



# SUSTAINABLE WATER AND SANITATION IN AFRICA (SUWASA)

Reform Work Plan (RWP): Facilitating Private Water  
Operator Financing for Water Infrastructure in Uganda's  
Small and Medium Towns

October 25, 2010

# Project Summary Sheet

Project Title	Facilitating Private Water Operator Financing for Water Infrastructure in Uganda's Small and Medium Towns
Country	Uganda
Specific Location	Kampala
Main Objectives	Develop and implement a financing mechanism for Private Water Operators of Small to Medium Towns in Uganda using loan facilities from local banks
Specific Objectives	<ul style="list-style-type: none"> <li>• Increase private sector financing of water rehabilitation and capital investment projects in Ugandan small and medium towns;</li> <li>• Improve DWD monitoring and regulatory oversight of performance agreements with local water authorities, particularly for towns implementing DBO-OBA management contracts;</li> <li>• Increase the capacity of local water authorities to manage DBO-OBA contracts.</li> <li>• Increase the capacity of private water operators to implement DBO-OBA contracts.</li> </ul>
Project Duration	24 months
Total Budget	US\$967,565 ( <i>Nine hundred and sixty seven thousand five hundred and sixty five United States Dollars</i> )
Approximate Commencement Date	November 1, 2010
Prime Implementing Organization	ARD, Inc., through SUWASA Regional Office, Nairobi. Project coordinator to be hired and based in Kampala, Uganda
Implementing Partners	<ul style="list-style-type: none"> <li>• Ministry of Water and Environment –main partner (DWD and Regulatory Unit)</li> <li>• USAID/Uganda</li> <li>• Local Banks</li> <li>• Local Private Operators through the APWO</li> </ul>
Key Project Implementation Staff	<ul style="list-style-type: none"> <li>• Project Coordinator –TBD</li> <li>• STTA in different areas</li> </ul>
Reporting Requirements	Monthly, quarterly and mid-term (after 12 months) and end of project report (after 24 months)
Project Partner Contribution	<ul style="list-style-type: none"> <li>• Staff time from the Ministry of Water and Environment</li> </ul>

# CONTENTS

<b>CONTENTS</b> .....	<b>3</b>
<b>ACRONYMS AND ABBREVIATIONS</b> .....	<b>4</b>
<b>INTRODUCTION</b> .....	<b>5</b>
<b>1. PARTNERSHIP STATEMENTS</b> .....	<b>6</b>
1.1 LETTER OF COMMITMENT FROM RWP PARTNER.....	6
<b>2. IMPLEMENTATION ENVIRONMENT AND ARRANGEMENTS</b> .....	<b>8</b>
2.1 CONTEXT OF THE PROJECT.....	8
2.2 OVERALL OBJECTIVES OF THE PROJECT .....	10
2.3 INSTITUTIONAL SET-UP AND OVERALL PROJECT ORGANIZATION.....	11
2.4 MONITORING AND COORDINATION ARRANGEMENTS.....	13
2.4.1 Internal Monitoring and Quality Control.....	13
2.4.2 Monitoring and Evaluation Plan.....	13
2.4.3 Environmental Compliance Monitoring.....	14
2.4.4 Reporting on Project Progress .....	14
2.5 PROJECT PARTNERS' CONTRIBUTIONS.....	14
<b>3. PROJECT DESCRIPTION</b> .....	<b>15</b>
3.1 SPECIFIC RESULTS TO BE ACHIEVED BY THE PROJECT .....	15
3.2 TASKS AND RESULTS TO BE ACHIEVED BY THE PROJECT .....	15
3.3 INDICATORS FOR ACHIEVING THE PROJECT RESULTS .....	22
3.4 ASSUMPTIONS AND RISKS .....	22
3.5 LINKAGE WITH OTHER USAID OPERATIONS, COMPLEMENTARITY WITH OTHER WSS REFORMS .....	23
3.6 PERSONNEL AND MANAGEMENT PLAN .....	24
<b>4. RESOURCE TABLE AND PROJECT TIMELINE</b> .....	<b>26</b>

# ACRONYMS AND ABBREVIATIONS

APWO	Association of Private Water Operators
DCA	Development Credit Authority
DBO-OBA	Design Build Operate-Output Based Aid
DWD	Directorate of Water Development, Uganda
EGAT	Bureau of Economic Growth, Agriculture and Trade
GoU	Government of Uganda
GPOBA	Global Partnership for Output Based Aid
M&E	Monitoring and Evaluation
MWE	Ministry of Water and Environment
PO	Private Operator
RWP	Reform Work Plan
SIP	(SUWASA) Small Investment Program
SOW	Statement of Work
SUWASA	Sustainable Water and Sanitation in Africa
USAID	United States Agency for International Development
WSS	Water and Sanitation Services

# INTRODUCTION

This SUWASA project is designed to build on the substantial progress that the Government of Uganda (GoU) has made over the past decade in engaging private operators to manage water systems in small and medium towns. While the management contracting framework has resulted in marked improvement in water services, the private operators currently do not provide financing for infrastructure improvements. Under the project addressed in this Reform Work Plan (RWP), SUWASA in partnership with the Government of Uganda's Ministry of Water and Environment (MWE) and other donors, would expand the current scheme by implementing a contracting process in selected towns employing a design-build-operate concept that provides opportunities and incentives for private operators to participate in infrastructure finance. The project builds on the experience of a recently completed pilot of this concept conducted in selected towns implemented by the Global Partnership for Output Based Aid (GPOBA) and other donors.

# 1. PARTNERSHIP STATEMENTS

## 1.1 LETTER OF COMMITMENT FROM RWP PARTNER

Mr. Stefan Kauder  
Chief of Party  
Sustainable Water and Sanitation in Africa (SUWASA)  
P.O. Box 38454 - 00623  
Nairobi  
KENYA

Dear Mr. Kauder:

The Ministry of Water Resources and Environment, Directorate of Water Development (DWD) is committed to fully support and participate in the execution of the enclosed Reform Work Plan (RWP) for the project entitled “Facilitating Private Water Operator Financing for Water Infrastructure in Uganda’s Small and Medium Towns”, as proposed for financing under the USAID program Sustainable Water and Sanitation in Africa (SUWASA). To that end, the Ministry of Water and Environment through the DWD commits to providing full cooperation to SUWASA as required to fulfill project objectives. DWD will designate a senior officer as DWD Project Coordinator to SUWASA. This officer will serve as the main contact point with the SUWASA project team and will be available to assist the team in liaising with the Government of Uganda and providing information to the team as required for a successful project.

The proposed water and sanitation reform project that the enclosed RWP describes in detail is a priority for our organization for the following reasons:

- The scale-up of the expanded management contracts, as envisioned under the project, will expand and improve water and sanitation services to reach more of the underserved populations in small and medium towns of Uganda.
- The finance instrument to be designed and, if feasible, implemented under the project is vital to enhance the ability of private water operators in Uganda to access financing needed for rehabilitation and investments in water infrastructure.
- Technical assistance to be provided by SUWASA to the DWD’s Regulatory Unit to strengthen DWD oversight of performance agreements with local water authorities is fully consistent with DWD’s priority of strengthening the regulatory regime.

- Capacity building to be provided by SUWASA to local water authorities, private operators, and financial institutions will help to establish a much-needed dialogue among these key sectors.

We look forward to working with SUWASA on this important project.

Sincerely,

Eng. Kavutse Dominic  
Commissioner, Urban Water and Sewerage Services  
DIRECTORATE OF WATER DEVELOPMENT

# 2. IMPLEMENTATION ENVIRONMENT AND ARRANGEMENTS

## 2.1 CONTEXT OF THE PROJECT

Since 2001, Uganda has had a system of operating and maintaining water systems in small and medium towns based on performance agreements and management contracting. Under this system the Directorate of Water Development (DWD), within the Ministry of Water and Environment (MWE) enters into performance agreements with local water authorities to delegate responsibilities for operating and maintaining their systems, establishes performance standards to be met by the local water authorities<sup>1</sup>, and authorizes them to outsource operation and maintenance to private water operators under management contracts procured on a competitive basis<sup>2</sup>. The selected management contractors are compensated by retaining a percentage of the user fees that they collect<sup>3</sup>. Currently DWD limits the terms of these contracts to 1-3 years, and the contracts are re-competed or extended when the terms expire.

Overall, the management contracting approach has had positive results in improvement of water services. System reliability has improved as have billings and collections. In addition, the approach has stimulated the development and growth of a vibrant business sector of private operators (POs). Uganda now has over 20 POs prequalified by DWD for management contracting, managing systems in over 70 towns. A professional association, the Association of Private Water Operators (APWO) of Uganda, has been established to provide a voice for its member POs.

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<sup>1</sup> “Local water authorities” are the local governmental bodies gazetted by DWD to authorize them to provide water supply and sanitation services in towns and regional growth centers, under the terms and conditions of performance agreements signed between each gazetted body and DWD. The authorities are typically local governments, such as town councils, but district governments are gazetted in certain localities. Local water authorities can outsource water and sanitation service functions under management and/or service contracts, but they are still bound by the terms and conditions in their performance agreements.

<sup>2</sup> DWD has responsibility for water and sanitation in towns that are not under the jurisdiction of Uganda’s National Water and Sewerage Corporation (NWSC). The towns can generally be characterized as small to medium size, while NWSC has responsibilities for the larger towns in Uganda.

<sup>3</sup> USAID/Uganda is implementing a project in Northern Uganda, NUWATER, to pilot management contracts that provide incentive fees based on achievement of specified performance targets. An incentive based management contract is currently in place in the Town of Kitgum.

However, in spite of the notable progress achieved, the system does not provide a framework for increasing the number of connected customers in a financially sustainable way due to a number of factors, including:

- Although POs have a financial incentive to expand the number of connections (since they receive a substantial percentage of fees collected); the current contracts do not provide for the operators to finance small capital investments such as network extensions.
- POs are typically not involved in or do not have control over the rehabilitation and upgrading of water infrastructure (e.g., upgrading pumping stations; network extensions, etc.), but rather rely on DWD to provide engineering services. Delays in infrastructure improvements needed to expand the base of connected customers pose serious obstacles to the POs in meeting performance targets in their management contracts.
- Currently capital funding comes solely from capital grants from DWD and donors. However, DWD's budget for this purpose has been on a decreasing trend in recent years, and this trend is expected to continue.
- The short term of the management contracts (1-3 years) is a strong disincentive for POs to become engaged in financing infrastructure improvements, since expected revenues during this short period do not generally warrant the financial risks, since there is no certainty that incumbent POs will be awarded re-competed contracts
- Oversight of management contracts by DWD has suffered from a weak regulatory and performance monitoring framework, limited staffing for oversight of management contracts, and limited transparency.

MWE recognizes these problems, and with the support of donors, MWE has embarked upon a number of initiatives to address them. For example, with GTZ support, MWE has conducted a review of the previous Performance Contracts (between MWE and Local Water Authorities) - and Management Contracts – (between Local Water Authorities and Private Operators) - and has formulated new Performance and Management Contracts that incorporate lessons learned and take into consideration emerging sector policy issues.

Two recent initiatives are particularly relevant to SUWASA's interest in promoting innovative financial reforms for sustainability, and are the focus of this proposed SUWASA project:

*1. Output Based Aid in Small Towns and Rural Growth Centers Pilot:* The Global Partnership for Output Based Aid (GPOBA), a World Bank administered multi-donor<sup>4</sup> funded initiative, is completing a pilot project to provide improved access to piped-water supply services in small towns and rural growth centers. It is designed to improve infrastructure access for the poor through leveraging financing and expertise of local private operators and increasing transparency and efficiency in use of funds that are disbursed through output based aid (OBA). Key reforms tested under the pilot include:

- Design and tendering of a new form of management contract, incorporating a design-build-operate (DBO) framework; a longer term (5 years for towns with existing centralized systems that require rehabilitation ("Brownfield" systems) and 7-10 years for regional growth centers that require construction of new systems ("Greenfield" systems);

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<sup>4</sup> Donors supporting this pilot include: DFID, IFC, AusAID, and Sida.

- Provisions for PO participation in capital investment financing. with incentives for POs to commit to increased shares in financing (e.g., bidders proposed the amount of OBA subsidy in the bid price as part of the tenders)
- Town-specific tariffs written into the contracts (with a percentage of investment costs expected to be recovered) along with simple escalation clauses.

This “new generation” of management contract was tendered in 11 small towns and rural growth centers, with impressive results. In the first 10 tenders<sup>5</sup>, the total of the bid prices (subsidies) of the successful bidders was 18% below the budgeted subsidies, and over 11,000 new beneficiaries are expected. Three POs offered to do extensions at “zero subsidy”, reflecting the intrinsic value of the “new generation” contracts.

Based on the success of the pilot, the World Bank is exploring with MWE, a follow-on initiative to scale up the DBO-OBA approach to reach a much broader base of small towns and regional growth centers. While it is premature to project the outcome of ongoing negotiations, given the strong interest of GoU and the international donor community, it is reasonable to expect that this “scale up” activity is likely to begin later this year or early in 2011.

## *2. Establishment of new regulatory unit within DWD:*

In late 2009, MWE made a decision to establish a Regulation Unit within the Directorate of Water Development to specifically focus on executing regulatory functions in the urban water and sanitation sector. In announcing this decision, the ministry stated that in the medium to long term, the unit could be transformed into an established structure within the Ministry, or forms the starting point for an Independent Regulatory Body or part of one, depending on the final and long term decisions on the mode of regulation. The unit began its operations in spring 2010, and is in the process of staffing and developing operational procedures.

Recognition by the ministry of the need for improved oversight of private operators and local water authorities, and establishment of an entity specifically tasked to make improvements is an important first step toward implementation of a robust regulatory regime. It also establishes a distinct counterpart with which donors can readily engage to support performance oversight improvements. The unit has expressed a strong interest in SUWASA support in establishing a monitoring and oversight program for the new generation of management contracts. This support would complement capacity building support currently being provided to the unit by other donors.

## **2.2 OVERALL OBJECTIVES OF THE PROJECT**

The main objectives of the project are to:

- Increase private sector financing of water rehabilitation and capital investment projects in Ugandan small and medium towns;
- Improve DWD monitoring and regulatory oversight of performance agreements with local water authorities, particularly for towns implementing DBO-OBA management contracts;
- Increase the capacity of local water authorities to manage DBO-OBA contracts.
- Increase the capacity of private water operators to implement DBO-OBA contracts.

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<sup>5</sup> The eleventh town has been tendered with advisory services provided by IFC, although the successful bidder had not been selected at the time of this writing.

## 2.3 INSTITUTIONAL SET-UP AND OVERALL PROJECT ORGANIZATION

To support MWE and DWD in bringing the new management contracting scheme to scale, SUWASA will work in partnership with the World Bank/GPOBA and other donors by providing the following three interrelated but distinct components of assistance:

*Component 1. Establishing a Commercial Bank Loan Product for Private Water Operators:* SUWASA and USAID/Uganda will explore opportunities for implementing a loan guarantee product with one or more local banks, directed toward partially mitigating risks of loans to private water operators. Particular priority will be focused on financing needs of the operators' infrastructure rehabilitation projects and investments required to enable the operators to improve water services under their management contracts.

*Component 2. Strengthening DWD's regulatory framework and oversight procedures for town water systems managed under DBO-OBA management contracts:* SUWASA will provide technical assistance to DWD's Regulatory Unit to strengthen DWD's existing policy/regulatory framework as required to assure that the new generation of management contracts are effectively integrated into DWD's monitoring and oversight policies, guidelines, and regulations. SUWASA will conduct an evaluation of DWD's current guidance, policies, and procedures for monitoring performance agreements; monitoring and reporting practices of town water authorities; capacity of town water authorities to manage and oversee management contracts under the DBO-OBA framework; and identifying critical areas for improvement. As part of this evaluation, SUWASA experts will visit selected town water authorities to review their experience in overseeing management contracts and to solicit their perspectives on strengths and weaknesses of the current policy/regulatory framework. Based on this evaluation, SUWASA will identify gaps in the current framework and will, in cooperation with other donors, provide technical assistance to fill these gaps, including:

- Preparing guidance for local water authorities for tendering and overseeing DBO-OBA management contracts, to assure that implementation of the contracts is done in full compliance with the authorities' performance agreements with DWD;
- Updating guidance and procedures for monitoring and evaluating the performance of local water authorities in implementing their performance agreements, including monitoring and reporting among the POs, local water authorities, and DWD;
- Updating and implementing regulations and policies as required; and
- Implementing updated reporting and oversight procedures as required.

*Component 3. Implementing a capacity and consensus building program for key stakeholders in the DBO-OBA framework:* SUWASA will provide technical assistance and capacity building to the private operators, banks, and local authorities to build and promote a common understanding of the "bankability" concepts of water investment projects within the DBO-OBA framework. The program will include traditional classroom-type training in key areas, including management and oversight procedures for implementing design-build-operate concepts, management and procedures, and legal and regulatory considerations. The program will further provide capacity building in developing and assessing feasibility studies as prerequisites to finance, and assessing and mitigating risks of DBO-OBA based management contracts. In addition, the program will include highly participatory dialoguing sessions to give financial institutions, private operators, and water authorities an opportunity to provide their perspectives,

concerns and ideas for financing water projects, and to attempt to reach consensus on alternatives for reducing obstacles to financing.

Key partners in the project and their expected contributions are shown in Table 2.1.

Institution	Roles and Responsibilities	Contribution
<b>Government of Uganda</b>		
<ul style="list-style-type: none"> <li>Ministry of Water and Environment</li> </ul>	Overall policy direction	Representative to be available for consultation as required
<ul style="list-style-type: none"> <li>DWD/Small and Medium Towns Program and Regulatory Unit</li> </ul>	Project coordination	Designated DWD Project Coordinator
<b>USAID</b>		
<ul style="list-style-type: none"> <li>USAID/Uganda</li> </ul>	Evaluation of the feasibility of implementing risk mitigation instrument with at least one local bank, with technical assistance provided by SUWASA	Consideration of use of USAID's Development Credit Authority (DCA) among the suite of risk mitigation alternatives, and input to market analysis and risk assessment
<ul style="list-style-type: none"> <li>USAID/SUWASA (managed by USAID Bureau of Economic Growth, Agriculture and Trade and Bureau for Africa)</li> </ul>	Overall project management, partner coordination, technical assistance and capacity building	Technical assistance and capacity building; Full-time SUWASA Project Coordinator, based in Kampala, to provide project coordination and liaison with project partners; short-term technical assistance by national and international experts
<b>World Bank</b>		
<ul style="list-style-type: none"> <li>GPOBA</li> </ul>	Implementation of the OBA program	All staffing and funding required for OBA framework design and implementation assistance; Or assistance to SUWASA in turnover of scale-up program through alternative subsidy delivery facilities or mechanisms.
<ul style="list-style-type: none"> <li>IFC</li> </ul>	To be identified in the Inception Report	Substantial support has already been provided to SUWASA based on IFC's experience in the DBO-OBA pilot
<b>Bilateral donors (e.g, GTZ, SIDA, etc.)</b>		
<ul style="list-style-type: none"> <li>TBD</li> </ul>	To be identified in Inception Report	TBD

Table 2.1 Project Partners

## 2.3 MONITORING AND COORINATION ARRANGEMENTS

### 2.4.1 INTERNAL MONITORING AND QUALITY CONTROL

Overall project management, including quality assurance and quality control, will be the responsibility of the SUWASA Chief of Party (COP), Mr. Stefan Kauder, who is based in the SUWASA Regional Program office in Nairobi, Kenya. A full-time SUWASA Project Coordinator, based in Kampala, will carry out routine coordination and liaison functions under the supervision of Mr. Kauder. The SUWASA Project Coordinator will liaise with the designated DWD Coordinator on a regular basis. The COP, SUWASA and DWD Project Coordinators will conduct project coordination meetings by telephone or direct meetings on at least a monthly basis.

### 2.4.2 MONITORING AND EVALUATION PLAN

The SUWASA Monitoring and Evaluation Specialist, based in Nairobi, will prepare a monitoring and evaluation plan as part of the Inception Report prepared during the first 60 days of the project (see Section 3.2).

### **2.4.3 ENVIRONMENTAL COMPLIANCE MONITORING**

Support to be provided by SUWASA to the Government of Uganda, local water authorities, private operators and private financial institutions is in the nature of technical assistance and capacity building only. No Small Investment Program support will be provided by SUWASA. Therefore, an Environmental Assessment under USAID environmental requirements (22 CFR 216) is not required. However, SUWASA will include recommendations for environmental oversight in guidelines and other deliverables that SUWASA prepares under the project.

### **2.4.4 REPORTING ON PROJECT PROGRESS**

SUWASA will provide the following reports:

- Inception Report, including performance indicators and if necessary an updated Overall Work Plan, due 60 days after project start-up;
- Monthly and Quarterly Reports, including a narrative on the reporting period, discussing actual project progress vis-à-vis planned and agreed project schedules, an updated work plan, and a financial resource utilization report; and
- Final Report, including all activities performed, results achieved and resources used. The Final Report will also include a thorough analysis of established performance indicators.

The project will undergo a mid-term review, conducted by ARD and USAID.

## **2.5 PROJECT PARTNERS' CONTRIBUTIONS**

See Table 2.1 for a summary of financial and in kind contribution to be provided by project partners over the two-year life of the project.

# 3. PROJECT DESCRIPTION

## 3.1 SPECIFIC RESULTS TO BE ACHIEVED BY THE PROJECT

The following results are expected to be achieved over the two-year life of the project:

1. Implementation of loan product with at least one Ugandan bank to offer a loan product tailored to the needs, capabilities and creditworthiness of private water operators for financing water infrastructure rehabilitation and new investment projects to improve water and sanitation services under their management contracts;
2. At least one successful loan approved by a Ugandan bank for a private water operator or consortium of private operators;
3. Successful launch of the scale-up program for the new DBO-OBA management contracts, as evidenced by the tendering of the new contracts in at least one additional town beyond the towns included in the pilot project;
4. Regulatory guidance and procedures established by DWD for monitoring and evaluating the performance of local water authorities in implementing their performance agreements; and
5. Implementation by DWD of a new framework for DWD oversight of performance agreements with towns employing the new DBO-OBA management contracts.

## 3.2 TASKS AND RESULTS TO BE ACHIEVED BY THE PROJECT

Specific tasks and results to be achieved by the project are provided below. A detailed schedule of tasks and sub-tasks is provided in Figure 3-1.

### TASK 1: PREPARING INCEPTION REPORT

#### *Task Description:*

The Inception Report, to be completed within 60 days of project start-up, will include a detailed schedule of tasks and deliverables for each of the three project components, based on a preliminary review of project-critical information, including:

- Review and evaluation of DWD's existing requirements and guidelines for overseeing performance agreements and management contracts, including recent experience and perspectives regarding reporting and oversight;
- Capacity of local water authorities to provide effective monitoring, evaluation, and management of performance agreements and operating contracts;

- Capacity of private operators to effectively manage DBO-OBA types of management contracts, and to access private financing for water and sanitation infrastructure rehabilitation and investment;
- List of banks that could potentially be approached to provide the loan facilities; and
- Experience of private operators in accessing private financing.

Based on the report findings, SUWASA will update the work plan as required to reflect additional information identified during the inception study. The Inception Report will also provide a monitoring and evaluation plan.

*Schedule:*

- To be completed within 60 days of project start-up.

*Results:*

- Inception Report providing key findings and recommendations regarding areas of improvement in tendering, implementing and overseeing management contracting in small and medium towns;
- Updated schedule of tasks and sub-tasks for SUWASA project implementation, as required; and
- Monitoring and Evaluation Plan.

**TASK 2. ESTABLISHING A COMMERCIAL BANK LOAN PRODUCT FOR PRIVATE WATER OPERATORS (COMPONENT 1)**

*Task Description:*

SUWASA will support USAID/Uganda in developing, evaluating, and, if feasible, implementing a loan portfolio guarantee with one to two Uganda banks, under USAID's Development Credit Authority (DCA). SUWASA and USAID/Uganda will carry out the following activities to evaluate and design a finance instrument during Year 1 of the project under the following subtasks:

Subtask 2.1. Market Assessment: SUWASA will assess the potential for private operators to obtain loans to partially finance capital improvements and rehabilitation projects for water systems that they manage under contract with local water authorities. The assessment will build on the extensive work already completed by other donors, including the International Finance Corporation. Specifically, SUWASA will assign a finance expert to meet with potential finance partners, including DWD, GPOBA and other donors, selected banks, private water operators, and town water authorities, to gain a perspective on the nature and scope of infrastructure needs and bankability of projects and experiences with previous loan applications. The assessment will also include an analysis of risks, real and perceived, of financing water infrastructure projects in small and medium towns. The finance expert will prepare a market assessment report that provides a detailed evaluation of options for mitigating identified risks, including the prospects for implementing a DCA loan guarantee, prospective finance partners including banks and the estimated subsidy cost..

*Schedule:*

- To be completed within 150 days of project start-up.

*Results:*

- Market assessment report providing a solid factual basis for decision making by USAID and other donors regarding implementation of a finance instrument incorporating appropriate risk mitigation provisions.

Subtask 2.2. Structuring of finance instrument terms: Based on the market assessment, SUWASA the SUWASA finance expert will enter into detailed negotiations with local financial institutions to identify special options and terms for implementing a finance instrument,

*Schedule:*

- Commitment decision from partner financial institution(s) to be reached within 330 days of project start-up.

*Results:*

- A decision from one or more Uganda banks regarding whether or not they will commit to implementing a loan product for private water operators, employing risk mitigation measures. developed under Subtask 2.1...

### **TASK 3. STRENGTHENING DWD'S REGULATORY FRAMEWORK AND OVERSIGHT PROCEDURES FOR TOWN WATER SYSTEMS MANAGED UNDER DBO-OBA MANAGEMENT CONTRACTS (COMPONENT 2)**

#### *Task Description:*

SUWASA will provide technical assistance to DWD's Regulatory Unit to strengthen existing procedures, guidance, and requirements for overseeing the performance of local water authorities in complying with the requirements of their performance agreements. Priority of SUWASA assistance will be on strengthening the oversight framework for towns employing private operators under the DBO-OBA framework. However, SUWASA recognizes that DWD's standard performance agreement applies to all towns, regardless of their specific management contracting approaches, and therefore will provide technical assistance to strengthen DWD's general framework for overseeing DWD's standard performance agreement, with particular attention to unique oversight and reporting challenges posed by the DBO-OBA management contracts.

SUWASA recognizes that Uganda's regulatory framework involves a number of compliance "layers" and actors that are directly and indirectly affected by DWD's regulatory framework:

- DWD, responsible for assuring compliance of local water authorities with their performance agreements;
- Local water authorities, who enter into management contracts with private operators that include terms and conditions based on the requirements in their performance agreements with DWD; and
- Private operators, who must comply with the requirements of their management contracts.

While SUWASA technical assistance under this task will provide direct support to DWD's Regulatory Unit, SUWASA recommendations will take into account the needs and capacities of all actors in the Uganda regulatory framework. In carrying out this task, SUWASA will provide technical assistance to DWD under the following sub-tasks:

Subtask 3.1. Review and assessment of existing DWD guidance and policies: SUWASA will review DWD's guidance, policies, and information relevant to overseeing performance agreements between DWD and local water authorities, e.g.:

- Standard terms and conditions in performance agreements and management contracts (including terms and conditions in existing DBO-OBA management contracts awarded under the GPOBA pilot program);
- Analysis conducted by DWD and donors (including but not limited to GTZ) concerning performance agreements and management contracts;
- Reports submitted by local water authorities to DWD; and
- Reports submitted by private water operators to support claims for OBA reimbursement.

SUWASA will prepare a report providing the findings of the review, including an assessment of the strengths and weaknesses of DWD's current oversight framework and recommendations for improvement, including recommendations for additional technical assistance to be provided by SUWASA.

*Schedule:*

Report to be prepared within 180 days of project start-up.

*Results:*

The report will provide a clear blueprint for DWD to strengthen its current framework and procedures for monitoring and evaluating the performance of town water authorities under their performance agreements.

Subtask 3.2. Prepare updated guidance and procedures for monitoring performance of local water authorities under their performance agreements: Based on the findings of Subtask 3.1, SUWASA will assist DWD in updating existing monitoring and evaluation guidance and procedures, including reporting requirements for local water authorities. This will include, as required, recommendations for updating terms and conditions in DWD's standard performance agreement and management contract. In particular, SUWASA will provide recommendations for strengthening terms and conditions in the standard DBO-OBA management contract as required. In carrying out this task, SUWASA will work closely with and build on the work of other donors that are providing extensive assistance to DWD in implementing an improved regulatory program.

*Schedule:*

Guidance document, including updated performance agreement, DBO-OBA management contract, tender documents, reporting requirements, and monitoring and evaluation procedures to be prepared within 270 days of project start-up.

*Results:*

The results of this subtask will be an updated policy/regulatory framework for DWD to monitor the performance of local water authorities. This framework will be especially important as a component of the DBO-OBA management contracting scale-up program.

Subtask 3.3. Provide assistance to DWD in piloting the updated monitoring and evaluation framework for towns with existing DBO-OBA management contracts: SUWASA will assist DWD in piloting the updated monitoring and evaluation procedures and framework among the towns that are implementing DBO-OBA management contracts awarded under the GPOBA pilot project. Assistance will include:

- Reviewing reports and other information provided by local water authorities in light of the recommended monitoring and evaluating framework;
- Comparing performance-related information provided by local water authorities with information from other sources (e.g., information from selected private operators; information collected by GPOBA; etc.);
- Conducting independent analyses of performance, using the updated procedures developed under Subtask 3.2.

*Schedule:*

This assistance will be provided on a pilot basis after approval by DWD of the guidance and procedures prepared under Subtask 3.2. It is anticipated that this support will be provided for approximately six months, beginning on or about 270 days of project start-up and completed by the end of Year 1 of the SUWASA project. Upon completion of this subtask, SUWASA will provide a report to DWD evaluating the effectiveness of the monitoring and evaluation framework, and lessons learned that will be important to the successful implementation of the DBO-OBA scale-up program.

*Results:*

The pilot will provide valuable lessons to inform the design of DWD's regulatory program directed to scale-up of the DBO-OBA program, assumed to begin during the second year of the SUWASA project.

**TASK 4. IMPLEMENTING A CAPACITY AND CONSENSUS BUILDING PROGRAM FOR KEY STAKEHOLDERS IN THE DBO-OBA SCALE-UP FRAMEWORK (COMPONENT 3)**

*Task Description:*

This task will concentrate on building the capacity and fostering a working dialogue among the key stakeholder groups that are critical to the success of the DBO-OBA scale-up: private water operators; local water authorities (particularly for towns targeted for initial implementation of the scale-up); and the banking community. The aims of this task are, 1) to build a common understanding among these stakeholders of the scale-up program and critical concepts embedded in the programs, 2) to encourage their participation in the program, and 3) to help them strengthen their capacity to participate.

Subtask 4.1. Conduct capacity building needs assessment: SUWASA will conduct an assessment of the training and capacity building needs of the three key stakeholder groups in light of their existing understanding and capacity to work within the DBO-OBA framework and the "bankability" concepts of water investment projects. SUWASA's Training and Capacity Building Adviser will conduct targeted surveys and detailed interviews with representatives of each of these segments as well as professional associations (e.g., Association of Private Water Operators, etc.) to solicit their perspectives on the capacities of their organizations and training needs that are critical to the success of the DBO-OBA scale-up program. The Adviser will prepare a report of findings and proposed design for a training/capacity building program (including both SUWASA capacity building activities and recommendations for an ongoing program to be implemented by DWD), directed at filling critical capacity gaps.

*Schedule:*

This subtask will be initiated during the fourth quarter of the first year of the project. A critical factor in determining the start-up date will be the status of the DBO-OBA scale-up program, since the capacity and consensus building program will need to be implemented in harmony with the scale-up implementation. The needs assessment will be completed within 90 days of initiation.

*Results:*

Report of findings regarding capacity building needs of the three targeted stakeholder groups, and proposed design for a training capacity building program to fill these needs.

Subtask 4.2. Conduct capacity/consensus building program: SUWASA will prepare and conduct at least two workshops in Kampala, each of 2-3 day duration, for private operators, banks, and local water authorities to build and promote a common understanding of the “bankability” concepts of water investment projects within the DBO-OBA framework. The program will include traditional classroom-type training in key areas, including management and oversight procedures for implementing design-build-operate concepts; management and procedures; legal and regulatory considerations; developing and assessing feasibility studies as prerequisites to finance; and assessing and mitigating risks of DBO-OBA based management contracts. In addition, the program will include highly participatory dialoguing sessions to give financial institutions, private operators, and water authorities opportunities to provide their perspectives, concerns and ideas for financing water projects, and to attempt to reach consensus on alternatives for reducing obstacles to financing.

Upon completion of each workshop, SUWASA will prepare a report providing a detailed summary and assessment of issues raised by participants regarding the DBO-OBA scale-up program, and recommendations for addressing the issues.

*Schedule:*

The workshops will be conducted in the second year of the project, under a schedule prepared in coordination with DWD and other project partners.

*Results:*

Increased ability of key stakeholders to successfully finance, manage, and implement the DBO-OBA scale-up program.

Subtask 4.3. Conduct “train the trainers” program for DWD: Based upon lessons learned from the workshops conducted under Subtask 4.2, SUWASA will implement a “train the trainers” program to enable DWD to implement an ongoing program of capacity and consensus building as it executes the DBO-OBA program and associated regulatory procedures. The program will include preparation of training and guidance materials for DWD’s use in future training and promotional activities, and one-on-one training/coaching sessions for DWD staff.

*Schedule:*

SUWASA will conduct the “train the trainers” program during the second half of Year 2 of the project, after completion and evaluation of the workshops conducted under Subtask 4.2.

*Results:*

The program will provide DWD with the capabilities and tools to implement a continuous training and outreach to key stakeholders.

### 3.3 INDICATORS FOR ACHIEVING THE PROJECT RESULTS

During preparation of the Inception Report (Task 1), SUWASA will work closely with project partners (particularly USAID/Uganda, DWD and GPOBA) in finalizing indicators for the project, to be included in the project M&E plan as part of the report. Indicators to be considered will include, among others:

*Transaction Indicators, e.g.:*

- Number of management contracts tendered/awarded under the DBO-OBA framework;
- Amount of private capital offered by successful bidders;
- Number of loan applications filed by private water operators with private banks; and
- Number of successful loan transactions;

*Access Indicators<sup>6</sup>, e.g.:*

- Number of small and medium towns with access to improved water supply;
- Number of households with improved access to improved water supply (disaggregated by gender/economic status); and
- Improved quality of service.

*Financial Sustainability Indicators, e.g.:*

- Total amount of capital invested in water infrastructure rehabilitation and capital investments; and
- Tariffs that reflect total cost recovery approaches for the small towns as approved by the Regulatory Unit in DWD.

### 3.4 ASSUMPTIONS AND RISKS

In general, the activities to be conducted by SUWASA pose small implementation risks, and there is little likelihood that the project will not be completed within the timeframe as provided in this work plan. However, there are a few risks beyond the control of SUWASA that could compromise achievement of all project objectives. These risks have been considered, and mitigating measures incorporated into this work plan:

*Implementation of DBO-OBA scale-up program:* A critical assumption underlying the project is that the Government of Uganda and other project partners will launch the DBO-OBA management contract program during Calendar Year 2011. There is a risk, considered by SUWASA to be low, that the program will not be implemented under this schedule. However, if such delays occur, this will not pose a critical obstacle to completion of the SUWASA project or the value that the project would bring to Uganda. The three components of assistance (i.e. finance instrument; improved DWD regulatory/oversight framework; and improved capacity of private water operators, local water authorities, and financial institutions) can be implemented independently of the scale-up program and bring value to Uganda's water and sanitation sector.

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<sup>6</sup> As projected from performance targets in DBO-OBA management contracts awarded during the performance period of the SUWASA project.

*Feasibility of loan guarantee product:* There is a possibility that the market and risk assessments to be conducted by SUWASA will find that the the impediments to finance by local financial institutions are too great to be overcome by commonly accepted risk mitigation measures. While this would be a setback, the experience of this effort would still bring substantial value. SUWASA would thoroughly analyze and summarize lessons learned from all stakeholders (the Ugandan financial community, private operators, and government authorities) regarding obstacles to private financing for water and sanitation infrastructure in Uganda's small and medium towns and provide recommendations to address these obstacles.

### **3.5 LINKAGE WITH OTHER USAID OPERATIONS, COMPLEMENTARITY WITH OTHER WSS REFORMS**

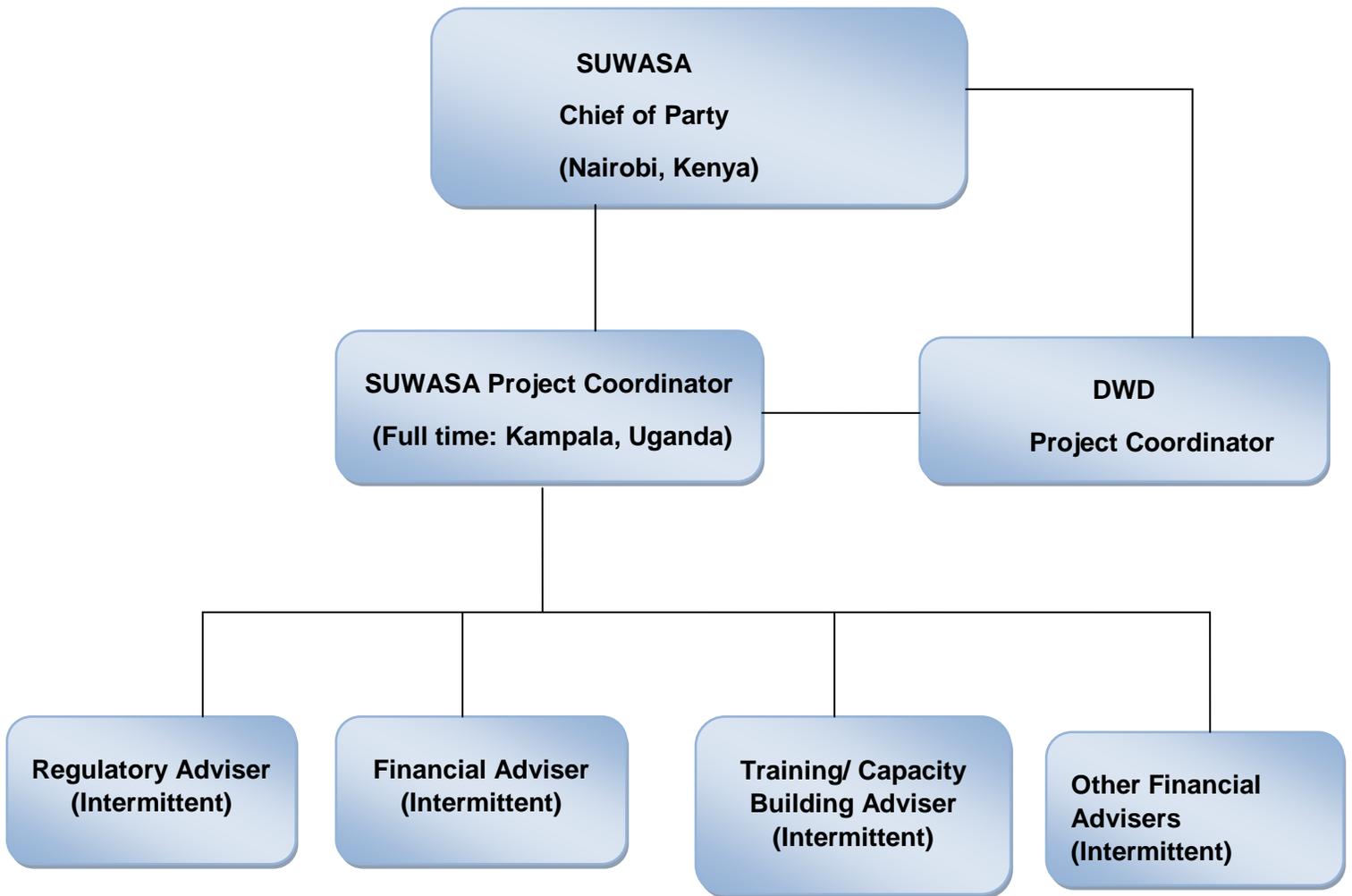
The project is designed to complement other reform activities in the Uganda's program for water and sanitation in small and medium towns, and in fact is specifically tailored to complement the DBO-OBA scale-up program under discussion between the Government of Uganda, the World Bank, and other donors. SUWASA has conducted extensive discussions and coordination with DWD and donors, especially GPOBA and the IFC, in designing the project, and will continue to work in partnership as the project is implemented.

In addition, the project will build on USAID/Uganda's ongoing NUWATER project, which is designed to demonstrate the use of incentive based management contracts. SUWASA will draw from the lessons learned in NUWATER in implementing this project.

### 3.6 PERSONNEL AND MANAGEMENT PLAN

SUWASA will implement the project in accordance with the organizational structure illustrated in Figure 3.1:

**FIGURE 3.1: PERSONNEL AND MANAGEMENT PLAN- ORGANIZATION CHART**



SUWASA will provide a full-time Project Coordinator in Kampala, to work directly with the designated DWD Project Coordinator. The SUWASA Project Coordinator will report directly to SUWASA's Nairobi-based Chief of Party, who will be responsible for overall management of the project and quality control of all project deliverables. The Chief of Party will conduct project meetings, either in person or by telephone, with the DWD Project Coordinator and the SUWASA Project Coordinator on a least a monthly basis.

The Project Coordinator will be hosted by the Ministry of Water and Environment

SUWASA will provide technical advisers to provide short term technical assistance in accordance with this work plan, under the direction of the SUWASA Project Coordinator and the Chief of Party.

# 4. RESOURCE TABLE AND PROJECT TIMELINE

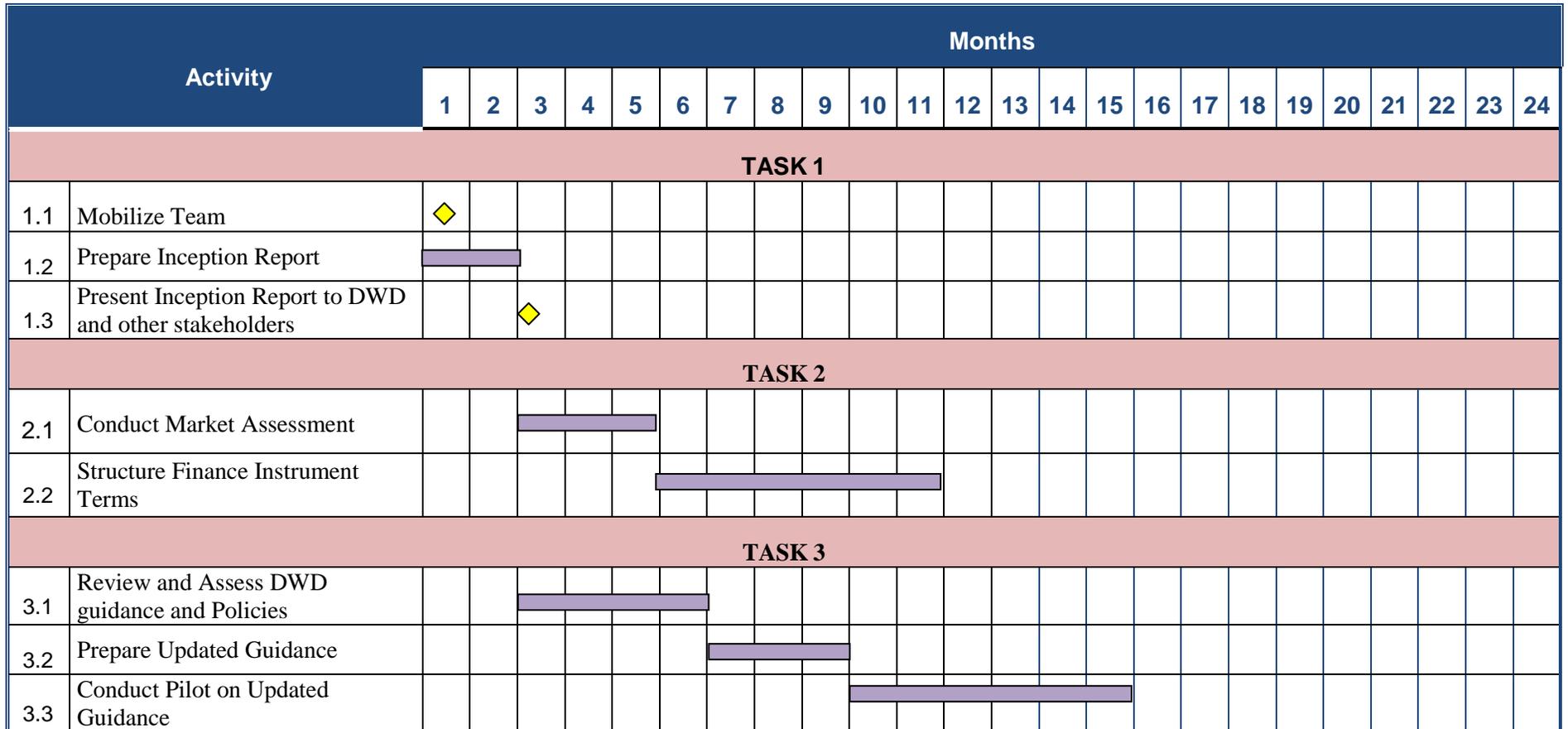
The resources to be provided by SUWASA to this project are summarized in Table 4.1. The total budget commitment for the project is \$967,565 (nine hundred and sixty seven thousand five hundred and sixty five United States Dollars). This includes a full-time Project Coordinator to be based in Kampala for the life of the project supported by national and international experts providing short term technical assistance:

- Finance Adviser
- Regulatory Adviser
- Training/Capacity Building Adviser.

In addition, SUWASA technical specialists based in SUWASA's regional office in Nairobi, Kenya will be available on an "as needed" basis.

A project timeline is provided in Figure 4.1.

**FIGURE 4.1 PROJECT TIMELINE**



		Months																							
Activity		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
<b>TASK 4</b>																									
4.1	Conduct Capacity Building Needs Assessment																								
4.2	Conduct Capacity/Consensus Building Program																								
4.3	Conduct “Train the Trainers” Program																								
<b>PROJECT MANAGEMENT</b>																									
	Submit Quarterly Progress Reports			◆			◆			◆			◆			◆			◆			◆			
	Prepare Second Annual Work Plan																								
	Mid-term Review																								
	Deliver Draft Final Report for comments																								
	Deliver Final Report																								