Taking Ugandan water PPPs to the next level

Local private sector operators in Uganda have more than proved themselves over the past decade. Now, the government is looking to reward them with more responsibility.

Uganda is paving the way for further private sector participation in its water sector. Private water operators currently manage water supply schemes in small towns and rural areas, but changes to their management contracts are set to give them more responsibilities – as well as investment capabilities.

Private operators have been active in Uganda's water sector for a decade, with great success, as evidenced by data published in the Ministry of Water and Environment's recent performance report (see table). In the past, they typically signed renewable three-year contracts with local authorities to manage an area's water supply scheme, with all funding coming from the central or local government.

Local water companies have, however, become increasingly frustrated at the contracts' limitations. "Three years is too short, considering we invest a lot of time and resources in putting systems in place," Denis Byamukama, chairman of the Association of Private Water Operators Uganda (APWO), told GWI. "Also, we cannot keep on ignoring sanitation: sooner or later, it will come back as a cost in water treatment."

As a result, the MWE is working with local authorities to extend the minimum length of management contracts to five years, and to include sanitation where facilities exist. The change will be effective as contracts come up for renewal.

The government also plans to give private operators the chance to bid for the larger urban centres that used to be the preserve of the National Water and Sewerage Corporation (NWSC), the main public utility. NWSC is responsible for water and wastewater in Uganda's 23 largest urban centres, including Kampala, the capital. Services are provided under three-year Internally Delegated Management Contracts, a ring-fencing APWO has challenged. "Private operators have proven that they have the capability to scale up. We want to get rid of the 'internally' and replace it with 'openly'. It would be more transparent and efficient," says Byamukama. Private companies should now be eligible to bid when the contracts expire in two years' time.

APWO is also pushing for the private sector to be given the chance to invest in water and sanitation facilities. All investments in the water sector are financed by central government. However, Chris Azuba, principal engineer at the MWE's Directorate for Water Development, says that water's share in the overall government budget keeps decreasing, and the sector desperately needs to find new ways to raise funds for capex. "However good your management is, you still need to renew your assets," he told GWI. "With longer contracts, private operators would get the chance to recoup their investments. We are working on a law that would allow them to invest in their own facilities."

Meanwhile, opportunities for international investors remain limited. "The sector is very fragmented. A typical water supply contract might bring in $2,000-3,000 of revenue per year – not the kind of scheme you would expect international investors to be interested in," Azuba explains.

There are plans to consolidate the sector, however, and as demand grows, Uganda could develop into an interesting market.

How have Uganda's private water operators been doing?

	2006-7	2007-8	2008-9	2009-10
Number of small towns	57	69	70	80
Water supplied (million m^3)	2.18	2.42	3.08	3.28
Water sold (million m^3)	1.7	1.79	2.4	2.63
NRW	22%	26%	22%	20%
% funded by revenue	77%	96%	126%	130%
No. of connections	12,930	24,474	30,591	34,698

Plugging into output-based aid

Uganda's water sector desperately needs investment capital. Local banks are finally waking up to the sector's potential.

Faced with a diminishing budget, the water sector in Uganda has been seeking alternatives to finance its infrastructure. Output-Based Aid (OBA) – a results-based funding mechanism designed to improve access to basic services to the poor – offered a new line of funding.

Under an OBA scheme, the operator pre-finances the service delivery, and is only reimbursed once the quality of the service has been verified by a third party.

In Uganda, many people cannot afford new water connections. The investment required to hook people up to the system normally comes from the government, but demand far exceeds supply, and the process is slow. To this end, the Ministry of Water and Environment (MWE) approached the Global Partnership on OBAs (GPOBA), a consortium of donors including the IFC, for help.

The GPOBA offered a $3.2 million investment grant for 10 pilot schemes across Uganda, including brownfield sites (involving five-year contracts to extend existing infrastructure networks) and greenfield sites (seven- to 10-year design-build-operate contracts for new infrastructure). Yogita Mumssen, a senior infrastructure economist at the World Bank, explains that Uganda was an ideal place for OBA because of the existing management contract structure. "We didn't have to reinvent the wheel; we just filled in the funding gap," she told GWI. The competitive bidding process helped to deliver 20% efficiency gains, and the OBA process also provided a steep learning curve on how private operators can access finance.

"Banks in Uganda don't understand water," says Chris Azuba, an MWE engineer and the instigator of the OBA scheme. "They were very reluctant to lend and asked for 100% collateral."

Persistence paid off, however, and when the GPOBA agreed to fund an 11th project, the private operator succeeded in obtaining a UGX200 million ($86,000) loan from two commercial banks in Uganda: DFCU and Barclays.