

ACCESSING MARKET FINANCE: THE NWSC EXPERIENCE

**Presented to the 2nd Public Private Africa
Conference: Tunis**

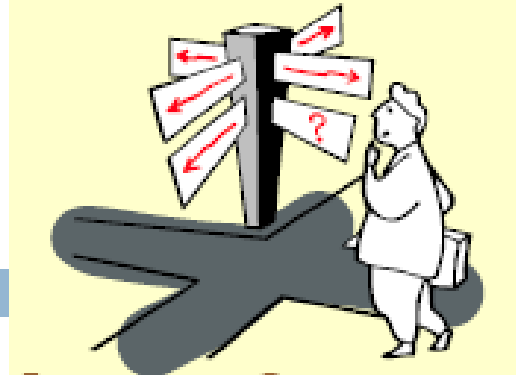
Dr. William T. Muhairwe
Managing Director, NWSC-Uganda
December 2010

The bottom of the slide features two horizontal bars. The left bar is orange and the right bar is blue, both spanning the width of the slide.



Outline

2



- ❑ Introduction
- ❑ Financing of Investments from a Historical Perspective: NWSC Experience
- ❑ NWSC's response to Financing Challenge
- ❑ Internal Reforms aimed at Enhancing Internal Resource Mobilization.
- ❑ Debt Restructuring
- ❑ Options for Market Finance: Bonds/Market Finance
- ❑ Key Lessons and Experiences from Bond and Market Finance
- ❑ Conclusion



Introduction ...

3

- ❑ To date, provision of Water and Sanitation services have become intrinsically related to the sustainable development.
- ❑ In most African countries, the access to water services is less than 60%, while only 38% of the population are able to access sanitation services.
- ❑ One of the key factors hindering the adequate provision of water and sanitation services is the issue of inadequate financing to the Water and sanitation sector as a whole (USD 45-60 bn per year is required to achieve the MDG targets).
- ❑ While the ability of many service providers, especially those on the African continent, to efficiently cover their operation and maintenance costs still remains in question, the availability of investment finance remains the bigger challenge.



Financing of Investments from a Historical Perspective: NWSC Experience

4

- ❑ Historically, most investments financed through Donor Grants and from the Government.
- ❑ Grants were used to rehabilitate the infrastructure which had been run down from during the period of turmoil in the 70's.
- ❑ However to date, there is a dwindling Resource envelope from Government due to competing needs from other sectors e.g. health, Education, Roads, Energy.
- ❑ Competing needs also felt between rural versus urban priorities.
- ❑ Donor resources are also thinning.



NWSC's response to Financing Challenge

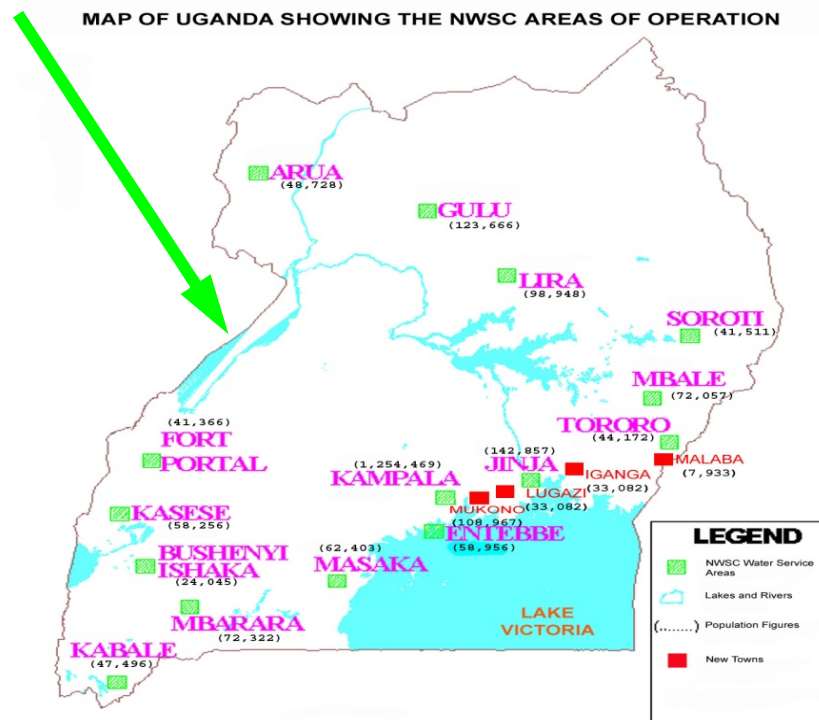
5

Background of NWSC

- NWSC is a Ugandan Parastatal set up in 1972
- Mandate to provide WSS in Large Urban Centers on a Commercial and viable Basis -23 major towns
- **Corporate Vision:** To be One of the Leading Water Utilities in the World
- **Mission:** To provide efficient and effective water and sewerage services, applying innovative managerial solutions to the satisfaction of our customers and other stakeholders in an environmentally friendly manner



MAP OF UGANDA SHOWING THE NWSC AREAS OF OPERATION





Internal Reforms aimed at Enhancing Internal Resource Mobilization.

6

- ❑ **Formulated both Long Term and Short Term Plans**
 - ❑ **Policy Level** - change in Board & Management
 - ❑ Long Term Corporate Plan Strategies
 - ❑ Plethora of Short Term Tactical Programmes
 - ❑ Instituted Tariff Reforms aimed at insulating the Tariff.
 - ❑ Effective MIS System
- ❑ **With operational and Financial improvements, NWSC is now able to cover:**
 - ❑ O&M costs
 - ❑ Depreciation Costs
 - ❑ Minor Investments from its cash flow
- ❑ However **Tariff is still not a Full Cost Recovery Tariff**. Therefore is not sufficient to cover all investments.
- ❑ Therefore **needed to augment own resources** to be able to implement the five year investment plan estimated at about Shs 1 68 billion (US \$ 98 million).



NWSC Key Achievements

| Performance Indicator | 1998 | 2010 |
|-------------------------------------|------------|----------------|
| Service Coverage | 48% | 74% |
| Total Connections | 50,826 | 246,459 |
| New Connections per year | 3,317 | 25,000 |
| Metered Connections | 37,217 | 245,199 |
| Staff per 1000 Connections | 36 | 6 |
| Collection Efficiency | 60% | 98% |
| NRW | 60% | 33.3% |
| Proportion Metered Accounts | 65% | 99 % |
| Annual Turnover (Billion Shs) | 21 | 112 |
| Profit (Before. Dep) (Billions Shs) | 8.0 (loss) | 25.4 (Surplus) |



Debt Restructuring

8

- ❑ In order to facilitate NWSC leveraging of its resources, Parliament passed a resolution to restructure the NWSC Long Term Debt Obligations to Government into Equity.
- ❑ A total of Shs 153 billion was converted to equity

Restructuring was aimed at:

- ❑ Enabling the Corporation access market Finance for critical and commercially viable projects.
- ❑ Enabling the Corporation build a history of profitability and credit worthiness with a healthy balance sheet.
- ❑ Enabling the Corporation finance from its internal resources key investments all aimed at expanding production and service coverage.



Options for Market Finance

9

| Source of Funds | Advantages | Drawbacks | Risks |
|---|---|---|--|
| Commercial Bank Loans | <ul style="list-style-type: none">•Quick to obtain•Easy to terminate through early payments | <ul style="list-style-type: none">•More expensive (17%- 18%)•Rigid payment terms•Shorter loan tenors (5-7 years)•Stringent supervision from lender | <ul style="list-style-type: none">•High Interest rate risk |
| Bond Issuance | <ul style="list-style-type: none">•cheaper (10-14% interest rate)•Longer tenor (10-12 years) and therefore matches the funding maturity profile to the asset life profile.•Fixed interest rate over the debt service period giving certainty for planning purposes•Greater flexibility for fund management•Can be opened to financing a longer term investment programme•Helps establish a credit curve and build a track record in the capital markets. | <ul style="list-style-type: none">•More complex to develop•First issue takes a longer time to realise | <ul style="list-style-type: none">•Risk of issuing bond before project is ready, thereby encumbered with idle funds. |
| Concessionary Finance from External Lending Agencies | <ul style="list-style-type: none">•Relatively cheaper in cost 4% | <ul style="list-style-type: none">•Foreign currency denominated loans.•Complexity in utilisation of funds. | <ul style="list-style-type: none">•Exchange rate risks |



NWSC's Choice of Market Finance

10

- ❑ From the foregoing, the pursuance of the Capital Market Bond was preferred based on the fact that The Uganda Bond Market was nascent with a lot of funding opportunities to offer

A Local Bond would allow NWSC to:

- ❑ Raise sufficient capital for the planned investment programme on a sustained basis
- ❑ Mitigate interest rate risks and achieve flexibility in financing.
- ❑ Extend repayment periods to correspond to economic life of assets being created.
- ❑ Meet country level objectives of deepening the capital market and set an example for other utilities

However due to the financial Market upheavals, the Ministry of Finance stayed the issuance of the Bond sighting need for conventional sources of finance including concessional loans



Key Lessons and Experiences from Bond Option

11

- ❑ Initial financial assistance for the process very necessary as the upfront costs are high. We are very grateful to WSP (World Bank) for the assistance accorded to us.
- ❑ Approval processes protracted resulting into delays.
- ❑ Noted that delays are also costly, for example accounts have to be updated if older than 3 months after the accounting period.
- ❑ Need for comprehensive involvement of all stakeholders including Board, Ministry of Finance and Water.
- ❑ There is need to address internal structural deficiencies as one goes ahead with such financing mechanisms, i.e. . Debtors, water losses issues.
- ❑ Need to have internal financial forecasting skills so as to be able to assess a Corporations debt/equity mix.
- ❑ In addition Credit Rating helps in assessing a Companies Marketability profile and helps reduce the cost of Finance.



Other Financing Options: Concessionary Loans

12

- ❑ The NWSC in tandem sourced a concessional loan from Afd (French funding Agency) for extension of the water intakes) 7 million Euro.
- ❑ 25% grant portion
- ❑ The funding was project specific.
- ❑ Aimed at meeting both the financial and social objectives.
- ❑ Terms and Process included:
 - ❑ Use of Local Bank
 - ❑ Loan Tenor 7 ½ years
 - ❑ Grace period 2 years
 - ❑ Interest rate subsidised compared to market rate (i.e. 8% compared to market rate of 14%)
 - ❑ Interest rate included hedge costs against foreign exchange risk.



Key Lessons Learned for accessing Market Finance

13

- ❑ Internal reforms are necessary as a prerequisite to looking outwards so as to promote bankability through harnessing of internal resources.
- ❑ Need for stakeholders to appreciate the evolution of a company and avoid making assumptions not based on factual evidence.
- ❑ Need for sensitising of all stakeholders both internal and external and at all stages of accessing market finance.
- ❑ Need to have a clear investment policy and plan in place, differentiating between viable and social related investments.
- ❑ Need for an active financial Market, with sufficient liquidity. This will reduce the cost of capital
- ❑ Need for skilled staff who can effectively evaluate financing options.
- ❑ Credit rating helps reduce cost of credit.



In Conclusion

14

- ❑ NWSC has carried out worthwhile reforms
- ❑ Full cost recovery Tariff still a myth.
- ❑ Market finance helps leverage internal resources.
- ❑ **However Finance to the sector should be based on a combination or cocktail of funding sources each corresponding to the nature of investment.**
- ❑ **Investments of a Social nature should be financed by Grants, while viable investments may opt for loans. This will therefore ensure that the commercial and social responsibility of utilities is met.**
- ❑ Improvement in utility management efficiency and adoption of commercial management practices are prerequisites to ensuring sustainable financing from both the public purse and market finance.

“Be the Change you want to see in the World” (Mahatma Gandhi)

THANK YOU FOR YOUR ATTENTION

For more information & literature on the NWSC experience read: Making Public Enterprises Work, available at <http://www.iwapublishing.com>