Reforming Water Utilities in Western & Central Africa

Lessons learned and the Way Forward

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PPPs in Western and Central Africa

- *Western & Central Africa has one of the longest experiences with PPPs*

- *Started in Côte d'Ivoire in 1959* (Saur concession for Abidjan), extended in 1974 to other urban cities (French Affermage)

- *Over the last 2 decades, 15 countries out of 23 in the region, have experimented with PPPs*
  - Eight (8) for water supply alone: Côte d'Ivoire, Guinea, Senegal, Niger, Burkina Faso, Ghana, CAR, and Cameroun
  - Seven (7) for combined electricity & water supply operations: Gabon, Cape Verde, The Gambia, Chad, Guinea-Bissau, Sao Tome y Principe, and Mali

A wide range of PPP schemes implemented in the Region

Concessions contracts (3) (combined Water/Energy utilities): Gabon, Cape Verde, and Mali

Affermage contracts (7) (preferred option in the region): Côte d'Ivoire, Senegal, Guinea, The Gambia, Niger, CAR, and Cameroon

Management Contracts (4) : Ghana, Guinea-Bissau, Sao Tome y Principe, Chad

Performance-based short term service contract (1): Burkina Faso (Public utility)

Have PPPs Succeeded in West & Central Africa?

Six PPPs can be considered as successful: Côte d'Ivoire & Senegal (locally rooted world class operators 59 & 96), Gabon (1997), Niger (2001), Burkina Faso (since 2001) Cape Verde (2002)

Two terminated partnerships achieved initial improvements: Guinea (water affermage 89-01) and Mali (W&E concession 00 -04)

Five cases failed (to expand access to water and improve operation efficiency): The Gambia (W&E Aff. 91/01), CAR (Aff. 91/01), Chad (W&E – Mang. 00/04) Guinea-Bissau (W&E – Mang. 91/97) and Sao Tome y Principe (Mang. 93/96). Note: most failures are combined Water/Energy cases

Two cases too early to judge: Ghana (manag. 06) and Cameroon (Aff. 2007).

The “Hybrid Affermage Scheme” developed in West & Central Africa

(illustration through the cases of Senegal and Niger

Senegal - 1996 water sector reform

Builds on regional experience (lessons learned from Côte d'Ivoire, Guinea and Gambia)

Long consultation process

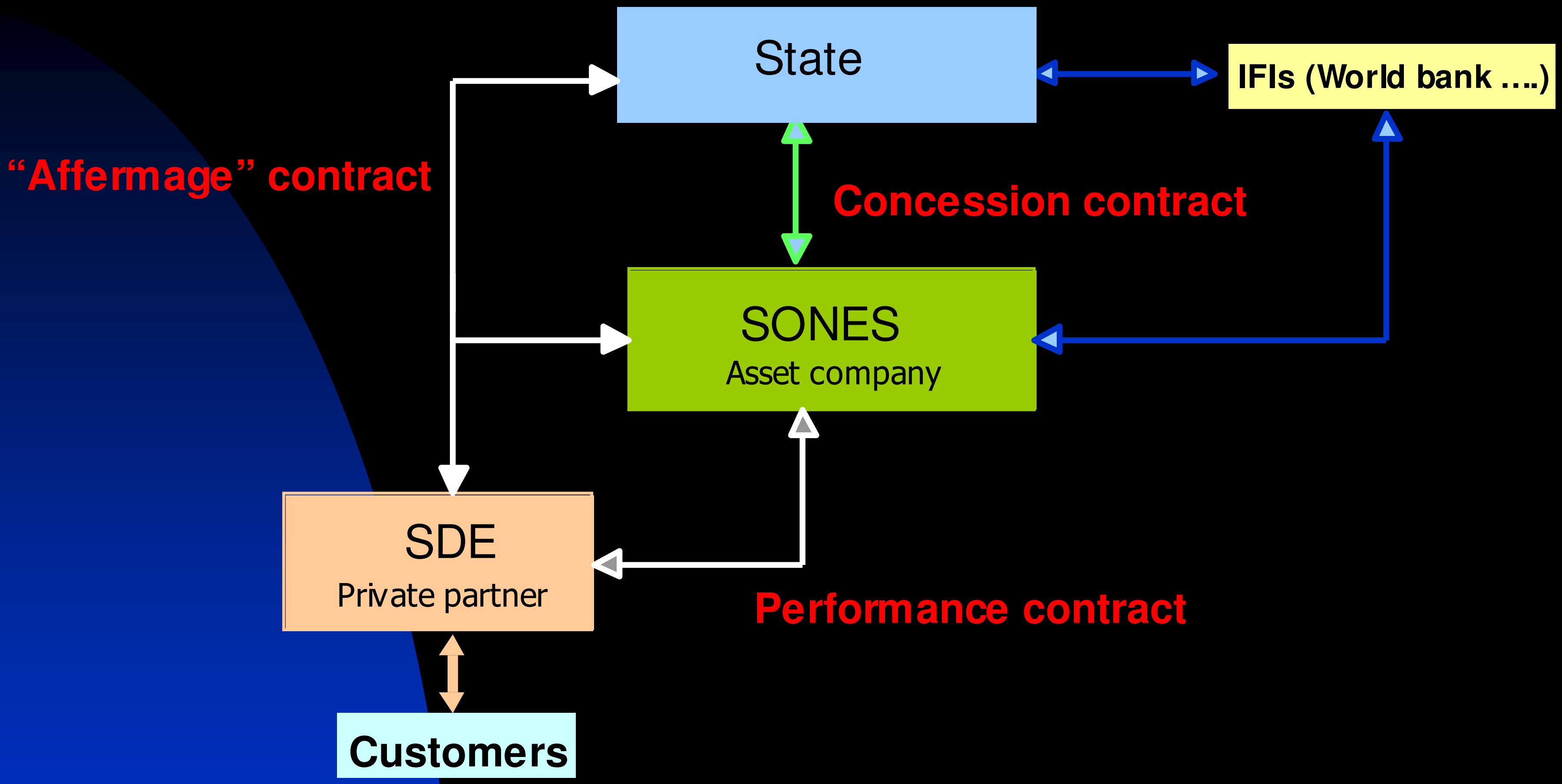
Several innovations

- Incentive schemes with a performance contract;
- AHC with a clear definition of the role of actors (between the Gvt., the AHC and the PO)

Financial model at a early stage to:

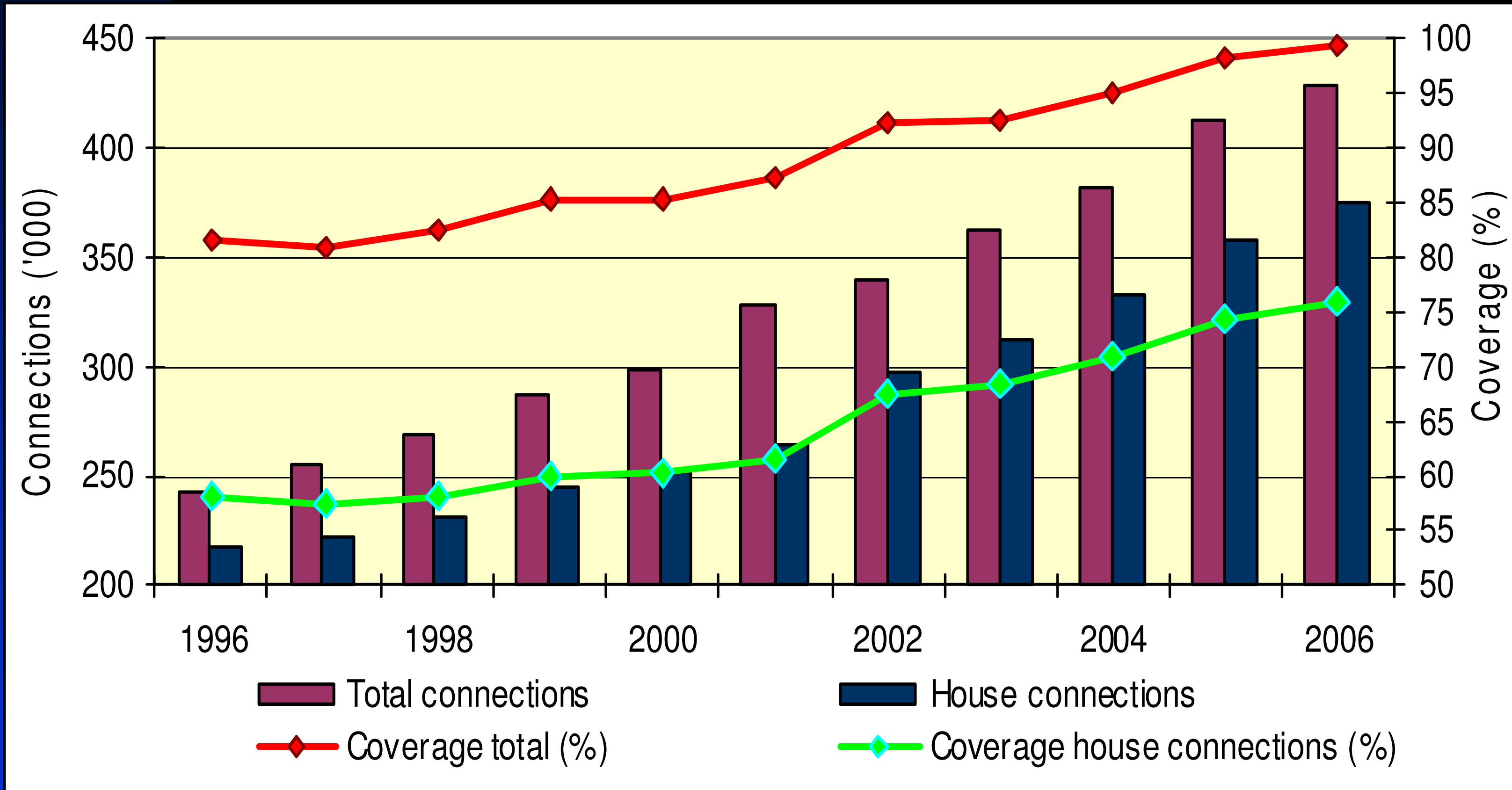
- Optimize investment programs
- Simulate the impact of invest. & performance improvements
- Later on for Tariff regulation.

THE CONTRACTUAL SCHEME



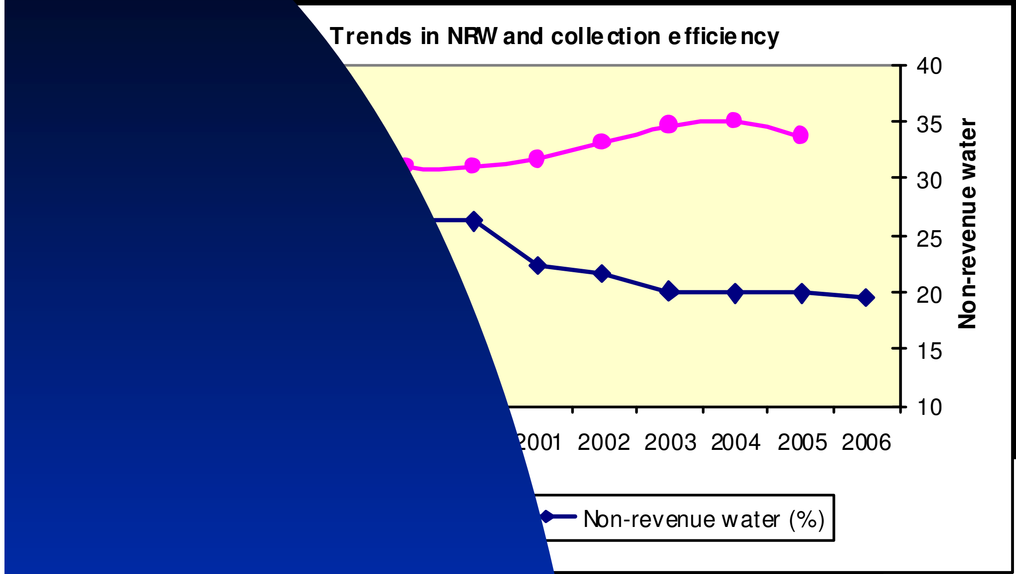
Main innovation: *A Performance Contract based on operational efficiency indicators. It compensates efficiently the natural monopoly of a water service. PO remuneration based on predetermined annual target ratios for NRW & bill collection.*

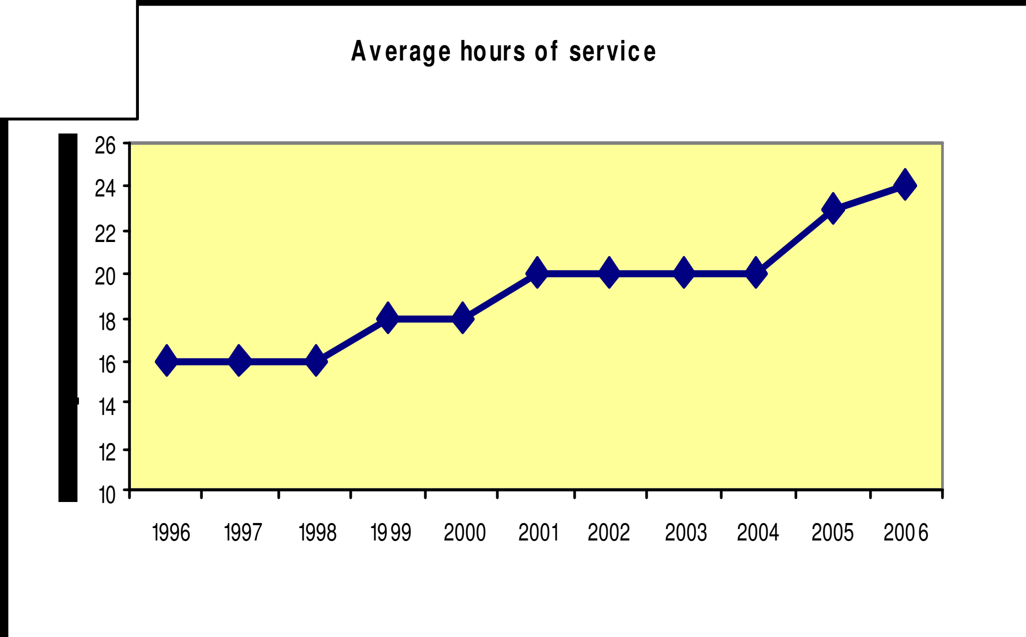
Highest coverage & Connection ratio in SSA



1.7 million Additional people served in 10 years

Service quality and efficiency





Financial equilibrium / autonomy

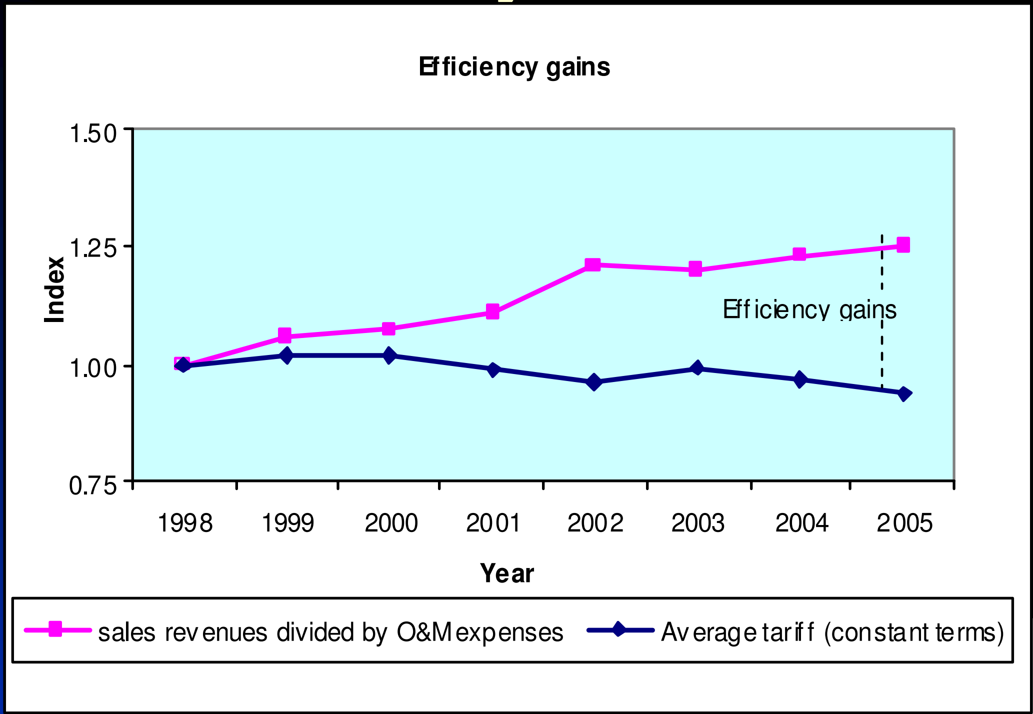
Financial equilibrium achieved in 2003, with average tariff increases not exceeding 3% per year (97-03)

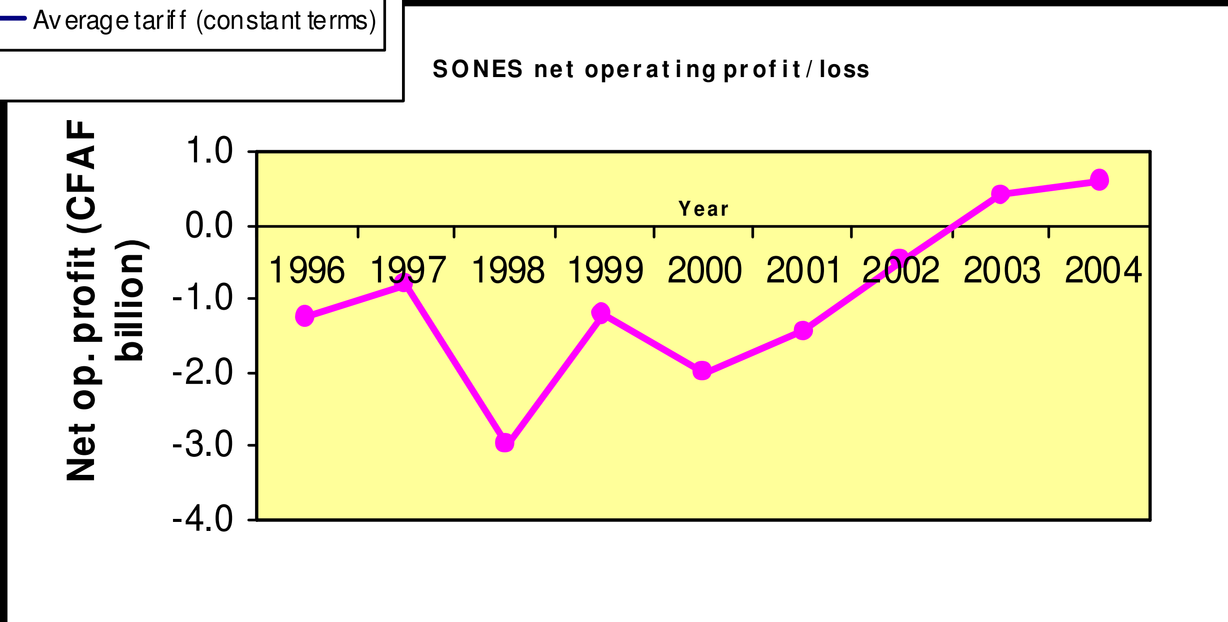
Tariff adjustments mostly devoted to increasing the share of the AHC to participate in investments and cover the debt service (pick of US$20M in 2003)

Moderate increase of the Private Operator fee per cum (decreased in constant terms)

Tariff policy de-linked with the Operator's lease fee.

Efficiency Gains & Financial Equilibrium





Niger water - 2001 Reform

First replication of the Senegal case

In a different context

- Very poor country, coming from a long period of political instability
- sector in a bad shape
  - Global access: 64%; private connection: 31% (58.000 customers); standpipes: 33%
  - Intermittent service (18/24h a day)
  - Financial deficit with low bill collection ratio (60%)

Low consumer tariff by regional standards (CFAF200/m3 – US$.31/m3)

Innovative features

Rehabilitation works (64 km of water distribution pipes in 5 years) financed and implemented by the PO

Social connections' programs executed by the PO through a work contract as part of the Affermage package

One-year joint monitoring of NRW baseline to set targets for subsequent years

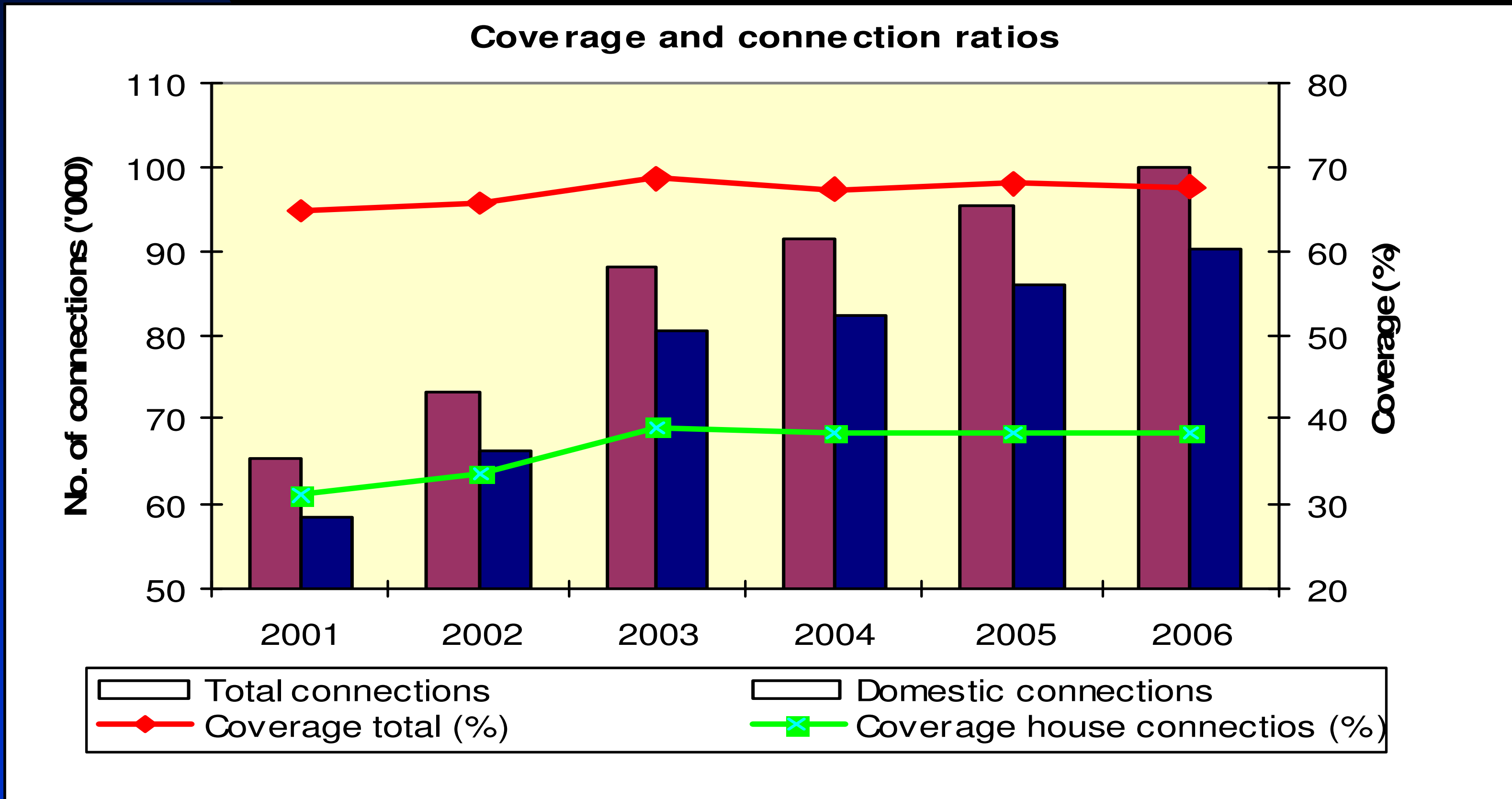
Monthly payment system for State agencies water bills - 20% of sales (including hospitals and the university)

Regulatory body (ARM - Multisectoral) to oversee the affermage contract

Counterparts funds to IDA financing (private sector contribution).

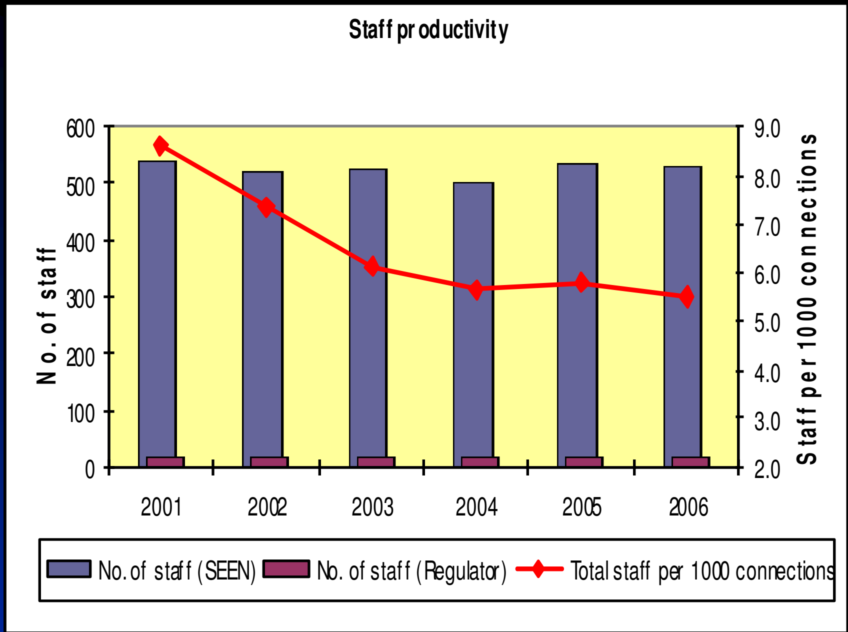
Key results from Niger

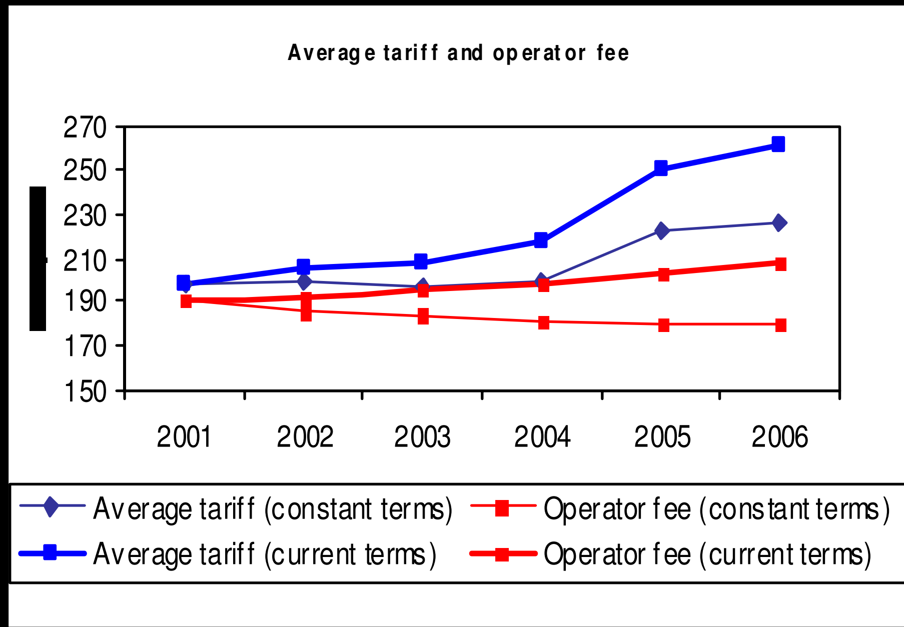
Coverage

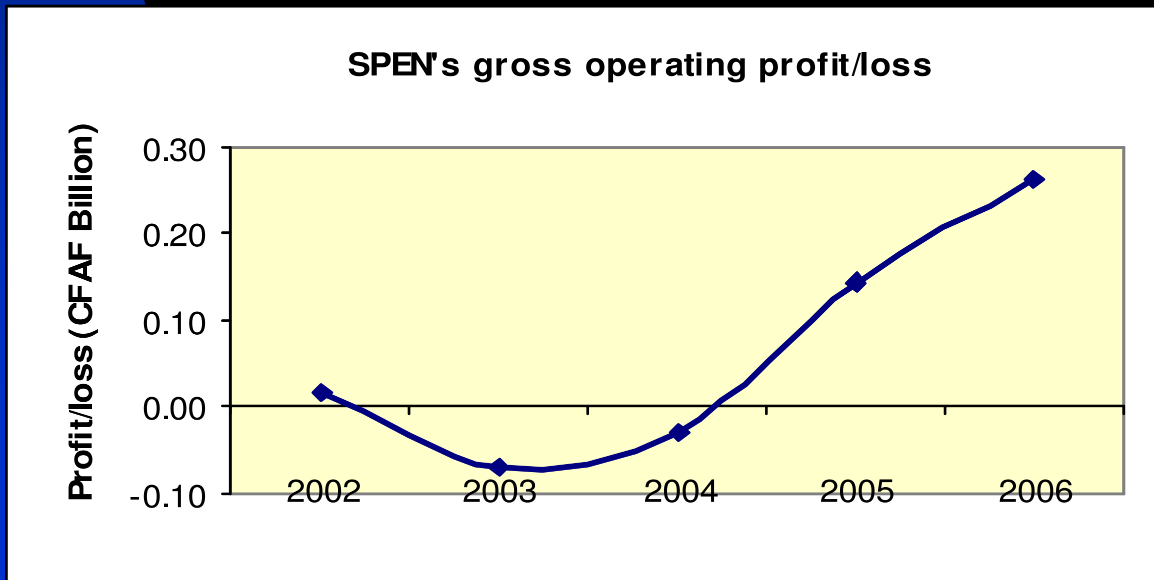


460.000 additional people served in five years

Niger – Key results







Water for the Poor

Social connections programs (SCPs) have significantly helped expend access of service to the poor

Implemented in Cote d'Ivoire in the mid-1970s, replicated in Senegal (130.000 in 6 years), Niger (16.000 in 6 years) & Burkina Faso (50.000 in 5 years)

Social connection provided to beneficiaries in exchange for the payment of a refundable advance of 15 to 20% of the actual connection cost (US$100 – US$200).

"Lifeline tariff" for the first five to 10 m3/month consumed.

Specific incentives for the Private operator to serve the poor (one uniform lease fee per m3 sold)

LESSONS LEARNED

PPP / Sector reform

Successful PPPs have been part of well designed cmprehensive sector reforms….

driven by basic concepts of transparency, accountability, autonomy and incentives.

The PSP Option

Successful cases reflect a customized approach to the prevailing circumstances (context of the country, situation of the sector) and sector development objectives (what are we trying to achieve?).

In an environment of increased perceived risks, an Hybrid-Affermage contract mixing public and private financing was seen as the most pragmatic approach to turn around water utilities

Reminder

A private operator is not a Donor (limited Financing capacity & high rate of return)

Right balance in public/private financing. PS financing limited to an affordable level

The Financial model

The use of a financial model at a very early stage of the project preparation was a powerful tool in moving the sector towards financial sustainability

To assess the right balance of mixed public/private investment, consistent with the financial equilibrium of the sector and with socially acceptable tariffs.

The contract - Key design elements

Clear definition of roles and responsibilities between actors (contractual arrangements)

Appropriate risk allocation

- Clear rules about who pays for what;
- Externalities (service provision to the poor, WRM strategy, etc.).

Properly-designed performance incentives for the Private Operator (Performance contract including technical & commercial indicators).

Success Factors

Appropriate tariff policy is essential for cost recovery and sustainability

Tariff increases de-linked with the operator remuneration

Tariff Adjustments to be introduced progressively as improvements are made in coverage and service quality.

Success Factors

Timely payment of Government agencies' water bills (15 - 20% of annual revenues) is critical for the financial viability of the urban water sector.

Action plan to reduce water consumption of Government agencies

Success Factors

The regulatory function is essential. But, having a Regulatory Body in place is not a panacea. In SSA some "Autonomous" multisectoral regulatory agencies have generated more problems than solutions.

What matters is:

- to provide the sector with appropriate regulatory instruments (economic/financial models) and procedures to determine consumer tariffs and sector investments,
- to rely on a properly designed performance contract to regulate the private operator, and put in place appropriate dispute resolution mechanisms

Forward looking

Prospects to increase hybrid – affermage PPP in SSA? The latest replication: Cameroun, awarded in 2007 to ONEP (innovation: OBA from the start and fix part of the operator fee based on the number of customers).

New reform directions and revamped models? Public utilities: Burkina Faso performance-based service contracting (not traditional service contract, not a TA, not twinning) that has achieved significant improvements

How can we promote more local PSP?

Decentralization?: success cases in W&C Africa are National models. Are they replicable to municipal models?

Thank You