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**PUBLIC-PRIVATE PARTNERSHIPS FOR SERVICE
DELIVERY: WATER AND SANITATION**

PUBLIC-PRIVATE PARTNERSHIPS (PPPs) FOR SERVICE DELIVERY: WATER SUPPLY AND SANITATION

1. Introduction

1.1 Context and Objectives

1. The manner in which provision of basic infrastructure services is dispensed to meet the demands of the public in general will determine the level of economic activity and, in turn, the overall development of a nation. Most sectors cannot function without electricity, telecommunications, and water; therefore, the adequate and effective provision of these services is central to the growth of an economy and the improvement of public welfare. Infrastructure can be seen as the “wheels of economic activity”¹. Thus, developing infrastructure capacity:

“...can deliver major benefits in economic growth, poverty alleviation, and environmental sustainability--but only when it provides services that respond to demand and does so effectively”. (World Bank, 1994, p. 2)

2. Adequate and effective delivery of public services is also central to achieving the Millennium Development Goals (MDGs). Thus, to ensure sustainable development and guarantee a progressive stride towards achieving many of the goals, in particular, improved health and environmental sustainability, widespread access to water, sanitation and other basic public services are proving to be fundamental preconditions².

3. African governments, like most countries in the developing world, face a daunting task in their attempts to provide effective and equitable public services. When looking at the various surveys available, it becomes quite apparent that basic infrastructure in Sub-Saharan Africa (SSA) lags well behind the rest of the world. Poor quality and lack of widespread availability of services like electricity, water and sanitation, and roads are quite common in some SSA countries, and the average for the region is well below others (*see Table 1*). According to the UNDP’s *Human Development Report*, in 2000, the population’s access to safe water in SSA was only 44%, while the average for countries in East Asia and the Pacific (EAP) stood at 67% and in Latin America and the Caribbean was reported to be 65%³. Furthermore, it is amply clear that the challenge of providing basic water and sanitation persists as not much improvement has been made since the early 1990s. Even where water supply systems and sanitation facilities have been installed, they are still often inadequate, unsafe and in disrepair.

¹ World Bank, 1994. *World Development Report*.

² OECD, 2004. “A Global Plan to Achieve the MDGs”. Draft report for discussion at the OECD-DAC High-level Consultation on the UN Millennium Project, 8-9 July.

³ UNDP, 2003. *Human Development Report*.

4. According to stark data provided by UNICEF and WHO, only 62% of the African population has access to improved water supply, with the worst conditions existing for rural populations who only have 47% coverage. Sanitation coverage is also very low compared to other regions, with only 60% of the population with improved sanitation⁴. Again, the situation is poorer for rural populations, with only 45% coverage. Private connections for water in urban SSA remain very low, with only 2-7 connections per 100 people⁵.

Table 1: Populations' access to water and sanitation services in Sub-Saharan Africa compared with other regions

Regions	Population with sustainable access to improved water source (%)				Urban population with access to improved sanitation (%)	
	Rural		Urban		1990	2000
	1990	2000	1990	2000		
Arab States	...	76	...	94	...	96
East Asia and the Pacific	...	67	...	93	...	73
Latin America and the Caribbean	...	65	...	94	...	86
South Asia	66	81	90	95	52	68
Sub-Saharan Africa	39	44	86	83	74	74

Source: UNDP, 2003. Human Development Report, p. 227.

5. In general, the widespread dominance of public enterprises in the provision of public goods in Africa has been repeatedly blamed for the terrible state of these services. The monopolistic nature of the market structure has therefore lead to the absence of competition, resulting in inefficiency and the lack of pricing mechanisms to determine consumer demand and to reflect service costs. Accordingly these “below-cost prices” have contributed to the low levels of government investment and lack of service expansion.

6. The MDGs put particular emphasis on the importance of improved coverage of water and sanitation supply and have a global target to reduce “by half the proportion of people without sustainable access to safe drinking water and basic sanitation by the year 2015”. For many countries in Africa, achieving the targets will entail various challenges and pose a continuous up-hill struggle. As a result of rapid growth in urbanization with increased rural–urban migration and informal settlements, population growth, and growing poverty, African governments will need to be able to provide access to safe water to 210 million and sanitation to 211 million additional urban residents over the next 15 years⁶. It is also estimated that almost 300 million Africans will be living in slums and informal settlements by the year 2020⁷. This implies that investments in water supply and sanitation would require injections

⁴ UNICEF /WHO, 2000. *Global Water Supply and Sanitation Assessment Report*.

⁵ Water Utility Partnership, 2003. “Better Water and Sanitation for the Urban Poor: Good Practice from Sub-Saharan Africa”, July.

⁶ UNICEF /WHO, 2000. *Global Water Supply and Sanitation Assessment Report*, p. 44.

⁷ Water Utility Partnership, 2003. “Better Water and Sanitation for the Urban Poor: Good Practice from Sub-Saharan Africa”, July.

of large amounts of capital⁸. Similarly with regards to the MDGs, UNICEF and WHO assert that if governments are to maintain current levels of water supply and sanitation provision, under the projected growth scenario, access to these services should increase by 10 million a year for a 10-year period.

7. Against this backdrop, governments have been under continuous pressure to consider alternative ways of infrastructure provision. The past few years, therefore, have witnessed an upsurge in the commercialization of public services provision through building partnerships with the private sector. In general, the rationale behind involving the private sector is to avoid the potential political pitfalls of full privatization, utilize new technology and expertise, share risks and gain access to increased capital to improve operating efficiency, and, ultimately, make the sector more responsive to consumer needs. Progressively, government, private sector and civil society organization (CSO) roles have become more clearly defined and public-private partnership (PPP) schemes have become more popular.

8. Thus, this paper will provide guidelines for exploring the potential of private sector participation in service delivery, focused on the provision of water supply and sanitation services. Section 1 outlines the challenges, opportunities, and options for public-private partnerships (PPPs). In Section 2, three case studies on PPPs in Africa highlight the processes that each government undertook in order to initiate, develop and support service expansion and the challenges faced. In Section 3, the report addresses issues pertaining to the regulatory and policy frameworks in which water supply and sanitation services are delivered and addresses ways to ensure financial sustainability and for tariffs and subsidies to accommodate poor consumers. The last section provides main conclusions and policy recommendations for the way forward.

1.2 Background on PPPs

9. PPPs are defined as:

“the combination of a public need with private capability and resources to create a market opportunity through which the public need is met and a profit is made.”⁹

10. The contractual arrangements range from service contracts, management contracts, leases, operations and maintenance concessions, capital investments to divestiture and asset ownership, through which variable levels of partnership are established to improve levels of efficiency, effectiveness, responsiveness and adequacy of public services. These collaborations can be with small-scale independent providers, nongovernmental organizations (NGOs) or the private sector. In most cases, the arrangements are service or sector specific. While one option might be apt for power provision, for example, other partnerships would be more appropriate for another sector. Table 2 illustrates the different PPP options for water and sanitation provision.

⁸ World Bank, 2004. “The World Bank Group’s Programme for Water Supply and Sanitation”, Water Supply and Sanitation Sector Board.

⁹ Heilman, J. and G. Johnston, 1992. *The Politics of Economics of Privatisation*, University of Alabama Press, p. 197.

Table 2: Allocation of key responsibilities under the various options for private sector participation

Option	Asset Ownership	Operations and Maintenance	Capital Investment	Commercial Risk	Duration
Service Contract	Public	Public and Private	Public	Public	1-2 years
Management Contract	Public	Private	Public	Public	3-5 years
Lease	Public	Private	Public	Shared	8-15 years
Concession	Public	Private	Private	Private	25-30 years
Build Operate Own Contracts (BOO)	Private and public	Private	Private	Private	20-30 years
Divesture	Private or private and public	Private	Private	Private	Indefinite (may be limited by license)

Source: World Bank, 1997. "Toolkits for Private Participation in Water and Sanitation".

11. According to a recent study from the South African Institute for International Affairs, in cases where partnerships have been able to best deliver desired outcomes, "...thorough planning, good communication, strong commitment from both parties and effective monitoring, regulation and enforcement by the government" was present¹⁰. Where there has been a lack of thorough planning, PPPs in the water sector have not had much of the desired results in Africa. According to Ogunbiyi (2004), several schemes have had a "negative impact on the poorest of the poor by restricting their access to clean supplies due to high tariffs".¹¹ The same author further asserts that PPP schemes involving management contracts, where the combination of public finance and private management of technical and commercial operations has been applied, could be the best type of contractual arrangement for water supply and sanitation in Africa.

2. Case studies

2.1 Urban water sector reform in Senegal

12. In 1995, only 54% of Senegal's urban population had access to safe water. There was an urgent need for reform. The Government recognized that greater managerial autonomy was needed to ensure both improved productivity and operational efficiency, and that some

¹⁰ Peter Farlam, 2005. "Working Together: Assessing Public-Private Partnerships in Africa", Nepad Policy Focus Series, the South African Institute of International Affairs (SAIIA). The report draws lessons from eight case studies of PPP arrangements for the provision of roads, ports, prisons, telecommunications, water and electricity from Uganda, South Africa, Mozambique, and Tanzania.

¹¹ Ogunbiyi, Constantine, 2004. "PPPs: Fad or good for SADC?", *SADC PPP Pathway*, SADC Banking Association PPP Capacity Building Programme, Newsletter No. 1, July.

sector investment would have to come from non-state sources. All these requirements pointed towards involving the private sector, while the Government's main interest was to maintain control over the assets. With the creation of an enabling government framework for private investment, increased efficiency and improved service delivery were among the highest priorities.

13. In 1994, the Government had created a steering committee of the ministers of each government agency concerned with water supply and sanitation. At a workshop in 1994, the committee concluded that a state asset-holding company should be formed, which would retain the assets and the right to extract water, and that an operating company should be created to produce and distribute water. It was decided that a professional operator would own at least 51% of the capital; the other 49%, being owned by a mixture of Senegalese investors, former workers of Société Nationale d'Exploitation des Eaux du Sénégal (SONEES) and the State.

14. The committee also recommended that tariffs be structured so that cost recovery, and therefore financial sustainability, was ensured and that the reform had a "social dimension". The technical subcommittee drew up a list of functions for the state asset-holding company and the operating company. This included recommendations that remuneration of the private operator be linked to efficiency of the network (measured by reduced water that was unaccounted for and increased billing and collection efficiency), and that there be some contribution by the operator to capital expenditures. The committee came to the conclusion that in light of the needs and constraints of the sector, an affermage contract was the preferred option.

15. One of the major objectives of the institutional reform of the urban water sector was to establish long-term financial viability through increased efficiency and effectiveness. This was necessary for a number of reasons: to alleviate the burden on the State of having to provide direct and indirect subsidies to the sector and thus free up resources to be used elsewhere; to make it possible for the sector to generate enough resources to finance part of the future capital expenditures; to bring the indebtedness to a level compatible with the sector's capacity to service it; and, finally, to attract private investors to finance an increasing part of future investment needs.

16. The financial policy of the sector was defined on the following basis:

- The only support to come from the State would be in the form of on-lending of donor's financing; there would be no on-going operating subsidies;
- There would be no excessive increases in water tariffs; increases would be introduced gradually, set initially at a constant rate but adjusted upwards or downwards according to progress in reaching financial equilibrium;
- The social tariff (the subsidized first block of the tariff for consumption under 10-cubic meters per month) would be retained in order to ensure affordability.

17. A 10-year affermage contract governing operations of the system was signed between three parties: the Republic of Senegal, represented by the Ministère de l'Hydraulique, SONEES, and a private operating company formed specially for this purpose, Sénégalaise des Eaux (SDE). SDE also signed a performance contract with SONEES for the same duration. The contract outlined SONEES' responsibilities with respect to making infrastructure available to the operator and prompt execution of work relating to system investment.

18. Related to adjustments to tariffs in accordance with the Contract Plan, SDE's main obligations included:

- Using the productive capacity of the infrastructure in an optimal manner;
- Maintaining and repairing infrastructure at its own cost;
- Renewing a minimum of 14,000 meters and 6,000 connections per year; and
- Meeting World Health Organization standards for water quality.

Main outcomes

More water to more people

19. Since the reform process began, the volume of water produced for use in the urban water sector has risen each year, from 96.3 million cubic meters in 1997, to 114.6 cubic meters in 2002, a 19% increase. Approximately 74% of this water is used in Dakar.

Better financial health

20. The Government agreed to implement, through time-bound action plans, corrective measures to reduce the high water usage of public sector clients, budget annual public agency consumption, and pay government water bills within two months of issuance. Looking at the cash flow can also assess the financial health of the sector. The cash balance of SONEES has been positive since 1996, when major sector investment started, as predicted by the financial model.

Changes in tariff

21. Senegal uses an "increasing block tariff (IBT)" structure, comprising a subsidized "social tariff" for levels of consumption below 20-cubic meters in a 60-day period, a regular tariff for consumption over this, and a "dissuasive tariff" for consumption above 100-cubic meters per 60 days. The tariff consists of the rate of charges for operation and maintenance of the system a component to cover costs of SONEES and ONAS (the state organization responsible for sanitation) and other components.

Service to the poor

22. The subsidies targeted at the poor in the water sector are in three forms:
- Subsidized connections through a social programme, financed by government funds (some of which have been provided by the World Bank);
 - Construction of stand posts in areas where there are people without private connections, financed by the Government with funds from the World Bank, and supply of water to these stand posts at low rates (the stand posts are managed by private operators recruited by SDE in consultation with the local community);
 - Subsidies for low levels of consumption, financed through a cross-subsidy between customer categories and delivered through an increasing block tariff, with a social tariff for household consumption under 10-cubic meters per month.

Key factors for successful implementation

23. The choice of an affermage contract, which was enhanced by the addition of strong financial incentives to reduce leakage and improve billing and collection efficiency, was innovative. It addressed the needs of the Government and kept the assets in their hands, and operations and maintenance functions were clearly defined. Furthermore, the nature of the contract fostered a partnership between the Government and the private operator.

24. Strong political will and good leadership from the relevant ministry was present throughout the reform process and there was little interference from the part of the Government. It was a well-designed process that allowed for flexibility and innovation when necessary.

Lessons learnt

- There can be no sustainable reform without political commitment, stakeholder ownership and strong internal leadership;
- Sector investment must be planned in parallel or in synergy with the utility reform and should be financed by external support agencies;
- Governments must remain committed to sector investment and implement it in a timely manner, as delays in rehabilitation and extension work will jeopardize improvement in service;
- Establishing a climate of trust and cooperation among the key actors will make reform sustainable and robust. This can be done by undertaking capacity-building activities;
- The state asset-holding company must be institutionally autonomous, professionally competent and have clear financial targets;

- Issues of employment and job security for staff must be addressed up front;
- The form of any contract with the private sector must be closely based on, and entirely consistent, with the development aims of the sector.

2.2 Expansion of water supply in rural areas in Ghana

25. The Ghana Water and Sewerage Corporation, a state company under the Ministry of Works and Housing, was responsible for both urban and rural water supply and sewerage for a population of some 15 million people. Most of the corporation's staff and resources, however, were devoted to the urban sector, with just two or three staff working in rural services. As a result, donors and NGOs who wanted to work in rural water and sanitation found themselves setting up large regional projects that were almost independent from the Government, both in their policies and in their implementation.

26. By the mid-1980s, the Government realized that the water situation was unsustainable and increased the water tariff tenfold. A stakeholder group was established to adopt best practices associated with the International Drinking Water Supply and Sanitation Decade (1981-1990). The result was a draft sector strategy, which was discussed and refined with line ministries, local government, and private sector. Once the national policy for rural water supply, sanitation and hygiene education was finalized, it was implemented as a pilot project in the Volta region, supported by the UNDP and the Dutch Government. It was then scaled up as the First Community Water and Sanitation Project (CWAP-1), a \$20 million World Bank-supported programme. The Community Water and Sanitation Agency (CWSA) was created in stages. First, the functions related to rural community water supply were placed in a separate division, facilitating better monitoring of donors' grants. Later in 1998, the division was made into an independent agency, whose main tasks were coordination and facilitation (not implementation) of community-managed water supplies.

27. At the same time CWSA was created, the Government devolved certain responsibilities from the national level to districts and communities. The district assemblies became responsible for processing and prioritizing community applications for water supply, awarding contracts for hand-dug wells and latrine construction, and running a latrine subsidy programme. In order to be eligible for assistance, communities had to establish gender-balanced water and sanitation committees, complete plans detailing how they would manage their system, contribute 5% of capital costs in cash, and pay all operational and maintenance costs. The final element of the strategy was an unprecedented private sector provision of goods and services, covering borehole drilling, operations and maintenance, latrine construction and community mobilization.

28. By 2000 the reforms were complete and CWSA had settled into its role of helping the district assemblies implement a national community water and sanitation programme. CWSA formulates strategies, standards and guidelines for the sector, coordinates the work of NGOs and donors, and encourages private sector participation in water and sanitation activities. The communities have primary responsibilities for managing their water and sanitation services, while small-scale private sector firms take care of repairs and spare parts.

29. The national Government of Ghana played a crucial role in developing policy but is not involved in implementation. The Ministry of Works and Housing (the parent ministry of CSWA) sets the overall policy for the sector, while the Ministry of Local Government and Rural Development supports district assemblies and tries to mediate between district assemblies and line ministries. The Ministry of Finance does not yet accord water and sanitation sufficient priority, as indicated by the low percentage of funds allocated in the Poverty Reduction Strategy Paper (PRSP).

Main outcomes

30. Coverage in rural water and sanitation is now being extended at a rate of 200,000 people (over 1% of the population) per year and accelerating. Good progress has been made: CSWA is fully established and functioning, with the active support of several bilateral and multilateral agencies. Attaining the MDG of 68% of rural water coverage in 2015 looks now feasible, as the percentage of coverage of rural water was 30% in 1980, 35% in 1990, and increased to 41% in 2000.

31. In terms of cost recovery, the Ghanaian case is typical of poor countries where communities and local government must pay 5% of capital costs. Of the balance, 90% comes from the largely donor-funded CSWA budget. In practice, however, this policy is flexible: poor people are often identified at community level and exempted from paying, as a form of a community-managed cross-subsidy.

Key factors for successful implementation

32. Strong political leadership was evident. The national mood in Ghana in the 1980s was one of general support for reform and innovation. Rural water had been neglected and the sector as a whole was stuck in a downward spiral of inadequate cost recovery and poor service. Politicians made a decision to reverse that trend by increasing tariffs, seeking grants and loans, and separating the urban from the rural sector. Successive governments from different parties have all prioritized water and sanitation as important contributors to economic and social development; therefore, reform of the sector has not been used as a political issue.

33. Clear legislation was critical, specifically the acts of parliament from 1998 that defined the policies and roles of most sector agencies.

34. CWSA demonstrated strong commitment and leadership in supporting devolution of decision-making to local governments to implement their mandate.

Bottlenecks to smooth implementation

35. The role of the World Bank in making loans available and supporting sector reforms and decentralization has been crucial. However, certain players regarded the imposition of certain conditionalities to access grants (e.g. fixed percentage contributions to capital costs, minimum proportion of people demanding latrines in a community, and private sector involvement) as too rigid.

36. Ghanaian NGOs were initially helpful and constructive in their contributions to the policy debate. However, they later demonstrated some antagonism towards private sector involvement, apparently backed by international anti-globalization movements.

Lessons learnt

37. Demand-driven approaches work since communities are capable of making decisions, maintaining services, and making their contributions to capital costs, operations and maintenance. A strong and well-structured information campaign is necessary to empower communities to make an informed choice.

38. Support to communities is needed, particularly in the form of financial management training, in order for the elected boards to continue overseeing facilities on behalf of communities. The CWSA and the districts should provide guidance on such things as tariff setting, service upgrading to house connections, additional point source facilities -- tasks in which private sector involvement is fundamental.

2.3 Expansion of sanitation services in rural areas in Lesotho

39. With a population of only 2 million people, 90% of which live in rural areas, Lesotho is one of the smallest countries in Africa. In the 1980s, Lesotho faced serious water and sanitation problems, with a high incidence of related disease. The water supply challenge had been addressed in rural areas, but work on sanitation had barely begun. Increasing population density led to high demands for latrines, and professionals working in the already developed water sector identified the need for reform. After a series of technical studies by international organizations, in the early 1980s, the Government initiated a two-part national sanitation improvement programme covering the urban and rural sectors.

40. From the beginning, the sanitation programme was carried out by government organizations, specifically by the Urban and Rural Sanitation Improvement Teams, which acted within the Government's regular programme of public sector development. The two teams were designed in a sustainable manner, gradually phasing out donor support, relying on local private sector organizations. In both urban and rural work, pilot projects were launched before scaling up to the full national programme.

41. The rural sanitation programme was based on the following principles:

- Proper institutional arrangements were ensured at national and district levels;
- Communities were involved in planning and management;
- The Government's efforts on education and promotion were prioritized;
- Full cost recovery was required from users and no government subsidies were applied;
- Small-scale private sector firms prioritized the construction of latrines and training for latrine builders.

42. The Lesotho programme was also unique in that it adopted from the very beginning the ventilated improved pit latrine. Rather than spending time in testing a wide range of different technologies, it concentrated more on broader social issues, such as community participation, health, hygiene promotion and access to finance.

43. The Government put most of its own efforts in promoting sanitation and training sanitation professionals. The media promoted latrine use through printed matter, radio, slide presentations and videos. The use of key messages (improved health and improved status) in the promotion programme appears to have increased impact. The private sector, in the form of small contractors who build latrines, has been involved in the programme since the very beginning. Trained by the rural sanitation improvement teams, contractors make a living building unsubsidized latrines for households -- a benchmark of sustainability towards which many sanitation programmes strive.

Main outcomes

44. Tens of thousands of new ventilated improvement pit latrines have been built in rural areas, and a similar number of pit latrines have been upgraded. Sanitation coverage has risen from 15% to more than 50% in rural areas in 20 years. The rural sanitation programme remains active within the Ministry of Health. Lesotho is reaping the benefits of its long engagement in sanitation development, and is on track to achieve the MDG for sanitation, as it has already achieved the one for water.

Key factors for successful implementation

45. Even though the original impetus came from sector professionals and external agencies, which stressed the importance of mainstreaming their work into government structures, politicians played a leadership role in the promotion and allocation of significant funds in the government budget.

46. An evolving legal framework gave legitimacy to the sanitation programme's position as a regular part of the public sector's work. It became more developed as the sanitation programme progressed from the pilot stage to a nationwide operation, notably through the National Rural Sanitation Programme in 1987.

47. Decentralization to local government took place from the very beginning of the programme with district sanitation teams taking the main role in its implementation, supported by the Rural Sanitation Improvement Team.

48. Active support from donors and close collaboration with the Government in starting the programme helped to secure adequate funds.

Bottlenecks to smooth implementation

49. NGOs and the media did not have significant roles, but can add value for both promotion and training activities and should be reinforced. Moreover, there were technical and financial problems in emptying latrine pits.

Lessons Learnt

50. Lesotho is one of the few countries that has put sound principles for sanitation into practice at a national scale with a programme dating back 20 years. It is a permanent and budgeted part of the Government's work independent of external support agencies.

Households employ private sector latrine builders, while the Government concentrates on promoting and training. The Lesotho programme has been successful in addressing sanitation holistically at the national level both in rural and urban areas. Rural sanitation coverage has increased significantly and should easily exceed the sanitation MDG. The sanitation coverage has increased from 10% to 50% in 20 years, which has led to a significant reduction of sanitation-related diseases. The main problems ahead are targeting the poorest people and solving the problem of emptying filled latrine pits.

3. Promoting an enabling environment: policy and regulatory frameworks

51. PPPs in water supply and sanitation services imply the participation of a wide range of main actors and additional stakeholders (consumers, regulators, NGOs, unions, environmental groups, and independent providers etc.), which are involved as contracting parties. Because of the complexity and quality of relationships among the contracting parties, successful PPPs require creating an enabling environment in which key roles and responsibilities are institutionally separated, clearly defined, and allocated among all actors. Appropriate regulatory frameworks and institutions at national level to oversee water and sanitation services provision are essential to operationalize national policies, protect property rights, and generate equitable returns on private investments through efficient tariff structures and levels, service standards, and expansion targets. When responsibility is delegated to local bodies for provision of services, an appropriate distribution of roles between national and local authorities is essential and should be clearly defined. Also, partnering with private sector will entail a stable and predictable regulatory regime that promotes essential values, such as independence in legislation, accountability, transparency and professionalism in the process.

3.1. Providing conducive regulatory framework

52. The effectiveness of regulatory frameworks is a critical factor in any arrangement for PPPs. Government capacity to set up appropriate regulatory systems and consequently make appropriate decisions about private sector participation can determine which partnership options are most suitable for the country. Also the regulatory system selected by government can considerably affect the business environment, and, as a result, determine the competitiveness and ability of private operators to efficiently conduct business.

53. Although liberalization policies for improving business environments have made significant progress in many African countries (i.e. reduction of State monopolies and intervention in pricing and distribution processes), private small and medium enterprises (SMEs) continue to face a series of obstacles, such as corruption, poor tax regulation and

high tax rates, and inadequate infrastructure support. In some instances, local private operators also face increased competition from multinational companies and still consider taxation levels higher relative to profits.

54. In designing the broad regulatory framework that will support a conducive environment for private sector participation, governments consider a wide range of specific laws, constitutional rules, and measures from central and local bodies. These include:

- Constitutional and legislative separation of responsibilities for water and sanitation supply services among national, regional and local governments;
- General legislation that regulates different types of PPP arrangements with private sector, including foreign companies;
- Specific measures that allow close oversight of water and sanitation management, general health, and environmental protection through by applying service standards and penalties for default, etc.;
- Equitable rules to ensure fair competition in subcontracting and procurement procedures, and tax liability and systems;
- Social policy measures aimed at protecting the rights of vulnerable groups of consumers, such as tariff adjustment rules, government subsidy policies, disconnection procedures for delayed or unpaid water bills, and dispute resolution mechanisms.

55. Although options to develop robust regulatory frameworks and strong institutions to implement the above measures may vary from one country to another, experiences suggest that the regulatory system should provide enough guidelines for setting out the key parameters, including: clear and independent principles in legislation to ensure effectiveness in the monitoring and implementation process; accountability of regulators by establishing a credible and timely scrutiny of regulatory decisions; transparency by placing, for example, contract awards and regulatory instruments in the public domain; and professionalism and technical expertise in concluding partnership agreements, especially when international investment is involved.

3.2. Enhancing the performance of service providers

56. Efficient and professional management of the water utility is vital in achieving financial sustainability, customer responsiveness and optimal use of resources. Most public utilities owned and run by government entities in Africa have been singularly unsuccessful in providing reliable water supply and sanitation services. Government monopoly over service provision has resulted in lack of accountability and community ownership in the planning, implementation and management of water supply projects; poor management and sustainability; low quality of services; and limited service alternatives. Where successful reforms have been undertaken, the government has sought professional management from private operators, NGOs and water consumer associations, and other stakeholders, which operate under a delegated management mechanism.

57. However, there are often fears that private sector involvement in service provision will result in higher tariffs, private providers will favor only high-income consumers, and major social goals will not be met. The reality is that the private sector, operating in the context of a better regulatory environment and greater autonomy of service provider authorities and utilities, is more effective in servicing low-income consumers.

58. Major policy reforms for enhancing the performance of service providers should emphasize:

- Defining a clear legal framework that reduces the risks of regulatory uncertainty for private investors, thereby leading to optimal project costs and lower tariffs;
- Adopting transparent procurement rules and legislation that allow fair competition, and removing exclusivity rights in order to allow SMEs to compete with the main operators;
- Establishing an autonomous statutory governing body applying commercial management techniques and expertise, clear financial and operation targets and accounting systems, greater management autonomy, and a demand-driven orientation;
- Promoting government-owned enterprises and public limited companies (e.g.. share companies owned by local, national or regional government authorities);
- Designing performance incentives, such as ensuring minimal government oversight in day-to-day management of water utilities.

59. The implementation by governments of sound capacity-building programmes, especially at local level, also remains a key policy factor to promote a demand-responsive approach aimed at enhancing the performance of services providers and community outreach. Capacity-building measures that enable all stakeholders to function and build successful partnerships should include:

- Carrying out targeted training to communities, private sector, NGOs, and local/national governments in order to familiarize them with new innovative tools and methodologies and especially encourage training-by-doing at all levels;
- Developing training programmes that are time-bound, output- and impact-oriented, with performance monitoring and targets to measure capacity and achieve goals;
- Providing opportunities for local stakeholders, including private sector, local governments, and NGOs, to participate in workshops, conferences, and forums to assist in building their own capacities.

3.3. Promoting good corporate governance practices

60. In most African countries, there is a need to define clear options and undertake necessary reforms vis-à-vis PPPs for the provision of basic services. Political commitment

and long-term engagement from government, supported by an appropriate legal framework, is essential to create favorable conditions for PPPs. Governments should therefore clearly articulate and promote a series of policy measures, including:

- Institutional reforms aimed at decentralizing responsibility for service provision to local governments and community-based entities, and promoting cross-sectoral linkages, such as education, health and sanitation, rural development, and energy;
- Improved communication, transparency and advocacy channels based on a demand- responsive approach that allows communities to make informed choices about their participation, service standards and levels, and service delivery mechanisms;
- Strengthened regulatory capacity to oversee service delivery, the setting of mutually agreed tariffs, monitoring environmental quality, and ensuring ownership and appropriate management of water resources and assets;
- Clearly defined roles for key stakeholders where user communities own and manage their facilities; governments facilitate the process through encouraging stakeholder participation and setting policies and standards; private sector and NGOs provide consumer goods and services; and CSOs provide policy guidelines and implementation support;
- Capacity-building initiatives and opportunities for service provider entities in public, private enterprises and community-based organizations.

3.4. Ensuring financial sustainability

61. Financial viability of service providers is essential to ensure improved sustainable water supply and sanitation and to meet a growing demand for service in Africa. The expansion of water services has been mainly hindered by insufficient resource allocation from the public sector and a weak capacity to mobilize resources from stakeholders, especially the private sector. Operators in both sectors must generate sufficient revenues from user charges, transfers and subsidies to cover the operation and maintenance costs of water utilities as well as related investment costs. Key measures for this include:

- An adequate tariff policy that promotes effective cost recovery of capital resources and preserves the social objectives of providing equity of access and free basic water supply for poorer consumer groups;
- Effective recovery of operation and maintenance costs from users and commitment from the latter – based on their willingness – to make upfront contributions as a gauge of the water sustainability and the capacity of the community to administer funds and tariffs;

- Enhanced financing schemes -- for both public and private actors -- that promote financial risk mitigation and guarantee instruments, explore financial intermediation options in order to catalyze domestic resource mobilization, and encourage mobilization of both domestic and foreign investments for creation of PPP enterprises.

3.5. Promoting greater participation of the private sector and other stakeholders

62. Water supply and sanitation requires a participatory approach that aims at strengthening collaboration among the three key stakeholders, namely: governments (national government, local governments and municipalities), private sector (national and transnational businesses, formal and informal enterprises), and CSOs (communities, NGOs, research centres and professional associations). PPPs are seen in this context as an effective means to establish cooperation between public and private actors and to bundle their financial resources, know-how and expertise to meet the challenges facing service provision. While this approach promises several benefits, experience shows that involving private actors in the provision of basic services needs to be carefully planned and monitored if the benefits of such a model are to be fully realized and the numerous potential drawbacks avoided.

63. One of the most challenging aspects facing PPPs remains the need to reconcile two competing aspects: governments need to find ways to fulfill their socioeconomic responsibilities for ensuring services to all citizens, on one hand, while striving to preserve the interests of private investors on the other. Also, an important factor is that private companies operating in the sector need to be convinced that investing in any particular water supply project offers more attractive returns than other available investment opportunities in the country. In order to support the principles of good corporate governance and fulfill their responsibilities, private operators and other stakeholders should consider the following policy actions:

- Extend services to vulnerable populations in urban and rural areas;
- Create the right conditions and mechanisms for multiple accountability, and efficiency of service providers (public or private, international or local);
- Develop flexible service options and standards in order to meet the needs of consumers;
- Promote private sector participation as a means for increasing investment in service provider infrastructure as well as for enhancing the efficiency and performance of service delivery;
- Ensure that options for private participation are based on realistic investment and service targets with appropriate share of risks and responsibilities between public and private groups of partners;
- Promote dialogue with target consumers to ensure that contracts and programmes address their specific needs and ensure that channels for communication are available;

- Encourage service providers, and SMEs in particular, to engage in business by providing the right incentives, such as tax exoneration systems, equitable profit levels, adequate access to information, flexible procurement systems for goods and spare parts, subsidy packages, etc.

64. However, because of many difficulties related to the cost-recovery levels and priority given to meeting the social objectives, PPPs in most African countries will continue to require public funding -- in the form of financial allocation or direct subsidies -- to augment the private sources of funds in all types of partnerships.

4. Main conclusions and policy recommendations

4.1 Conclusions

65. In promoting successful partnership among all stakeholders for the provision of water and sanitation services, in recent years, most governments in Africa have undertaken policy reforms that emphasize the need to create an enabling environment in which key roles and responsibilities are clearly defined and allocated among all actors in a stable and predictable regulatory regime. Among others:

- National government in many countries sets the policy and defines the framework for appropriate options for partnership, in accordance with its socioeconomic objectives and the interests of all citizens;
- Local governments and communities very often remain responsible for ensuring that services are efficiently delivered and act as the employer of private sector providers;
- Private sector operators remain the core group of professional actors responsible for carrying out service provision;
- The regulators, which should be independent and trusted institutions, monitor the performance of all parties, oversee the award and execution of partnership contracts, and balance the interests of employers, service providers and consumers;
- Where adequate PPPs have been established, the consumers are the legitimate beneficiaries of services provided and remain solely responsible negotiating acceptable tariffs levels and conditions with the service provider.

66. Despite substantial progress made in some countries, the participation of private sector continues to face serious difficulties in Sub Saharan Africa. Also the coverage of water supply and sanitation remains on average very low in the Region, particularly for rural population.

4.2 Recommendations

67. Making water and sanitation services accessible should not only be considered as one target of the MDGs, but also as a core responsibility of both national and local governments to satisfy the legitimate rights of all citizens. In this regard, governments are increasingly seeking professional expertise through various forms of PPPs, which are expected to significantly contribute to achieving national objectives in affordable ways. However, successful PPPs require that all partners and stakeholders promote sustainable development through the formulation and implementation of specific policy measures, including the below.

Political commitment

68. Strong political commitment from government to promote water supply and sanitation, sustained consistently over a long time period, is critically important to the success of national sector programmes.

Regulatory and legal framework

69. Government should formulate clear legislation and regulatory systems that will give guidance and confidence to all partners, especially to private operators working in the sector, to determine their own policies and plans and to protect their financial interests and property rights.

Institutional reforms

70. Devolution of authority over water supply services and operational responsibilities from national to local governments and communities should be encouraged as an efficient means to improve the service standards and accountability. Local governments and communities need professional support from strong PPPs in order to implement their water supply programmes effectively.

Contracting out with private sector

71. Qualified local, national and regional enterprises should be given the opportunity to compete for PPPs. Governments should consider involving small-scale providers, especially community-based organizations and private local SMEs, which hold a comparative advantage and can play a key role in reaching unserved groups of households in both rural and urban areas.

72. In partnering with private sector operators, governments should select appropriate contractual arrangements that are compatible with their socioeconomic constraints and objectives and address the specific needs of poor consumers. PPP contracts should clearly define pro-poor arrangements through establishing adequate tariff systems and policies for service charges and make them affordable and equitable for low-income residents.

73. When selected as options in the context of a higher-autonomy partnership, lease agreements, affermage contracts, and concessions should be used as efficient contract arrangements to improve responsiveness, foster innovation, and, in the case of concessions, to attract private investment.

Tariffs and subsidies

74. Governments should ensure that tariff levels and structures benefit all consumers, including low-income ones, by selecting appropriate pricing systems, such as the increasing block tariff and uniform volumetric charge.

75. When governments decide to provide full or partial subsidies, this should be restricted to providing one-time assistance for household connections and stand posts, especially in poor areas, so that consumption will remain equitable for all consumer categories.

76. Government should provide direct subsidies when its funds are certain to be available for this purpose and ensure that subsidy mechanisms remain targeted and transparent.