

PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE

Report No.:37023

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| Project Name | OBA in Water Supply in Uganda's Small Towns and Rural Growth Centers |
| Region | AFR |
| Sector | Infrastructure, Water |
| Project ID | P102462 |
| Borrower(s) | Government of Uganda, Ministry of Water, Lands and Environment |
| Implementing Agency | Directorate of Water Development (DWD) |
| Environment Category | <input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined) |
| Date PID Prepared | June 15, 2006 |
| Date of Appraisal | September 1, 2006 |
| Date of Board Approval | TBD |

1. Key development issues and rationale for Bank involvement

The goal of the Government of Uganda (GoU) is for at least 70 percent of all urban residents to have safe drinking water by 2005 and 100 percent by 2015, and to reach 77% of rural coverage by 2015. An estimated US\$410 million of investment is required to meet Uganda's MDGs.

Since 2001, 67 Water Authorities have been appointed and 16 different private water operators are managing water supply services in 60 small towns through management contracts. A significant number of private operators have quite efficient operations with unaccounted-for water levels averaging 22% and collection efficiencies of 86%. The challenge for GoU is to scale up service delivery in small towns and expand into RGCs in order to meet its poverty reduction targets.

Currently, government investment in the small towns sub-sector is in the region of US\$ 24 m resulting in an annual coverage rate of only 2% per year. This has resulted in several schemes in small towns reporting an increasing number of pending water connections applications. The average cost of connection in small towns without any production capacity and network enhancement when the connection is within 5-50 meters of the network is approximately US\$ 210, but the average annual household income in small towns is US\$ 335. Thus without additional support to cover some of the connections costs, many Ugandans who would be able to afford the monthly water charge (tariff) are prevented from accessing the piped services because of the large connection costs. As residents in rural growth centers (RGCs) are generally poorer than those in small towns, lack of affordability of connection to a piped system will be more acute.

2. Proposed objective(s)

The objective of the proposed project will be to support an output-based component of the private sector management of water supply services in small towns aimed at expanding access to piped water supply through increasing the number of active connections and extending the distribution pipe network, and, where appropriate, increasing production and storage capacity.

3. Preliminary description

The proposed OBA project will support the installation of a total of about 2000 new water connections targeting a total of about 45,000 consumers in about 6 small towns and 4 rural growth centers. Outputs and OBA payments will be based on willingness to pay studies to ensure that costs are affordable to the poor and that service expansions are related to actual demand. The project will consider and design the appropriate contractual arrangements for private sector participation. In the small towns, where the water authorities

own the assets and the private operators run the systems through management contracts, options which would provide the appropriate incentives for the private operators to take commensurate risk would need to be devised. In the RGCs, where there is no existing system and therefore owner, an enhanced lease or concession-type arrangement might be considered.

4. Safeguard policies that might apply

No safeguard policies are expected to apply to this project. The project will not have any environmental impact as it is a small pilot built upon an existing water supply framework and infrastructure.

5. Tentative financing

Global Partnership On Output-Based Aid (GPOBA)

\$3.0 m

6. Contact point

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