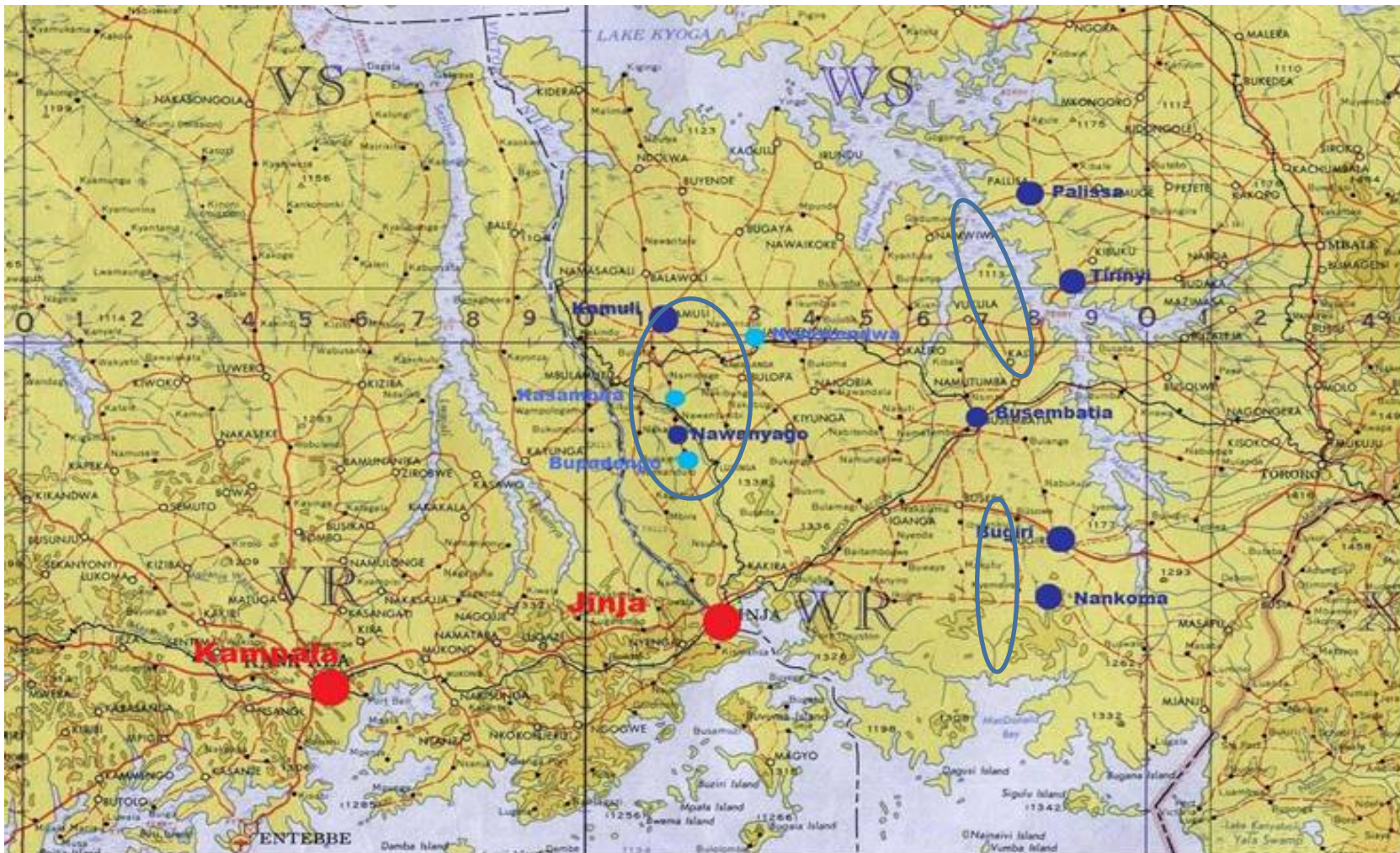
- In 2011, more than 80 small scale water systems were managed by Private Operators
- More than 20 local Private Operators (PO) have created their own association (APWO)
- Four of those 20 PO are managing more than half of the existing water systems

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:**
 - Implemented training on Contract Administration for 30% of Local Authorities and 100% POs in the sector
 - Reviewed and enhanced the existing generic Contract
 - **Transaction Advisory Support:**
 - Conducted detailed due diligence in ten (10) towns
 - Executed a transaction in one town (Busembatia)
 - **Access to Finance:**
 - Conducted an assessment of ability of local banks to lend to POs
 - 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

BUSEMBATIA	
Population in 2009 (estimated)	14,700
Date of Construction of the Network	2002
Number of Water kiosks	8
Number of Connections	310
Source of Water and pump Capacity	2 Boreholes - 8m ³ /h each
Storage Capacity (m ³)	100
Water System length (km)	10
Water Production (m ³ /year)	16,000
Water Sales (m ³ /year)	13,000
Consumption liter per day per capita	2.6
Domestic Customers Tariff (USD/m ³)	0.40
Tariff Ceiling in Small Towns (USD)	1.1
Willingness To pay in Busembatia (USD)	0.9
Unaccounted For Water (UFW)	19%
Revenues in 2008 (USD)	6,150
Opex in 2008 (USD)	4,400
Collection Rate	71%
New Investments to be pre-financed by PO (USD)	290,000

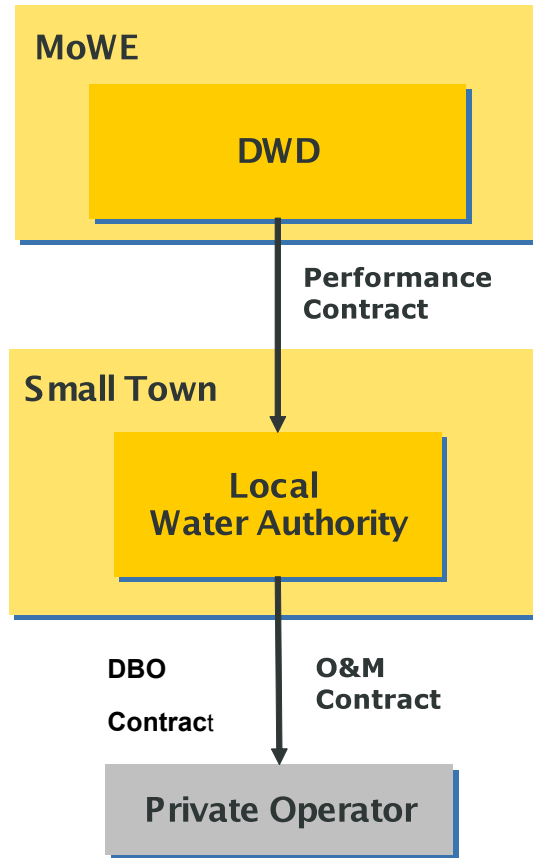
*PO: Private Operator
Busembatia is 150 km away from Kampala*

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

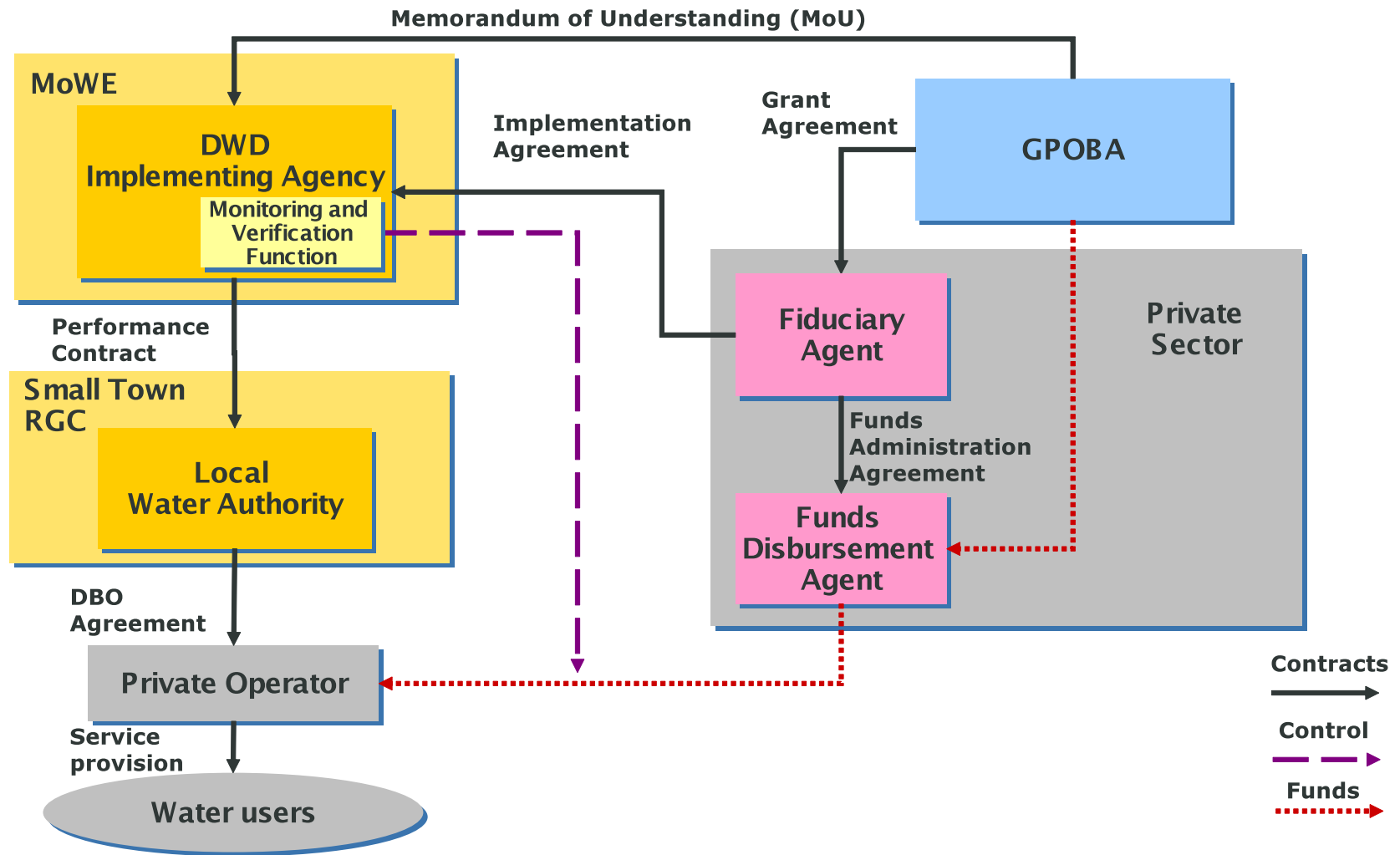
The Private Operators Audit helped identified the following constraints to access financing:

- 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



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

Organization	During construction	At Commissioning
Selected Winning Bidder (equity)	60%	20%
DFCU Bank (loan)	40%	0%
Infrastructure Subsidy - GPOBA	0%	80%
Total	100%	100%

Busembatia - Key Lessons

- Access to finance to be provided by local banks
 - One of the key constraints faced by POs is access to finance
 - Prior to IFC intervention, local banks were hesitant towards the water sector
- Importance of Mobilizing Subsidies
 - 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
 - Important tool to help Private Operators and Local Authorities to understand PPPs
 - Need to handhold Private operators throughout bidding process
- Improved PPP arrangement
 - Longer PPP duration of at least 5 years (instead of 1-3 years)
 - 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)



IFC

INTERNATIONAL FINANCE CORPORATION
WORLD BANK GROUP



Thank You!

Contact:

David Bot Ba Njock

Infrastructure Advisory Services

Email: DBotbanjock@ifc.org