PRIVATISATION
Fixing Africa's leaky pipes

Successful projects rely on watertight contracts

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Public-private partnerships have not proved to be a silver-bullet solution for the continent's infrastructure needs. The debate continues on how investment can meet the shortfall while generating a profit

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The numbers do not make comfortable reading. International financial institutions estimate that Africa needs $93bn per year over the next decade to meet its infrastructure needs. The continent already invests $45bn annually and efficiency gains could generate a further $17bn in funds. This leaves a gap of $31bn, so where will the money come from?

Since the 1990s, the debate over private-sector involvement has raged. Critics argue that it is just another form of Western exploitation of developing countries. Supporters say the private sector brings needed expertise and drives efficiency. In either case, in the face of such immense requirements, it seems the need for 'all hands on deck' is stronger than ever.

$93bn

The annual amount needed to meet Africa's infrastructure requirements

More than other sectors, power and water have suffered from chronic underinvestment, poor maintenance and crippling inefficiencies. Distribution losses, underpricing of services, uncollected revenues and overstaffing are just some of the issues in a litany of negative practices. Some 40% of the $93bn infrastructure price tag is required to address the power crisis in Africa. Meeting the Millennium Development Goals in water supply and sanitation will require another 20% of the envelope.

THE PROFIT MOTIVE

Public-private partnerships (PPPs) – which take many forms, from long-term concessions or leases to short management contracts – were promoted in the 1990s as a means to plug the financing gap and reduce project inefficiencies.

There are certainly a wide range of opinions on the subject. But after two decades of experimenting and many studies to assess their impact, the general conclusion is that PPPs do work. Sometimes.

Detractors have long argued that because the private sector needs to make a profit, PPPs would be skewed towards areas of low risk and high returns. This has proved mostly true, even more so in a continent where the political risk profile is still relatively high, despite considerable improvements in macroeconomic stability that have been seen over the last decade.

In a comprehensive study of infrastructure in Africa, the World Bank and Agence Française de Développement found that private investors had invested in mobile telephony, power plants (independent power producers are a notable achievement) and container terminals.

Private operators seldom invest in sanitation or power and water distribution. The private sector has, however, brought considerable improvements in operational performance, including better access, higher quality of service, less water loss and more routine bill collection.

THE RIGHT TO WATER

Considering the economic burden that operational inefficiencies in power and water represent, this is an important contribution. "I don't want to undermine the need for money, it's huge," says Clemencia Torres de Mästle, an advisor at the US-based Public-Private Infrastructure Advisory Facility (PPIAF), an organisation that promotes private-sector participation in emerging markets. "But there is so much that can be done in terms of management, tariffs and red tape," she says.

Critics are unconvinced, particularly when it comes to PPPs in the water sector. Water is a basic necessity and many, including Maude Barlow, co-founder of the Blue Planet Project which works internationally for the right to water, fear that the private sector's need to make a profit would push prices out of reach of the poorest. "I have no problem with water companies providing technology or providing expertise," she explains. "Where we put our foot down is where companies deliver water on a for-profit basis and decide who gets what based on their ability to pay."

Tariffs are one of the most vexing issues in project development

The issue of tariffs is sensitive and one of the most vexing for PPPs. In most countries, water tariffs do not come close to ▶▶▶

▸▸▸ covering costs. The decision is often politically motivated and is compounded by the number of low household incomes. Pricing, however, is an essential tool of financial management. Operators say that they need to be able to increase tariffs to improve their balance sheets. The extent of the hike depends on how far tariffs are from cost recovery and how much of a subsidy the government is prepared to offer.

Problems often arise when politicians make decisions that are contrary to the operators' plans. In Morocco, for instance, Veolia's water and electricity concessions in Rabat and Tangiers momentarily went into the red this year when the government would not allow the company to raise its tariffs, even though bulk water and electricity prices had increased.

The Moroccan example highlights the need for a robust contract which clearly highlights each party's rights and responsibilities. Most unsuccessful PPPs owe their failure to poor contract design. The most high-profile case was that of water utility Dawasa in Dar es Salaam, Tanzania. The government signed a 10-year lease with Biwater in 2002 but cancelled it in 2005. The government claimed that Biwater had failed to meet targets and pay fees. Biwater accused the government of providing inaccurate information during the tendering process, which made its job impossible. Arbitration failed and the venture ended in a lawsuit.

STRONG FRAMEWORKS

Serah Njoroge, programme leader for East and Southern Africa at PPIAF, says that many of these contractual problems are caused by capacity issues. Early PPPs were often negotiated on a per-contract basis, without a formal PPP framework and with national governments out of their depth. The PPIAF is currently working with 15 countries on legal and institutional frameworks, and the organisation helped Guinea-Bissau draft its new PPP law in 2009. "It's about coming to the negotiating table as equal partners," Njoroge says.

International agencies also point out that Africa presents particular challenges for developing infrastructure, such as low population densities, difficult geography and poor regional integration. This goes some way in explaining the relatively high rates of early terminations – 40% in water, 25% in power distribution but almost none in power generation.

40%

The rate of early termination for PPP contracts in the water sector

The conclusion is that no one size fits all. Gérard Payen, chief executive of AquaFed, the International Federation of Private Water Operators, says that all PPP models can deliver results, given the right preparation.

Even where they do not provide a substantial amount of new funding, they can help recover funds lost due to inefficiencies.

But he adds that the debate about public and private misses the point: "I think the divide is more theoretical than practical. For instance, the PPP contract in Accra is run by two public companies. So where do you draw the line?"

Public operators like the Botswana Power Corporation, the Sénégalaise des Eaux and Morocco's Office National de l'Electricité (ONE) have achieved great success at home.

ONE has even exported it abroad and won a rural electrification PPP contract in Senegal. "Private ownership makes no difference; what does is the expertise and the results," Payen says.

The PPIAF's philosophy is to look at PPPs as part of the solution, not a silver bullet. Nothing can substitute for comprehensive institutional and governance reforms. But given the task ahead, it seems unrealistic to imagine a single public or private actor fulfilling Africa's needs. Getting the framework right and helping both sides to work together remains the surest way to deliver results. ●

Improved governance would ensure better and more equal partnerships

A TOLL ROAD TO PROSPERITY

AS WELL AS POWER AND WATER, public-private partnerships (PPPs) have been used to finance transport infrastructure, including toll roads. The latter have had a limited impact on the continent's network so far. Only 8% of African roads meet the minimum traffic threshold of 15,000 vehicles per day to make a concession sustainable. Most of such roads are in South Africa.

One of the most successful toll roads is the 630km N4 road between Pretoria in South Africa and Maputo in Mozambique. Trans African Concessions (TRAC) signed a 30-year contract with the South African National Roads Agency and Mozambique's Administração Nacional de Estradas in 1997 that gives TRAC the responsibility for financing, building, operating and maintaining the road.

West Africa is also adopting this model on smaller sections of roads. Nigeria is working on a concession on the infamous 'go-slow' of the Lekki-Epe axis. Senegal has commissioned its first concession toll road. The 32km stretch will link Dakar and Diamniadio in an attempt to decongest the areas around Dakar. The government granted a 25-year design, build, finance and operate concession to French company Eiffage in 2009. Financing will be provided by Eiffage ($110m), the Senegalese government ($186m), the Agence Française de Développement ($80m) and the African Development Bank ($49m). ●

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