Reforming Water Utilities in Western & Central Africa

Lessons learned

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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?

- **Five 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)

- **Three can be classified as mixed outcome** Guinea (water affermage 89-01) and Mali (W&E concession 00 -04) **terminated partnerships achieved initial improvements**, Cape Verde: contract renegotiated

- **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 case of Senegal
(Replicated in Niger and recently in Cameroon)
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.
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

2011 coverage: 98.7% of which 88.7% through HHC
Service quality and efficiency

Trends in NRW and collection efficiency

Collection efficiency

Non-revenue water

Average hours of service

Bill collection efficiency (%) Non-revenue water (%)
Out of the US$ 420 million invested in the urban water sector between 1996 and 2006

- 81 percent or US$ 340 million provided by external financiers (average interest rate of 3.5% repayment 20 years),

- World Bank loans: partially on-lent by the latter to SONES (40%) and partially passed on to SONES as equity

- Other financings (US$ 300 million) provided directly to SONES without a sovereign guarantee.

- SDE (the PO) has contributed 17%, or US$ 72M, from cash generated from operations and,

- SONES (the AHC) has supplied about 2 percent out of cash generated from the tariffs.
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.
- Today Pp 147.8 FCFA; Pe 356.4; ONAS 56.9
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
Successful PPPs have been part of well designed comprehensive 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.

- Public-Public P in Mali (reform under preparation)

- **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