PRIVATE WATER IN AFRICA

Gabon seeks a new international water PPP

Weeks after expropriating Veolia, the government is already looking for a new private water operator. Political risk insurance is a must.

One month on from the sudden expropriation of Veolia from Société d'Energie et d'Eau du Gabon (SEEG), the national water and energy utility in which the French company has a 51% stake, the Gabonese government is already laying the ground for a new operator to succeed the French multinational.

Steve Davy Essono, strategic advisor to the minister of water and energy, told GWI that the government's decision to break relations with Veolia had not put off potential investors. "The sector is profitable, so there are plenty of people knocking on the door who would like to take Veolia's place," he said. "We have up to a year to finalise the termination of Veolia's contract, but it could take less time. In the meantime, we'll prepare the terms of reference for a tender: we want an international operator with expertise."

The response from Veolia, which has denounced the government's decision as "a brutal expropriation" and "a unilateral and illegal contract termination", is predictably one of disbelief. "For the government to now try to attract other foreign investors in this industry is inconceivable," the company told GWI in a statement. "Veolia was, until a few weeks ago, one of the largest foreign employers in Gabon, and after investing half a billion [euros] in the water and electricity sectors, had taken Gabon to some of the highest access rates to water and electricity on the continent."

SEEG's performance is at the heart of the issue. The government accuses SEEG of a "disastrous" track record, with poor service, persistent load sheddings on the power side, and water shortages. "Non-revenue water (NRW), due to physical losses, is more than 40% of SEEG's production," says Essono. "They should have improved NRW to meet the needs of Libreville [the country's capital]." He adds that the 14.91% tariff increase granted to SEEG in 2009-2010 should have raised ample financing to invest in the sector, and that SEEG's investments between 2009 and 2016 fell short by tens of billions of CFA francs.

Veolia, for its part, maintains that over the course of its original 20-year concession (1997-2017), it went over and beyond its contractual obligations, and that any shortcomings in the sector are the responsibility of the Gabonese authorities, who didn't meet their side of the bargain and failed to invest in production facilities. SEEG's investments "enabled it to triple the number of Gabonese connected to the water and electricity networks. Nowadays 90% of Gabonese have electricity and 92% water," the company said. "You can always do better, but you cannot miraculously make water drinkable and bring it to households without building the required infrastructure. This was the government's responsibility."

For independent analyst Mays Mouissi, the truth is somewhere in the middle. "Objectively, Veolia, in terms of quality of service, was really mediocre. No one is going to defend them," he told GWI. "However, it is disingenuous of the government to lay all the blame on Veolia. The state has invested, but not enough to meet the demands of the population."

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Despite its reservations, the government renewed Veolia's contract with SEEG in March 2017 for a further five years, in a contract worth an estimated €350 million. Essono says the government wasn't ready to find a successor at that stage, and the new contract included an additional clause requesting that both sides work together to amend the contract to an "affermage" structure.

It was during these negotiations that the relationship broke down. Essono says that the two sides could not agree on which infrastructure should be handed over from SEEG to Gabon's asset holding company, Société de Patrimoine du Service Public, de l'Eau Potable, de l'Energie et de l'Assainissement, and how much SEEG's lease should be, and that Veolia left the negotiating table.

This is "completely untrue", according to Veolia, adding that Veolia and SEEG representatives had repeatedly chased the ministry to pursue the negotiations, but that their "requests had gone unheeded."

The company has now filed a request for conciliation at the World Bank's International Centre for Settlement of Investment Disputes. If this "cooperative, non-adversarial dispute resolution process" fails, it will file for arbitration.

The Gabonese authorities, meanwhile, are preparing for the joint technical and financial audits that will conclude the contract termination. "Whoever owes to the other will have to pay," Essono says.

Veolia claims that the government owes SEEG CFA41 billion (€62.5 million). "SEEG's annual accounts have been certified for the last 20 years by two of the biggest international audit companies, and are public," the company said. "A [new] international audit will only confirm this." The company also denounced the suspicious timing of allegations of contamination at SEEG sites, just days after the utility was seized. "It is surprising that none of the authorities' relevant bodies such as the Autorité de Régulation du Secteur de l'Eau et de l'Energie [the regulator], the Ministry of Water and Energy, or even the Directorate for the Environment have ever brought these alleged environmental damages at SEEG's sites to light, even though they commissioned audits throughout the concession," the company said.

Until the auditors move in, SEEG will carry on as the public operator. Mouissi says that day-to-day operations are unlikely to be affected by recent events, considering that 90-95% of staff at SEEG are Gabonese. He is more sceptical about the long-term outlook for the sector, however. "The government doesn't have the means to do the investments required, which was the very reason to bring a private investor in the first place," he says.

Essono retorted that it won't just be the state budget financing the sector; water and electricity tariffs will contribute to capex, and the government will develop PPPs. By way of example, he cited the Ntoum 7 project, a 140,000m^3/d water treatment plant in the Estuaire province developed by the Fonds Gabonais d'Investissements Stratégiques (FGIS, Gabonese Fund for Strategic Investments) and private project developer Eranove. The consortium will be responsible for the financing, design, and construction of the plant, and work should start later this year. ■