NSSF investments: Urban water is good business too

For public infrastructure managers, the remarks by President Museveni encouraging the National Social Security Fund (NSSF) to invest in public infrastructure like roads, instead of focusing on government bonds, was sweet music to our ears.

The immediate positive response by NSSF administration was equally welcome. There is a significant infrastructure funding gap in Uganda as we strive to improve lives of Ugandans. As traditional financing options have dwindled post Covid-19 and other economic crises, alternative financing options are critically needed to fuel Uganda's ambitious development aspirations.

Road infrastructure investment would certainly be a highly eventful venture, considering the success of the road toll system at Entebbe Expressway. However, challenges in implementation of roads infrastructure projects, such as the Busega-Mpigi Expressway, pause some investment decision challenges to contend with. Such incidences may affect NSSFs appetite to invest in such programmes.

There are ready public infrastructure investments that could have quicker turn-around times – urban water infrastructure projects. To date, approximately 75 percent of the population in urban areas has access to safe water (that is considering an access range of 200m proximity). Considering water connections to each household, the figure is less than half of the population. Interestingly, the Ministry of Water and Environment, and the National Water and Sewerage Corporation (NWSC) are overwhelmed by the demand for this infrastructure. The urban population are generally willing and able to pay for the safe water services. Compared to road tolls, payment for water services has been the norm over a long time now, thus, the repayment risk in water supply is equally minimal.

Overall, the investment requirements for water supply infrastructure is estimated at approximately Shs7 trillion per year to achieve the universal target by the year 2030.

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However, the current funding level is approximately Shs2 trillion, leaving a deficit of approximately Shs5 trillion per year. With an asset base of over Shs20 trillion, NSSF can make a significant contribution to the water infrastructure investment demand, especially in the urban areas.

Cognizant of the savers concerns; we are certainly not advocating for grant financing from NSSF. The urban water investments have capacity to provide a reasonable return on investment. The NWSC revenue performance has been improving over the recent years averaging at approximately Shs500b per year.

Furthermore, the NWSC has been operating profitably, averaging at a gross profit margin ratio of approximately 23 percent over the last five years. With a sufficiently high asset base (approximately Shs4.4 trillion), the NWSC is operating at a very low gearing ratio of four percent. Compared to some water utilities in Europe and the United Kingdom, which have borrowed significantly to gearing ratios in the range of 60 percent, there is still substantial room for debt financing in NWSC. Although the extreme debt financing in Europe/UK has resulted into some corporate management challenges, the NWSC is still far below such threshold values.

This financial performance pertains to the 283 towns of NWSC operation, serving approximately 21 million people. In addition, the Ministry of Water and Environment supports operations in an additional 580 small towns, albeit at a much lower financial capacity than the NWSC. This reflects the significant size of the market, projected to grow even further, with urbanisations rates of over five percent, according to Uganda Bureau of Statistics.

Investment in urban water infrastructure is not only justified on financial returns, but the overall benefits to the economy of Uganda are significant as well. Improvements in the health of the population to contribute to other social economic activities, industrial water demand, water supply for tourism and provision for the Parish Development Model activities are some of the qualitative gains to the economy.

Thus, as the NSSF further studies and prepares for investment in roads infrastructure, investment in urban water supply infrastructure is good business too. Urban water infrastructure has good capacity for sufficient return on investment and a significant contribution to the national economy, as we steer towards attainment of Uganda Vision 2040.

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