

# Overview of PSP Experiences in the Water Sector in Africa

26 November 2008

# Outline

- ▶ **Background: sector context**
- ▶ **PSP Experiences: rationale, types, outcomes**
- ▶ **Looking Forward**

# Access challenge

- Large unmet demand
  - Africa has the lowest access to WSS services in the world....
    - 322 million people without access to safe drinking water
    - 463 million people without access to improved sanitation
  - ....but between 1990-2004 some progress achieved in improving access
    - water (from 49% to 56%)
    - sanitation (from 32% to 37%)
- Declining coverage of piped water in urban Africa
  - Rapid urbanization and population growth
  - Rise in coverage of wells and boreholes, as well as vendors and surface water use
- Water and sanitation coverage in rural areas lagging behind

# Weak Sector Governance

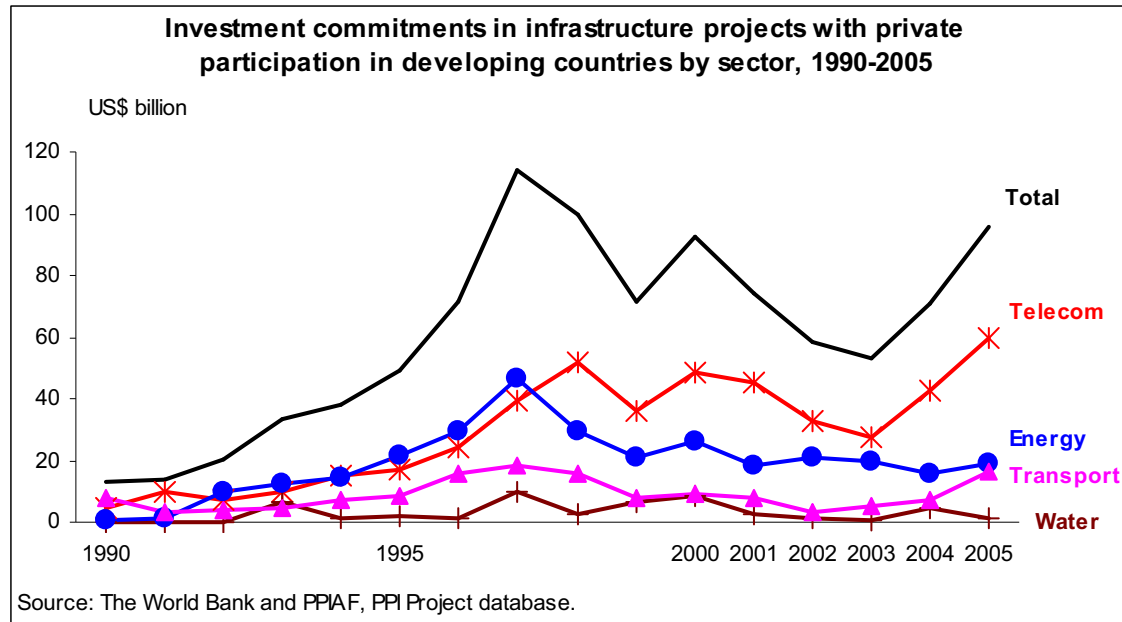
- Lack of transparency and inappropriate policy/regulatory framework
  - Under-pricing
  - Poor subsidy targeting
- Poor performance of water utilities
  - tariffs barely covering operating costs (affordability constraints)
  - Operational inefficiencies
    - High water losses (on average 38%)
    - Low bill collections
- Financing gap
  - Needs: US\$ 1.7 billion to invest annually water supply and same amount needed for sanitation
  - Particularly acute for maintenance

▶ **Background**

▶ **PSP Experiences**

▶ **Looking Forward**

# Evolution in the roles of public and private sectors



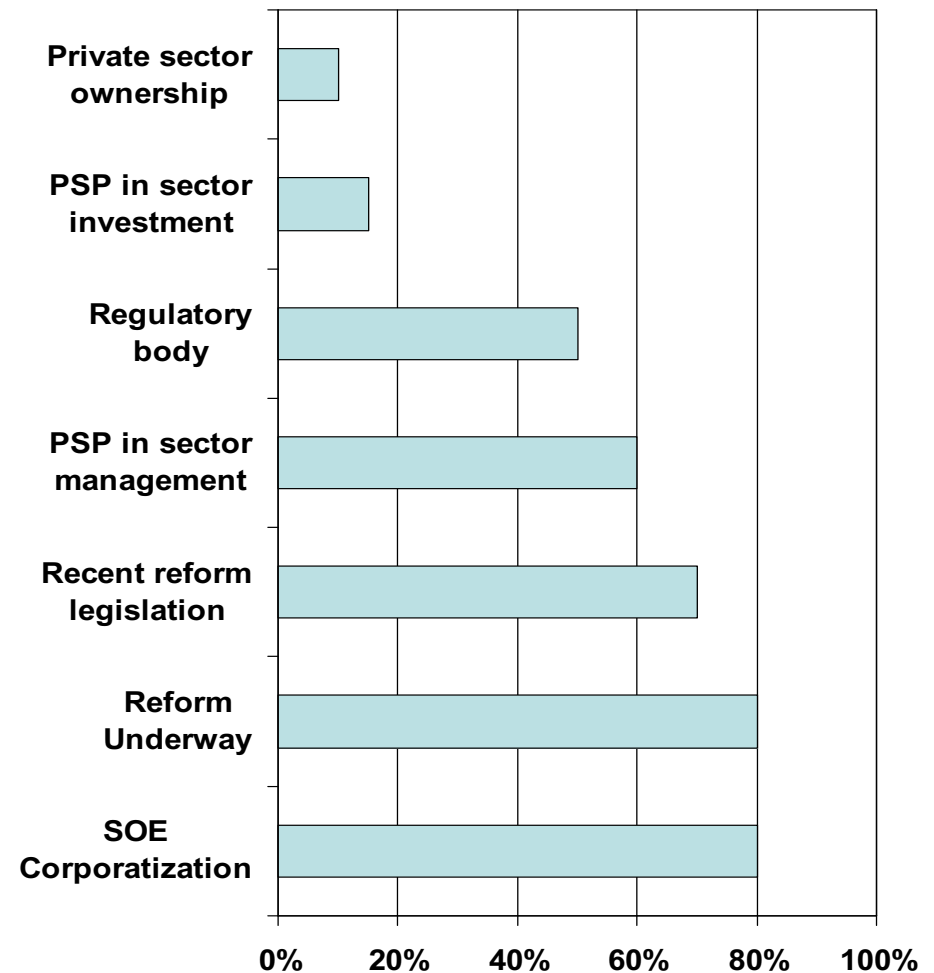
- ✓ **Prior to 1990:** Public sector led the provision of infrastructure services (public utilities in distress, poor quality service, reduce access of poor segments, etc.)
- ✓ **Mid-1990s:** Private sector could eventually replaced the public sector as the main financier and provider (some believe). With the exemption of the telecom sector, evidence points in another direction.
- ✓ **Mid-2000s:** Private participation in infrastructure is not easy. Governments remain central to the delivery of infrastructure services, either as providers or enablers. No actor can replace government: weakness in policy formulation, regulation and risk management.

# Why is private capital not flowing to water?

- ***For the private sector, at this stage, the risk-return ratio is unattractive in developing countries***
  - Upfront capital commitments for water sector are typically high...once the costs are sunk, returns are dependent on revenues allowed by regulatory framework
  - End-users tariffs are open to ex-post uncertainties
  - Similarly, the ability to collect and expatriate returns on the asset may be compromised by shocks to the economy or changes in laws
- ***Availability of more attractive options***
  - Infrastructure stock in ***developed*** economies is also aging and in need of rehabilitation and expansion, with financing of such demands via PPPs
  - Private infrastructure funds have therefore gone mostly to ***developed*** countries or to the telecoms sector where payback periods are generally shorter

# Policy Approaches in SSA Water (AICD)

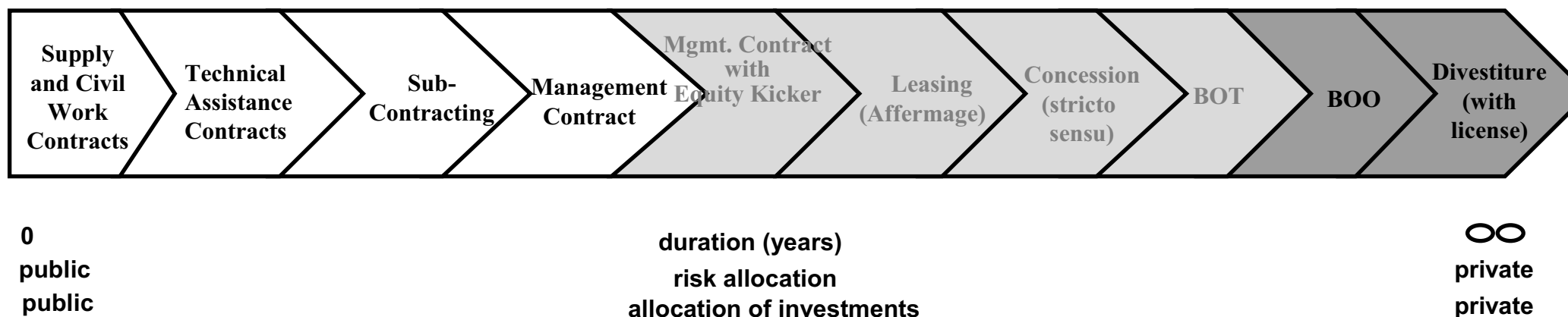
- Widespread urban water sector reforms were carried out in the 1990s
  - Commercial orientation of utilities
  - Formal regulation
  - Private sector participation (investment and management)





# Scope of PSP in SSA Water

- 29 water PPPs signed over the last 2 decades (26 million people concerned)
- Broad range of approaches

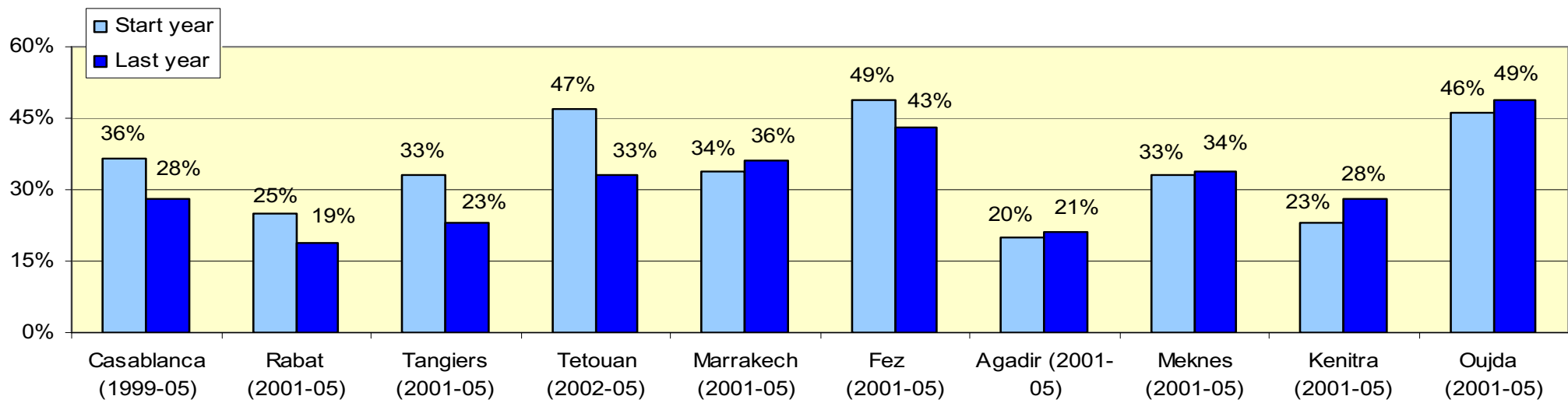


- Prevalence of BOT and lower risk contracts (management/lease), very few concessions (Cape Verde, Gabon, Mali)
- Mixed results: numerous failures and some successes
- Increasingly important role of regional investors and local private participation

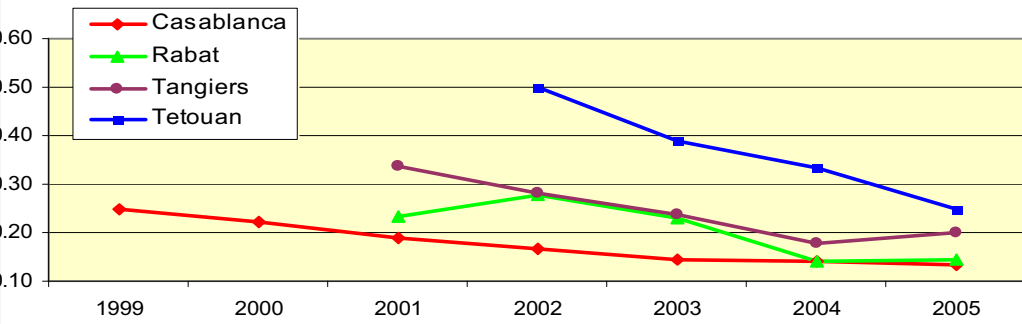


# PSP and reducing water losses: evidence from Morocco (WB)

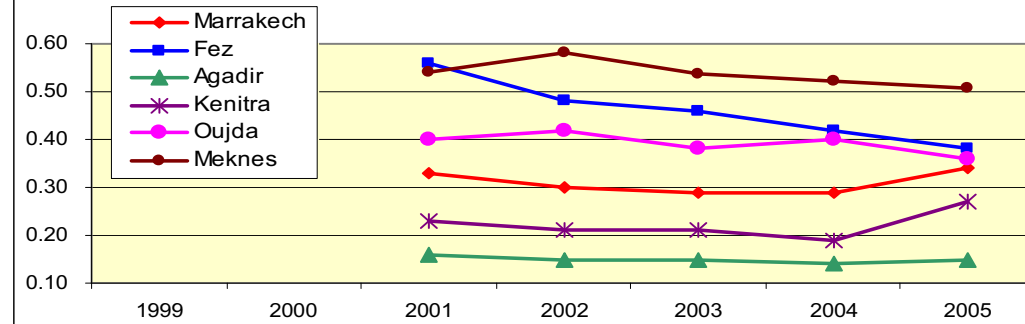
Morocco: Comparison of NRW % for 4 concessions and 6 large public utilities



Morocco: Evolution of water losses per connection (m3 per day) under private concessionaires



Morocco: Evolution of water losses per connection (m3 per day) for the 6 largest municipal utilities

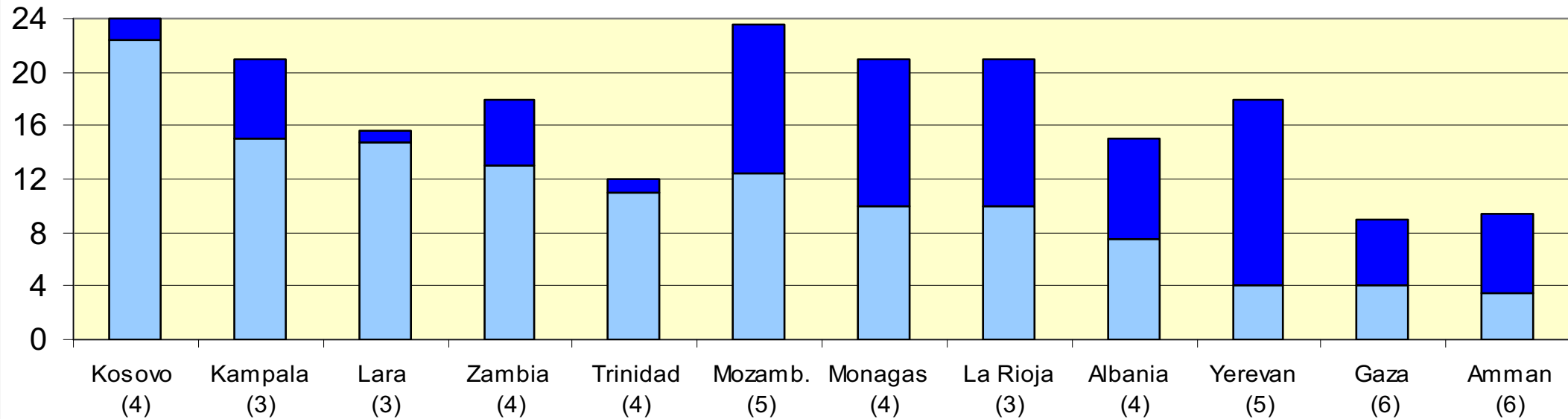


# Improving service continuity with management contracts (WB)

- Significant improvement in 9 out the 12 MCs for which data was available

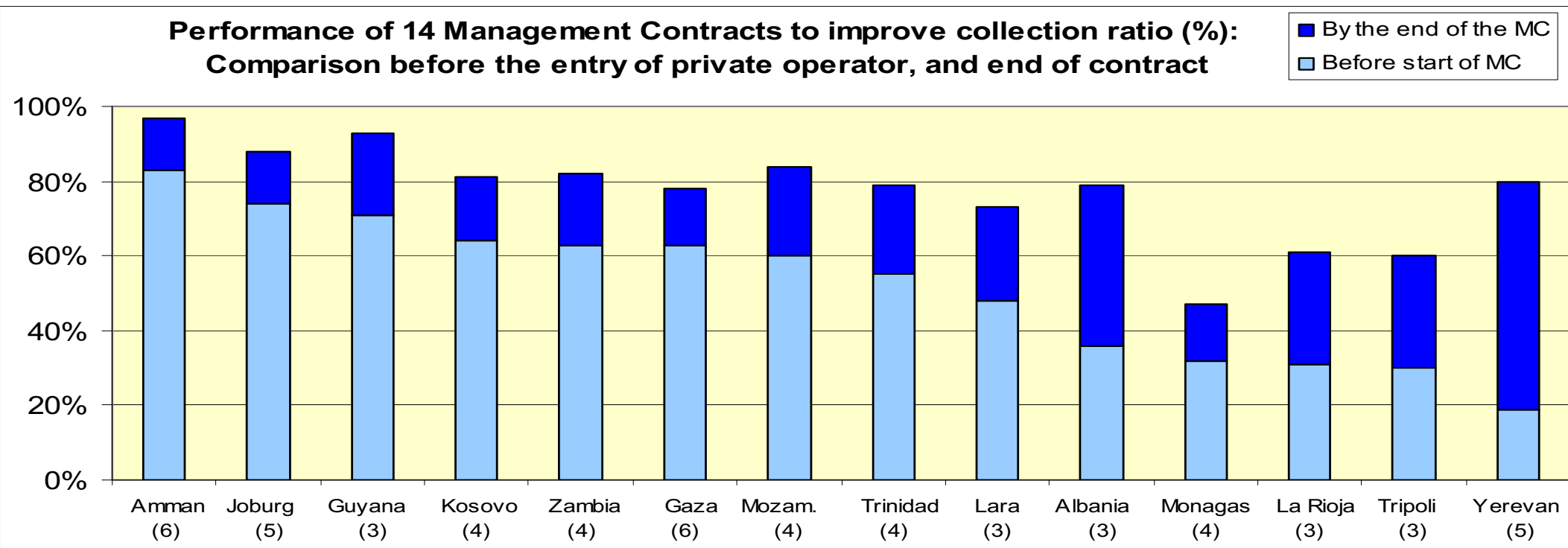
**Performance of 12 Management Contracts to improve water service continuity:  
Evolution of average number of hours of service per day (years of MC)**

■ Gain with private operator  
■ Before start of MC



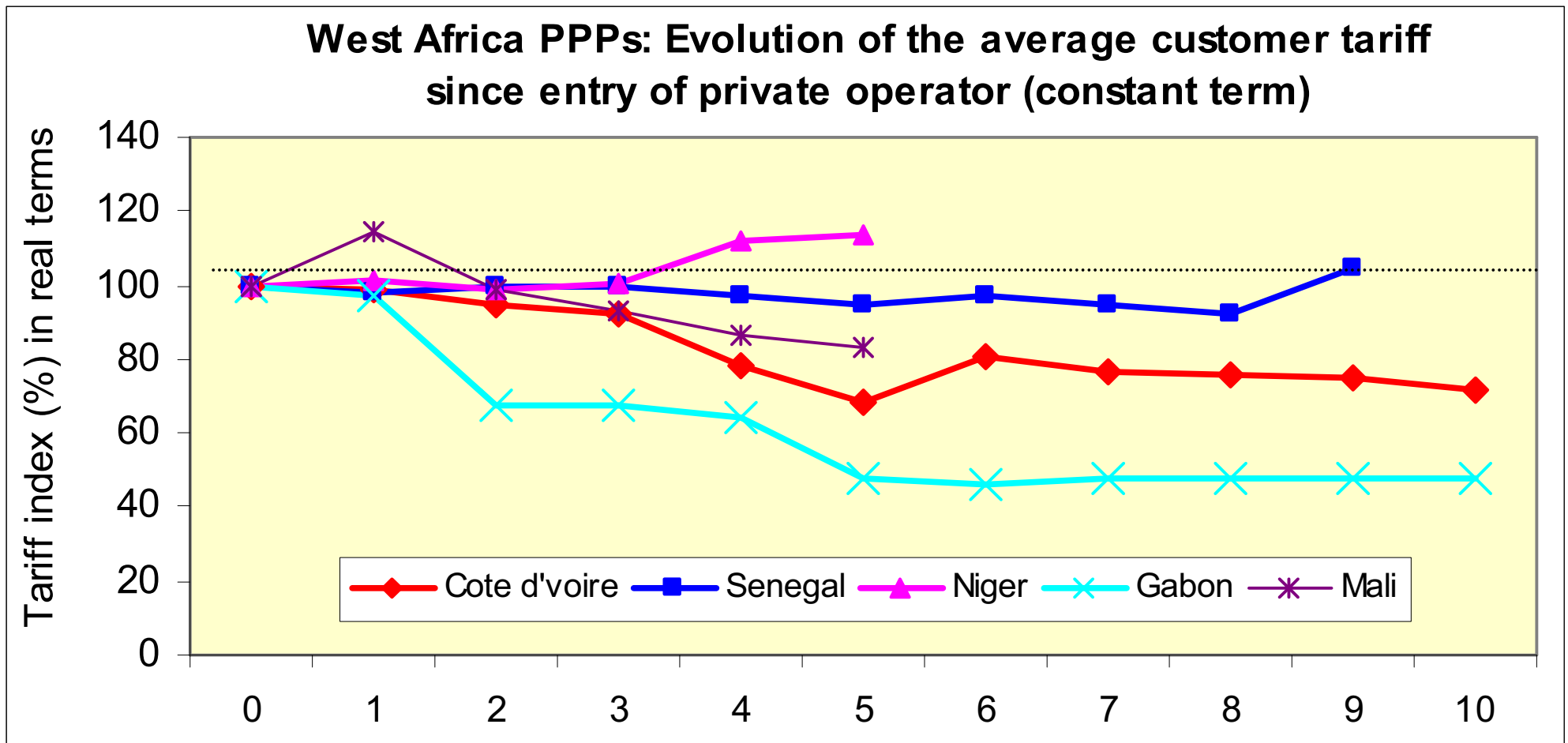
# Improving collection rates (WB)

- Positive performance in most cases
- Wide evidence of improvement even under short term MC



# PPP and tariff: case of West Africa (WB)

- Tariff reductions in real terms achieved in 4 PPPs, modest increase in Niger which was very low by regional standards



## Lessons learned

- The “large concession” model seems unsuited to most developing countries. Many successful water PPP schemes were largely based on public financing (leases or hybrid schemes), combined with efficient private operation
- The biggest financial contribution from a private operator is not direct private investment, but lies in improving the financial viability of the WSS services:
  - Virtuous circle: service quality → increasing cash-flow for investment and creditworthiness → access expansion...
- Many possible models:
  - Management contracts (incorporating lessons)
  - Mixed-ownership companies (sub-sovereign lending)
  - Affermage model as developed in Western Africa (gradual move to financial sustainability)
  - “Concessions” that rely largely for investment on reinvested cash flows for revenues (Cote d’Ivoire, Morocco, Gabon)

▶ **Background**

▶ **PSP Experiences**

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## Way forward

- Turn around water utilities into effective and viable entities
  - Foster operational performance of SOEs
  - Cost-recovery but use effective targeted tariff design and subsidy policies
- Implement PPPs where appropriate
  - New generation of water PPPs not about tapping private money
  - Appropriate incentives and resources for early improvements
- Small scale providers an important source of filling access gaps
  - Integration in overall sector reform, regulatory system

# Residual Bottlenecks

- Commitment to reform?
- Policy/regulatory frameworks (including subsidy targeting)?
- Tariff discipline?
- Appropriate contract preparation, bidding, and oversight?
- Access to capital?
- Support from IFIs?

# Thank you

