INTERNATIONAL FINANCE CORPORATION
WORLD BANK GROUP

Implementation of a PPP Transaction in the Rural Water Sector in Uganda

IFC - PPP Transaction Advisory
Dakar, June 4, 2012

Outline

- What is a small scale PPP and What are the Main characteristics ?
- Main Challenges in the rural water sector in Uganda and IFC's role
- Small Scale Transaction Implementation
  - Result of IFC Due Diligence in Busembatia
  - Result of the Bidding Process
- Lessons Learned

What is Small Scale PPPs?

- Small stand alone systems such as small town or village distribution system
- Small customer base can vary from a few hundred to several thousand connections
- Often serving the poor and not a priority for national water utilities

What is Small Scale PPPs?

Type	Characteristics	Population Served	Network Length	Storage Capacity	Production Capacity
Scheme with a single communal distribution point	No distribution network, communal distribution point at the borehole, limited storage underground or at low elevation	500-1,000	<0.1 km	2 – 10 m^3	5 – 10 m^3/day
Scheme with multiple communal distribution points	Limited reach of the network, stand posts only, limited storage capacity at low elevation	500-2,000	<2k m	10 – 50 m^3	5 – 40 m^3/day
Scheme with multiple distribution points and household connections	Extended network, stand posts and household connections, higher capacity storage at higher elevation	2,000-10,000	2 – 10 km	10 – 50 m^3	20 - 300 m^3/day
Multi-village schemes	Larger piped schemes with transportation of water to up to dozens of villages	5,000-200,000	10 – 250 km	10 – 50 m^3	100 – 2000 m^3/day

Based on a sample of 4,800 piped water schemes – Source WSP

Busembatia – Uganda

Example of a Network

Pumping station and 100 m3 reservoir

- Population: 14,500
- Source of water: 2 Boreholes
- Production: 100m3/day
- Connections: 310
- Network length: 10km
- Kiosks: 8

Bugiri – Uganda

Example of a Network

Standpipe

Water Kiosk

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Benin – Djidja

Example of Water Connection

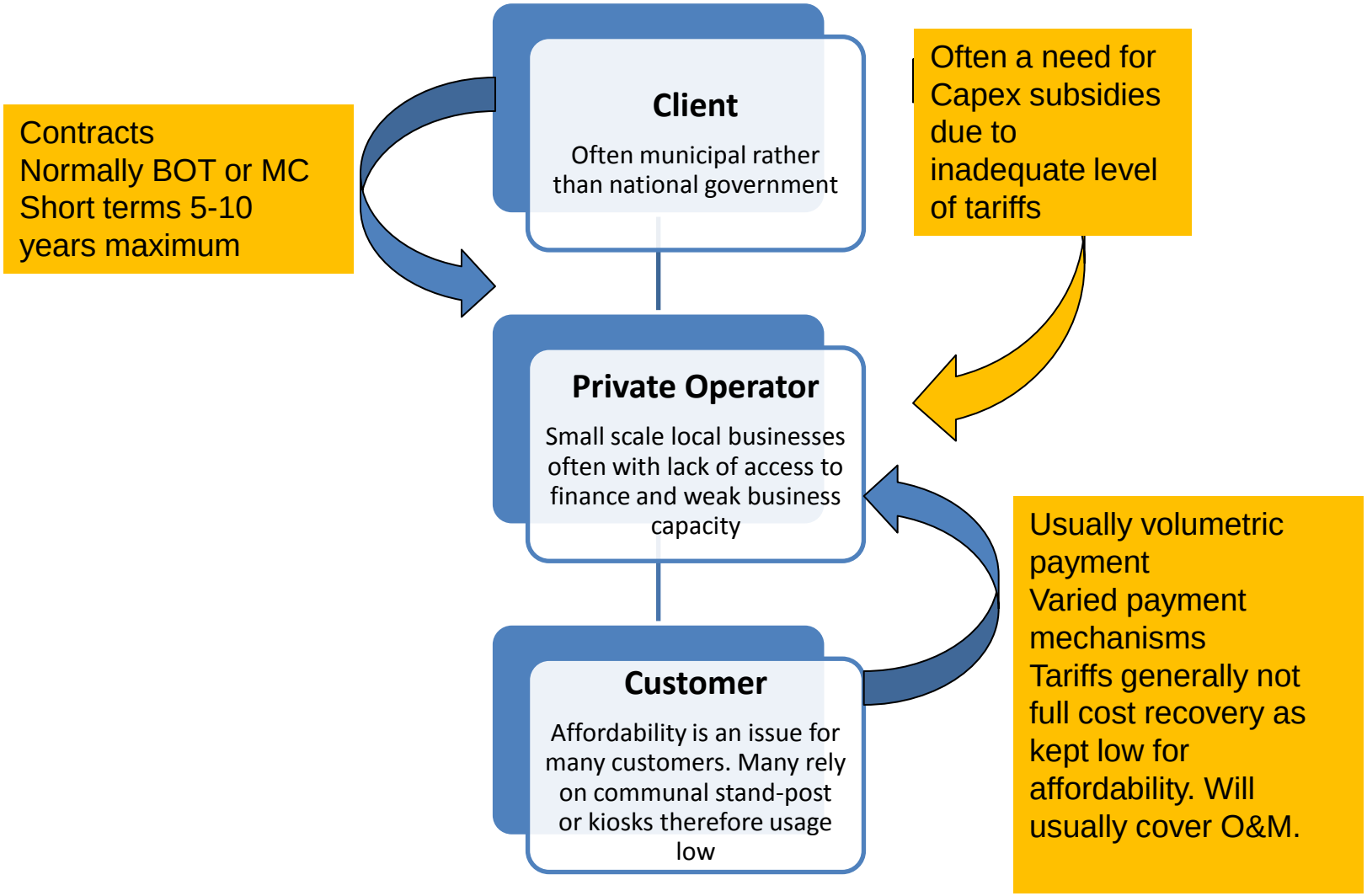
Houses in Town (Djidja)

House with a connection

Individual Connection

Same Connection selling water to the public

Contractual Arrangement in Uganda



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Country and Sector Overview

Uganda:

- Population: over 32 million (Kampala 1.5 million)
- Average income per capita : about $1,200
- Almost 90% of the population leaving in rural areas

Water Sector:

- Water supply delivery “decentralized” to Local Governments in 1997, but with significant reliance on grants from Central Government
- In 2003, Cabinet approved another reform for small towns emphasizing the need to improve efficiency & quality of service mainly by encouraging appropriate form of PSP
- As of 2011, more than 80 small scale water systems were managed by Private Operators.
- More than 20 local Private Operators that have created their own association (APWO)

Small Scale Infrastructure Development in Uganda: Main Challenges

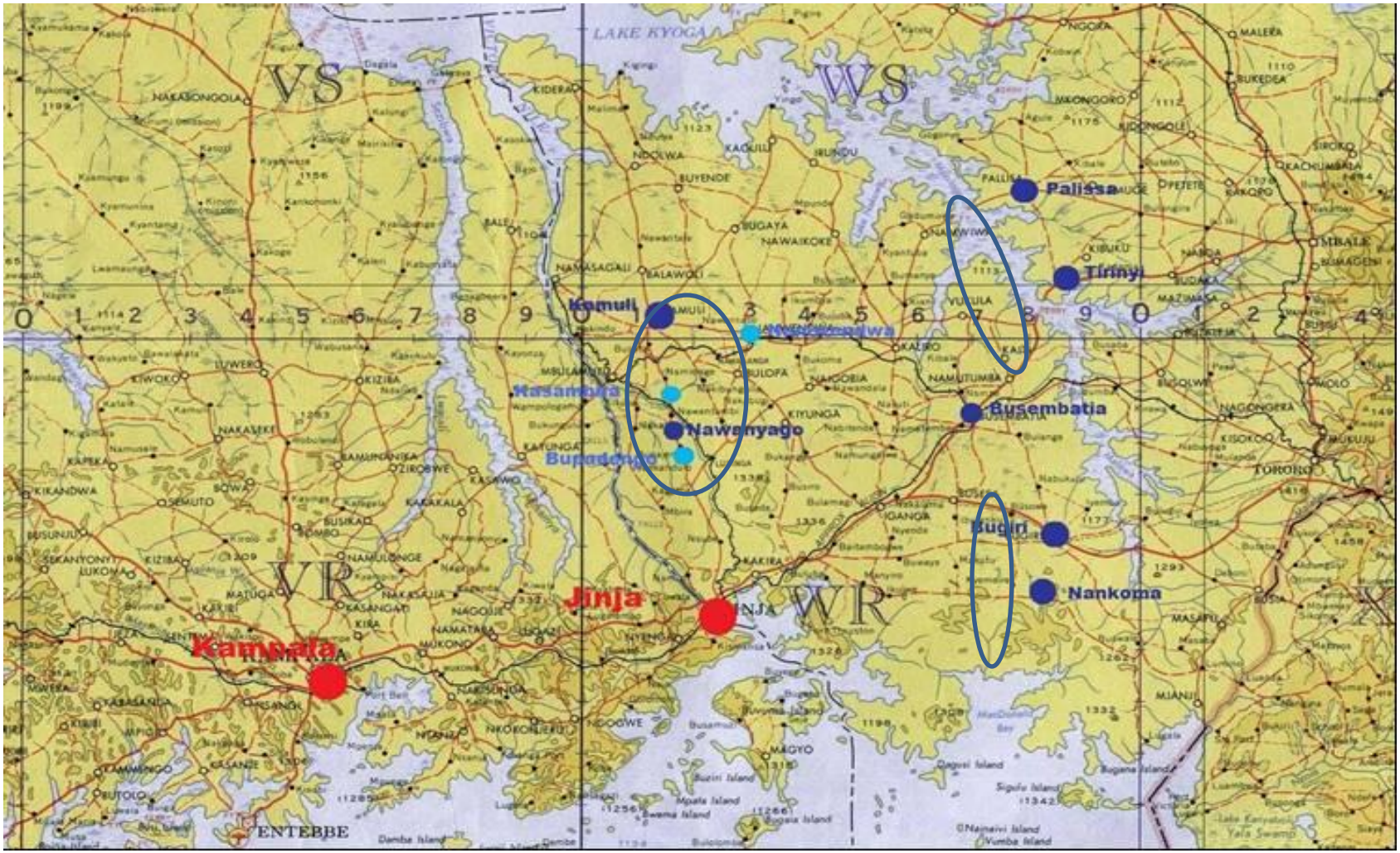
- Difficulties in providing reliable water supply in rural areas and achieving full cost recovery without Grant (Donor or Government)
- Availability of public capital remains constrained due to deficits and/or necessity of prudent fiscal management
- Local investors generally more risk-averse and less willing to take risks on infrastructure in emerging markets
- Local Banks are hesitant towards the water sector but are willing to know more about it

IFC's Role in Uganda

- 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 the existing generic Contract and enhanced it
  - **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 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.



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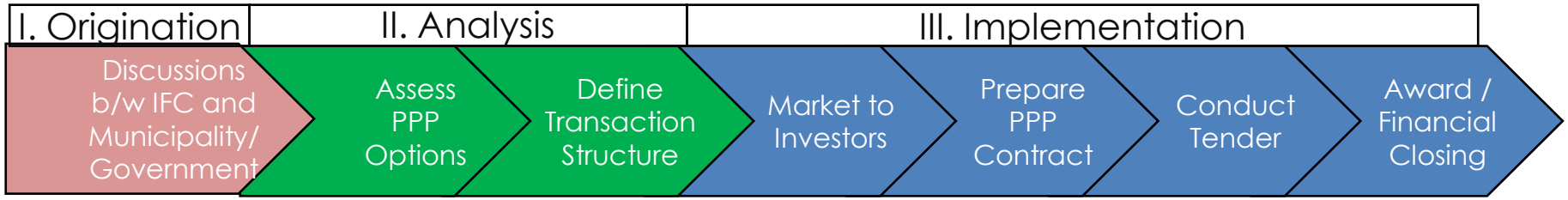
Small Scale Transaction Implementation : A Phased Process



Main Issues to consider for small scale infrastructure projects

- Is there decentralized government/ service delivery?
- Is there sufficient capacity in the market?
- Concept of paying for service accepted?
- **Is there a likely source for capex subsidy?**

Technical analysis – keep the design simple and appropriate

Try to cluster to get economies of scale

A lot of stakeholder consultation required including with communities to ensure buy in.

Risk allocation

Payment mechanism and subsidy mechanism

Along side usual marketing to operators need for capacity building and support in accessing finance

Appropriate service standards – likely to be low and different for different communities; highly sensitive to price.

Ensure operators are incentivized to stay for the long run despite low tariffs.

Pre-qualification – set standards that are appropriate for the market.

Provide support to bidders through the bidding process.

After financial close ensure follow on support from other parts of IFC or partners

Look for scale up opportunities

Main Results of the Technical/Financial Due Diligence in Busembatia

BUSEMBATIA	
Population in 2009 (estimated)	14,700
Date of Construction of the Network	2002
Number of Standpost	None
Number of Connections	310
Source of Water and pump Capacity	2 Boreholes - 8m3/h each
Storage Capacity (m3)	100
Water System length (km)	10
Water Production (m3/year)	16,000
Water Sales (m3/year)	**13,000**
Consumption liter per day per capita	2.6
Domestic Customers Tariff (USD/m3)	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

Main Results of the Legal Due Diligence in Busembatia

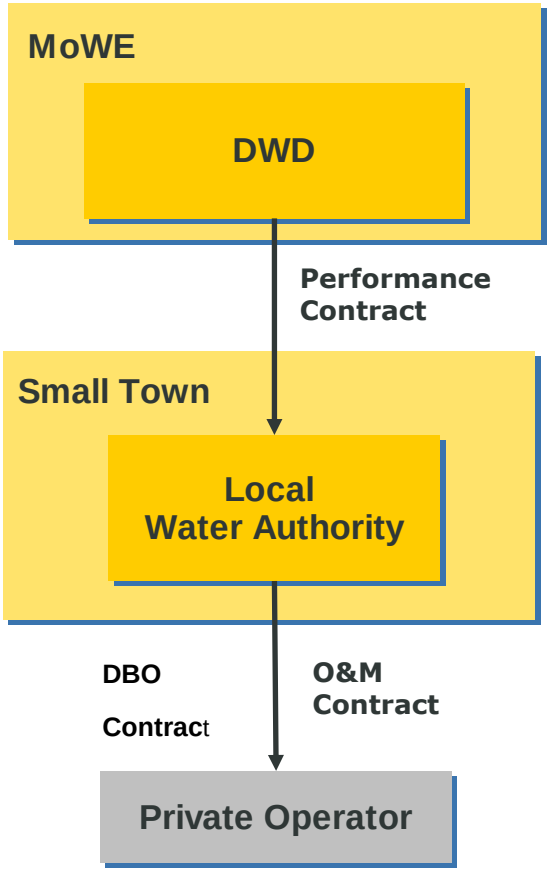
"IFC's Proposed" Management Contracts (Cont'd)

- Importance of ***business plan as benchmark in tariff setting and contract management fee level***
  - To mitigate potential adverse risks associated with unilateral changes to the tariff and management fee, the BP will assume greater importance in new contracts
  - The BP will require more comprehensive financial information to be incorporated in it
  - It will also include proposed tariff and management fee in the PO's bid

- ***New key performance indicators***

Main Results of the Legal Due Diligence in Busembatia

PPP Contractual Framework for Small Towns



Main Results of the Legal Due Diligence in Busembatia

Responsibilities of the Local Authority

- ***Setting of Tariffs*** – This is the responsibility of the Local Authority but the practice is to base it on an approved business plan.

- **Manage and Control Assets** – The Local Authority has the mandate to manage and maintain the assets transferred to it by GoU. However, the Local Authority is not allowed to dispose of the assets.

- ***Termination*** - Other than for non- performance/non-payment of the agreed management fee requires a 90 day notice by either party. Provision is made for compensation to the PO for the unexpired portion of the contract.

- ***Dispute resolution*** – initially all disputes must be resolved through mediation and arbitration before being referred to courts.

Main Results of the Legal Due Diligence in Busembatia

Responsibilities of Private Operators

- ***Management of assets and service provision*** within contract area exclusively vested in PO for the duration of the contract.

- ***Payment for utility expenses and taxes*** –responsibility of the PO.

- ***Collection of user charges*** – PO must bill users and collect, in accordance with a schedule of tariffs and rates agreed upon by the Local Authority.

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Results of the Tender Process

- Following a prequalification process, three local companies were invited to submit a bid for a five-year management contract in Busembatia
- Contract was awarded to Trandint Limited, a small local Private Operator (PO) that is managing several small towns (10 small towns) ?
- The new operator agreed to install 400 new connections by 2012 and to avoid increasing tariffs for the duration of the contract
- For the first time in the SSIP history in Uganda, a local commercial bank, DFCU Bank, loaned approximately $100,000 to the winning bidder

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

Results of the Tender Process

- The majority of the investment is funded by GPOBA in Busembatia
- However the new Private Operator needs to pre-finance the GPOBA grant (approx USD270,000)
- The GPOBA grant is released upon certificate of commissioning and verification of output
- The tariff level and the tariff adjustment procedures are predefined and included in the contracts with the private operators

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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
  - Banks lending to POs has become a reality in Uganda

- Implementation of capacity Building for POs and Local Authorities
  - Important tool to help Private Operators and Local Authorities to understand PPPs
  - Need to provide support to Private operators throughout bidding process

- Improved PPP arrangement
  - Longer PPP duration of at least 5 years (instead of 1-3 years)
  - Phased Process also implemented in Small towns

Busembatia - Key Lessons

- Importance of Clustering
  - Generally, POs, Donors and Banks would request the creation of Clusters
  - Clustering provides larger contracts that capture economies of scale and also creates fewer contracts for public officials to administer

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

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Thank You!

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