Nancy Alexander

Public-Private Partnerships for Water Services in Africa

The Millennium Development Goals (MDGs) include reducing, by half, extreme poverty as well as the number of people who lack access to safe drinking water by 2015. Between 1990 and 2004, the proportion of people in Sub-Saharan Africa without access to safe drinking water was reduced from 52% to 44%.

But the target, 26%, still remains distant. This is largely due to the fact that, during the 1970s, governments used debt financing to invest in projects, including infrastructure, that were non-productive. During the 1980s, governments needed to cut public investment, particularly in infrastructure, in order to service their debt and meet their structural adjustment targets.

The New Partnership for Africa's Development (NEPAD) and the African Union recognized the importance of renewed investment in infrastructure on the continent and worked with the financiers of the Infrastructure Consortium for Africa (ICA), including the G8 and an array of bilateral and multilateral institutions, to diagnose and address the short- and long- term infrastructure needs of 24 countries. The African Development Bank, which houses the ICA, will augment its resources by devoting 60% of its $8.9bn soft loan resources for 2008-2010 to infrastructure projects on the continent.

Both donors and creditors envision public-private partnerships (PPPs) as an effective means though which to expand water provision. In PPP arrangements, the government retains ownership of the assets but, to varying degrees, spins off responsibility for operations to the private sector. The objectives are to improve service, to enhance the efficiency of operation, and to reduce financing costs for the public sector.

In July 2008, the World Bank Group released its Sustainable Infrastructure Action Plan (SIAP) for 2009-11, which projects a 75% increase in infrastructure lending, from $41bn (2004 to 2007) to as much as $72bn (2008 to 2011). The World Bank's SIAP promotes the expansion of PPPs in water, as does the 2008 Agreement governing the World Bank's soft loan arm, the International Development Association (IDA).

The IDA Agreement calls for close collaboration between IDA and the World Bank's private sector arm, the International Finance Corporation (IFC), in developing PPPs.[1] For the next three years, IDA will invest 40% of its resources, or $5.3bn/year in infrastructure projects ($3bn per year in Africa).[2] For the first time, the IFC made a significant contribution to IDA -- $1.7bn -- over three years.

In 2006 and 2007, policy conditions attached to IDA's grants and credits[3] called for:

- The implementation of a rural infrastructure plan to promote PPPs (Armenia);
- Building and managing 10 water systems under PPP arrangements (Benin);
- Ensuring that 10% of rural water supply systems are managed by local private operators (Rwanda);
- The promotion of private participation in water supply (Madagascar);
- The adoption of a PPP law for infrastructure (Niger).

The strong focus on PPPs in the water sector is not always warranted by experience. For instance, after years of conditions on loans and debt relief that required establishing a PPP for water in Dar Es Salaam, Tanzania, the private operator Biwater failed to meet its contractual obligations. However, the World Bank reports recent improvements in performance when private operators were given time-

[1] The IFC has increased its level of investment in Africa by 340% between 2004 and 2007. The IFC's 2007 commitments will directly or indirectly extend water services to 2.2. million consumers.

[2] The lending by the IDA for infrastructure increased from $1.8bn in 2006 to $3.3bn in 2007, an increase of 83%.

[3] World Bank's Poverty Reduction Support Credits, various countries.

limited subsidies (i.e. output-based or performance-based aid) to serve the poor. This is ironic since subsidies to public water companies have sometimes been curbed.

After an upsurge at the beginning of the 2000s, foreign multinationals have since reduced their PPP engagement in developing countries. Provision of water services has often failed to generate sufficient revenue and profits in the long run, especially for foreign investors. Depreciating local currencies sometimes led to shocks in import prices and in dollar-denominated debt. In other cases, protests over rising water tariffs and strict collection of payment arrears led to the withdrawal of private water companies. The shift of water contracting to domestic water companies in recent years has proven more sustainable.

World Bank evaluations of PPPs are sometimes critical. A 2006 report by Antonio Estache,[4] a World Bank expert, reviewed the institution's infrastructure investments between 1984 and 2003, and found that "efficiency gains were achieved", but "at the cost of an increase in the burden imposed on the lowest income groups connected".

PPPs were intended to save governments money. But Estache found that private sector commitments to infrastructure investments represented 22% of total investments compared to public sector investments and development aid representing 70% and 8% of total commitments respectively. In Eastern Europe, PPPs in water and electricity required fiscal supports equivalent to 5.9% of GDP at the end of 2002.

The World Bank's Independent Evaluation Group (IEG) criticized the Bank's involvement in privatization, particularly in the areas of electricity and water, as "plagued by over-optimism" regarding political commitment to PPPs and institutional capacity to implement them. Furthermore, it points to the necessity of "strong institutional and regulatory frameworks".[5]

There is widespread consensus among economists that the water sector is a natural monopoly, and thus requires regulation to function efficiently. According to its 2004 "Operational Guidance to World Bank Staff on Public and Private Sector Roles in Water and Sanitation Services", the Bank opposes the centralization of regulatory bodies. But sub-national regulators rarely have the capacity to regulate. The major expansion of PPPs envisioned by the Bank's SIAP should include resources and support for strong regulation of the water sector in developing countries.

PPP contracts are not disclosed to the public, but should be. The IMF states that non-disclosure contributes to poor estimates of risk. The IMF has also expressed strong concerns that there are no fiscal accounting and reporting standards for PPPs and that governments tend to use PPPs as means to "bypass spending controls and to move public investment off budget and debt off the government balance sheet, while the government still bears most of the risk involved and faces potentially large fiscal costs."[6] Estache concluded that poorly structured PPP projects -- pervasive over the past decade -- have generated considerable fiscal risks, and that countries risk giving priority to PPPs at the expense of improving systems for public investment.

As the use of PPPs is expanded, these concerns should be addressed to ensure that substantial progress is made toward meeting the MDG target.

Nancy Alexander, a long-time World Bank watcher, has recently consulted for the Financial Services Committee of the US House of Representatives, a UN agency, and the Bank Information Center, an NGO watchdog over the IMF, the World Bank and the regional development banks.

[4] Antonio Estache, "PPI Partnerships vs. PPI Divorces in Least Developed Countries," The World Bank, and ECARES, Universite Libre de Bruxelles, in *Review of Industrial Organization*, 2006.

[5] IEG, World Bank, "Improving the World Bank's Development Effectiveness: What Does Evaluation Show?", 2005.

[6] IMF, "Public Private Partnerships," March 2004. See Executive Summary.