

Decision Makers' Workshop

**Private Sector Participation
in Water Supply and Sanitation Services
in Sub-Saharan Africa**

**Summary Proceedings and Outline for a Roadmap
Volume 1**

**Dakar, Senegal
February 13-15, 2002**

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FOREWORD

Many governments across Africa have recognized the necessity of structural reform to improve water and sanitation services and to extend coverage in fast-growing urban settlements. As noted at the Kampala Conference on the reform of the water and sanitation sector (February 2001): utility reform in Africa is more a matter of “how” than a matter of “if.” Most reform programs imply partnerships with private sector participation (PSP). Since the late 1980s, the World Bank has been an active advocate of reform and has supported many of the ongoing reform programs.

PSP-based reforms have generally succeeded in extending and improving services and have in all cases, restored a measure of financial viability to systems lacking the necessary resources to support minimum operations and maintenance (O&M). There are also cases where the reform drive either faltered, got sidetracked in half measures, or were abandoned altogether.

The evolving pattern of Bank-supported PSP transactions shows a learning process whereby each new case draws on the previous ones. It is clear, however, that there is a long way to go in attaining the more systematic approach to learning called for by the 300 participants to the Kampala Conference.

We felt that it would be timely and useful for us, the Bank staff and managers directly involved in water sector reform, to meet with our clients and partners, to take stock of the lessons emerging from our common experience, and outline ways of dealing with recurring issues. This was the purpose of the Decision Makers’ Workshop on PSP in water sector reform, which took place from February 13 to 15, 2002 in Dakar, Senegal. Representatives from international private operators who are involved as strategic professional partners in PSP contracts joined the workshop on the last day to enrich our work with their perspective.

The proceedings of the Dakar workshop consist of two volume:

- Volume 1 summarizes the presentations and the outcome of the group work and discussions.
- Volume 2 provides a compendium of all the presentations made during the workshop.

The workshop was structured to set the foundation for the preparation of a Roadmap that will capture and synthesize the emerging experience. We see it not only as a depository of knowledge, but as a living document that will be enriched over time with innovations and new insights. Finally, we understand that its value and relevance will depend upon the broadest possible participation of field professionals directly engaged in reform. We look forward to working together with individuals as well as professional organizations toward the goal of providing easy access to guiding principles, good practices, model and tools to help bring better water and sanitation services to more people in Africa.

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It is primarily the participants themselves who brought value to the Dakar Workshop by their active engagement in the sessions and working groups and by accepting to share their insights, their experience as well as their preoccupations and their expectations.

The concept of the Workshop was developed by the Water and Urban Units of the Africa Region of the World Bank (AFTU1 and AFTU2) led by Ms. Letitia A. Obeng, The Dakar Workshop and its immediate follow-up were funded by the Bank organizing units as well as with a grant of US\$50,000 from the Bank Netherlands Water Supply and Sanitation Partnership (BNWSSP) managed by Mr. Jan Janssens, Program Manager, World Bank.

The Workshop was hosted by the Government of Senegal through its Ministry of Mines, Energy and Water. The venue was the Hotel Sofitel Teranga in Dakar.

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Jean Doyen, Njeri Gicheru (WSP-AF) and Connie Kok Shun were responsible for preparing the summary proceedings. The report cover was designed by Marjorie Kingston, AFTU2.

LIST OF SELECTED ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
AHC	Asset Holding Company
BAD	<i>Banque Africaine de Développement</i>
BNETD	<i>Bureau National d'Etudes Techniques et de Développement</i>
BOT	Build Operate Transfer
CBO	Community-Based Organization
CHSCT	<i>Comité d'Hygiène, de Sécurité et des Conditions de Travail</i>
DEG	<i>Distribution d'Eau de Guinée</i>
DH	<i>Direction de l'Hydraulique</i>
EC	European Community
EECI	<i>Energie Electrique de Côte d'Ivoire</i>
ESA	External Support Agencies
FD	<i>Fonds de Développement</i>
FNE	<i>Fonds National de l'Eau</i>
GDP	Gross Domestic Product
HRD	Human Resource Development
IDA	International Development Association
IFC	International Finance Corporation
IWRM	Integrated Water Resource Management
MIGA	Multilateral Investment Guarantee Agency
MWSS	Metro-Manila Waterworks and Sewerage System
NGO	Non-Governmental Organization
O&M	Operations & Maintenance
OAU	Organization of African Unity
OBA	Output-based Aid
ODA	Overseas Development Agency
OMS	<i>Organisation Mondiale de la Santé</i>
ONEA	<i>Office National de l'Eau et de l'Assainissement</i>
PDG	<i>Président Directeur Général</i>
PPP	Public Private Partnership
PSD	Private Sector Development
PSP	Private Sector Participation
PURC	Public Utilities Regulatory Commission
RPED	Regional Program on Enterprise Development
SAUR	<i>Société d'Aménagement Urbain et Rural</i>
SEEG	Société d'Exploitation des Eaux de Guinée
SDE	Société des Eaux
SIP	Strategic Investment Plan
SNE	Société Nationale des Eaux
SODECI	Société de Distribution d'Eau de la Côte d'Ivoire
SOGEL	Société Guinéenne d'Electricité
SONEG	Société Nationale des Eaux de Guinée
SONES	Société Nationale des Eaux du Sénégal
SSA	Sub-Saharan Africa
SSIP	Small Scale Independent Providers
TOR	Terms of Reference
UFW	Unaccounted For Water
WBI	World Bank Institute
WHO	World Health Organization
WG	Working Group
WSS	Water Supply and Sanitation
WUP	Water Utility Partnership

PART I: WORKSHOP SUMMARY

Introduction

Forty-five decision makers engaged in water and sanitation services from 17 African countries as well as 20 senior staff and representatives of multilateral and bilateral development agencies participated in a three-day workshop on sector reform based on private sector participation (PSP) and water supply and sanitation (WSS) services. The workshop was a joint initiative of the World Bank-Africa Region and World Bank Institute (WBI).

The workshop was introduced by Mrs. Letitia A. Obeng (Sector Manager, Water and Urban 2, Africa Region, World Bank) who pointed out that the Bank, since the late 1980s has supported many WSS sector reforms, was keen to learn together with its clients and partners. She characterized the workshop as an extended conversation to take stock of the emerging experience and develop a common understanding of how to accelerate the pace and improve the quality of reform so that they truly serve the people and lead to sustained progress toward the goal of safe water and hygienic sanitation for all.

In his opening address, Mr. Babacar Diop, Cabinet Director, speaking on behalf of Minister Macky Sall (Mines, Energy and Water), pointed out the broad institutional reform pioneered by Senegal to address the critical water deficit faced by the city of Dakar and to set water supply services on a sound financial footing. Senegal's bold and carefully executed reform has set the stage for the next steps in the development of the WSS sector involving: (i) the evolution of the ongoing enhanced *affermage* contract; (ii) reform of sewerage and water resource management; (iii) independent regulatory capacity; (iv) further progress in accessing commercial financing; and (v) consolidation of the tariff policy geared to the double objective of maintaining financial viability and stepping up the drive to extend services to the poor.

1. A ROADMAP ROOTED IN THE AFRICAN EXPERIENCE

1.1 Workshop Program

Box 1 - Workshop Structure		
	Objectives	Workshop Activities
Day 1	<ul style="list-style-type: none"> ➤ To develop a common understanding of the prospects and challenges of PSP-based reform in the WSS sector in Africa 	<ul style="list-style-type: none"> ➤ Thematic overviews and country cases ➤ Participants' responses to questionnaire
Day 2	<ul style="list-style-type: none"> ➤ To outline key elements of the Roadmap for three stages of the reform process ➤ To review way forward on cross-cutting themes 	<ul style="list-style-type: none"> ➤ Three Working Groups (WG): <ul style="list-style-type: none"> ▪ WG 1. Initiation of sector reform ▪ WG 2. Contracting phase ▪ WG 3. Execution and monitoring ➤ Three Issue Teams across WG's: <ul style="list-style-type: none"> ▪ Services to the urban poor ▪ Resources mobilization ▪ Competition and local capacity
Day 3	<ul style="list-style-type: none"> ➤ To review and validate WG recommendations ➤ Map workshop follow-up 	<ul style="list-style-type: none"> ➤ WG's and Issues Team presentations ➤ Dialogue with private sector operators.

The present summary is organized in line with the workshop structure outlined above.

1.2 Consensus on the need for reform and thirst for learning what works in Africa

The responses to the questionnaire, provided by the workshop's participants, are tabulated in *Annex 3* together with participants' comments. They show a broad degree of consensus among participants on the rationale for PSP-based reform and on the issues hampering their implementation and sustainability. The emerging picture of the WSS sector is consistent with the outcome of recent regional meetings, in particular, the *Kampala Conference on WSS Sector Reform (Attachment 3.2)* and the *Abidjan Water Utilities Partnership (WUP) 5 Workshop on WSS Services to the Urban Poor (Attachment 3.1)*, which have contributed notably in establishing a common understanding of the challenges and opportunities facing African countries in WSS services.

Box 2 - Highlights from participants' views on reform	Agree as % of total
WSS utilities have limited prospects for improvement unless they undergo structural reform	86
PSP has become the method of choice for reforming water utilities	82
A major educational effort is required on the role of the private sector and on the design and implementation of reform with priority on:	100
➤ Understanding of regulatory requirements	98
➤ Leveraging of aid funds and mobilization of commercial financing	94
➤ Reducing risks and complexity and fostering development of local capacity for WSS contracts	91
➤ Making services to the poor a central objective of reform	85

Francophone participants were less inclined than Anglophone ones to think that: “political interference and low tariff policies have led to inefficiency and chronic financial weakness of public utilities.” Francophone participants also showed more support for the integration of services to the poor in the objectives of reform programs. This can be related to the fact that a number of Francophone utilities under public management have maintained relatively acceptable levels of performance and that several of them (SODECI, SDE/SONES, ONEA) have implemented successful programs to extend services to the poor (documented under WUP 5).

1.3 A Roadmap to “get it right the first time”

The Roadmap (see Part II of the report), which is the main product of the workshop, is defined as follows:

The goal of the Roadmap is to contribute to better WSS services by improving quality and accelerating the pace of reform through learning and exchanges.

In its first stage, the Roadmap is defined as a guidance document on PSP-based reform in the WSS sector anchored in regional experiences.

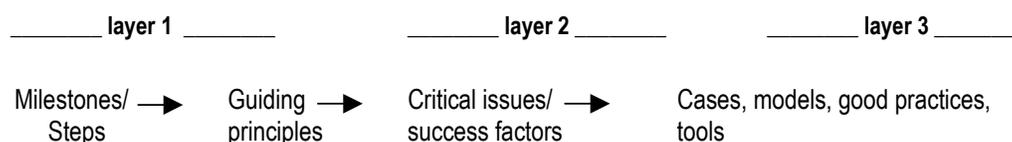
In a second stage, the Roadmap could provide the framework for participatory knowledge sharing, learning and networking among decision makers, planners, managers and practitioners engaged in WSS services in Africa.

The objectives of the Roadmap are to:

- develop a shared vision of the conditions for sustainable and socially responsive PSP-WSS services in Africa;
- offer easy access to the good practices and guiding principles emerging from the experience of African countries;
- provide practical guidance in planning, implementing and sustaining PSP-based reforms; and
- facilitate coordinated action by donors.

The Roadmap is structured as a three-layer database in line with the interests of the three groups that make up its audience:

- Policy makers and generalists Layer 1
- Planners and sector managers Layers 1 and 2
- Practitioners and specialists Layers 1, 2 and 3



An Advisory Group made of senior practitioners from the region will provide guidance on substantive design and content as well as on coordination and linkages with regional initiatives and programs.

2. THE CONTEXT FOR PSP AND TRENDS IN THE WSS SECTOR

2.1 The Context for PSP in Africa

Africa is still very much a continent in transition as broad reforms continue to unfold along the path of political liberalization, macro-economic reform, and structural changes to refocus the role of the State. While on the whole poverty is still on the rise, there are considerable differences among countries. Reforms do matter as countries, which have maintained social and macro stability and have moved on to second-generation reform show significantly higher growth rates.

Second generation structural reforms deal, in particular, with constraints to private sector development (PSD) in the areas of infrastructure services, financial systems, regulation and commercial justice. While a contributor to the enabling environment for PSD, PSP in infrastructure services is itself dependent on the climate for PSD.

The privatization movement in SSA is tapering off from a high of about 400 transactions per annum in the mid 1990s to about 100 at present, reflecting a decrease in the number of operators as well as recent changes in the global investment climate. While the initial focus of privatization programs was on transaction management, the attention now is more on regulatory frameworks and on the creation and growth of capital markets to stimulate private sector investment.

PSP in Africa has to be put in the context of strategies to reduce poverty focusing on outcome in terms of the welfare of households considering two key elements: (i) growth in employment and income opportunities; and (ii) improvement in access to markets and basic services. PSP is not an end in itself, but a tool to achieve better services to more people.

2.2 Status, Trends and Prospects in the WSS Sector

The coverage of WSS services has remained unchanged since 1990. In order to meet the Millennium Development Goals objectives for 2015, WSS services will have to be extended to an additional 210 million people. Related financing requirements are estimated at US\$35 to 45 billion, i.e. double the current levels.

PSP-based services cover 15 percent of SSA countries, accounting for about 30 percent of the total number of urban connections. PSP has restored the capacity for internal cash generation, which is the primary source of financing for WSS utilities worldwide.

Progress toward universal access will rest on:

- reform to render WSS utilities efficient and financially viable;
- partnerships with independent providers and communities; and
- step increase in the level of investment.

The emerging African experience with PSP for WSS services is yielding better tools: financial models (Senegal), benchmarking (WUP); as well as innovations in financial strategies: cash flow subsidies in the early stage, output-based aid (OBA), guarantees, and so forth.

2.3 PSP Experience in SSA

The African experience is largely derived from the long-standing example of SODECI, which evolved over a 40-year period from a limited lease to a countrywide concession. The concession model is recognized as the best option for improving services and reducing cost; however, its feasibility in SSA countries is limited, as it requires that the investment program be funded from a combination of internal cash generation, commercial debt and private equity. In most cases, the enhanced lease has been the option of choice (Guinea, Senegal, Central African Republic, Niger, Mali, Mozambique, Tanzania, and Uganda).

WSS lease typically involves a complex web of inter-related legal undertakings:

- The Government establishes an asset holding company (AHC) with which it enters into performance contracts and development/financing agreements;
- The AHC (jointly with the Government in some cases) retains a private operator through a lease/affermage contract;

- Further legal instruments cover: (i) the financing plan, and (ii) the relationships between the operator and the international professional shareholder, and so forth.

The evolution of the model of “enhanced lease/affermage” has been driven by efforts to redistribute risks among the operator, the AHC, and the Government. The trend has been to:

- (i) specify output rather than input targets for key areas of improvements;
- (ii) grant higher autonomy to the operator in the planning and execution of capex needed to bring early improvements in services; and
- (iii) guarantee the availability of related financing usually from external sources.

The latter two features are also meant to make the transaction more attractive and enhance competition.

Box 3 - Redistribution of Risks under Enhanced Lease/Affermage	
Risk	Redistributed through
AHC lack of capacity to plan and implement capex	Technical risks from AHC to operator through delegated project management (Senegal, Mozambique, Niger, Tanzania).
Uncertainty and delays in financing Rehabilitation, distribution, meters, etc.	Financial risks from AHC to operator through development fund with initial provision and/or replenishment of cash from operations (Senegal, Mozambique).
Uncertainty on achievement of specific outcome	Technical and financial risk from AHC to operator through OBA clauses, e.g... for service extension to low-income settlements.
Uncertainty of water bills payment by public agencies	Revenue risk from operator to the guarantor or to government through compensation agreements.

Many countries are considering the establishment of independent utility regulators, which would be typically responsible for: (i) setting tariff; (ii) licensing undertakers; and (iii) mediating conflicts. Independent regulation is recognized as an established tool to enhance the stability of PSP contracts in the context of pluralistic political systems. However, Africa’s experience with independent regulation is nascent at best. There is little understanding of its effectiveness in single-operator situations. There is also limited experience on how to deal with the risks of capture or by-pass and overlapping mandates with AHC and other public agencies.

2.4 The Political Economy of Water Sector Reform

As a rule PSP, lifts the expectations from users as well as politicians and public agencies which become more vocal in pressing for improvements once they are no longer directly responsible for service delivery.

In SSA, most reform efforts have been launched from a situation of inefficient public provision with high water losses, poor billings, low cost recovery, overstaffing, entrenched patronage and rent seeking. The resilience of dysfunctional public water service providers can be traced to some of the distinctive characteristics of urban water supply systems. First, the “essential good” nature of water is used to legitimize public involvement. Second, sunk and durable assets allow under-pricing without short term effects. Third, the “natural monopoly” character of urban distribution systems justifies regulation.

In assessing the political desirability and feasibility of reform, one has to consider:

- Sector condition: scope for improvement, impact on various segments of connected and potential users
- Macro-condition: political changes, economic trends, transparency and accountability
- Political institutions: decision power, veto holders, credibility

Ex-post reviews of reform cases suggest that sustainability and welfare gains are enhanced by:

- Careful assessment and targeting
- Clear policy, legal and institutional framework
- PSP contract with clear and realistic targets, including services to the poor
- Transparent selection process through competition
- No large rate increases at the onset of the contract
- Incentives and resource for early improvements

3. COUNTRY EXPERIENCES

The lessons, models and guiding principles illustrated by the country cases, presented on Day 1, are briefly summarized below:

3.1 Cote d'Ivoire: SODECI

The initial contract awarded to SODECI in 1960 for water supply services to the city of Abidjan, was gradually expanded in a context of some degree of "for-the-market" competition with the electric power utility. In 1973, SODECI was given the responsibility for all urban centers under a 12-year affermage contract. In 1987, SODECI's contract was renegotiated leading to a 20-year concession covering Abidjan and all urban centers.

Cote d'Ivoire's WSS sector weathered a serious financial crisis in the mid-1980s. While SODECI maintained its good operational performance, the sector, as a whole, veered into bankruptcy due to the combination of ill-advised investment by the State and the lack of a consolidated sector balance sheet. Eventually, the sector debt was restructured and clear financing mechanisms were established, giving more say to SODECI over sector investments. SODECI withdrew from rural water supply services. The new concession contract was awarded to SODECI through direct negotiations and included a 20 percent reduction of tariff.

Forty-nine percent of SODECI's capital is held locally. SODECI has regularly floated bonds on the local market. Through its partnership with SAUR, SODECI has provided technical assistance services and has participated in PSP ventures in several countries (Guinea, Senegal, Mali, Togo, Benin).

Since 1999, SODECI has been given an affermage contract for sewerage in Abidjan. The tariff and financing mechanisms are based on the model evolved for water supply services.

SODECI has benefited from stable and inspired leadership and has evolved as a coherent management model based on African values with emphasis on training, teamwork and empowerment. It has achieved performance levels, which are at par with the best WSS utilities worldwide. Over the past ten years, it has succeeded in expanding its services in a difficult and uncertain economic and political environment.

SODECI's current water supply concession includes the following features:

- The State keeps ownership of assets and is represented by the Water Directorate (DH) assisted by the BNETD, a high-powered advisory body.
- SODECI is responsible for: (i) proposing capex for extension and renewal; and (ii) executing investment entrusted to it by DH.
- Tariffs are based on full-cost recovery and self-financing of the water supply sector. Set shares of the tariff are allocated to: (i) the National Water Funds used by the Ministry of Economy to cover debt service; and (ii) the Development Fund held and used by SODECI to fund extension, renewal and the social connection program under supervision of the Water Directorate. The single tariff applicable throughout the country provides for a measure of cross-subsidy from Abidjan (which has access to relatively cheap and abundant water resource) to other urban centers and small towns.
- Tariffs are negotiated periodically (or as needed devaluation of CFAF in 1994) through a well-set process on the basis of detailed review of costs supported by an analytical accounting system mandated in the concession contract.

The SODECI model has played a pioneering role in the acceptance of PSP for WSS in Africa and has received numerous missions and study tours. It holds lessons for all aspects of PSP reform, and in particular for implementation, renegotiation, service to the poor and broadening to sanitation.

The challenge for SODECI and for Cote d'Ivoire is to formulate a long-term strategy for WSS services, focused in particular on: (i) enhanced competition and decentralization (e.g., franchising, second operator); and (ii) services to informal settlements not amenable to social connection programs.

3.2 Senegal: SDE-SONES

The Senegal reform started from a reasonably efficient public operator whose performance was hampered by weak finances, deteriorating assets, lack of investment and shortage of water for its main customers: the city of Dakar and its neighboring areas. Preparation started in 1992 and the reform process itself was launched in 1995

with the adoption of the law reforming the institutional framework for the sector. The reform was based on a comprehensive assessment of the problems besieging the sector leading to the formulation of clear objectives covering:

- Service quality
- Service extension, in particular to recent settlements
- Operational efficiency
- Increases in fiscal revenues
- Long-term financial equilibrium

A comprehensive financial model was developed to optimize the financing plan against a range of assumptions concerning tariff levels and revenues. The financial model was used to assess the debt carrying capacity of the AHC and to determine the respective shares of external funds to be on-lent or to be passed on as equity.

Although the reform was backed by the full political commitment of the government, its implementation was delayed by the initial opposition from labor. Overall efficiency deteriorated during the extended transition period.

The ten-year affermage contract was awarded to SDE in 1997 (majority shareholder SAUR) through a competitive process after pre-qualification on the basis of the lowest resulting unit price for water. The contract includes specific and time-bound targets covering the areas of operational efficiency, billing and revenues, service extension, service quality, customer services and capacity building.

From the outset, SDE launched a comprehensive training and human resources development (HRD) program to install new work methods and values among its workforce, comprised largely of former employees of the former parastatal.

The results after six years are considered very positive. Progress has been made on all key objectives of the reform. The sector has built confidence in its financial capacity and should be able to mobilize commercial financing for key components of the next phase of its development outlined by Mr. Diop in his opening statement.

The case of Senegal illustrates many of the features of the enhanced lease/affermage, which has emerged as the solution of choice for PSP-based reform of urban water supply services. It also illustrates effective coordination between reform and investment, financed largely by external aid.

3.3 Guinea: SEEG-ONEG

The interest of the Guinea case is that PSP for WSS services was launched in a very difficult environment and from a situation of dismal operational performance, insolvency and weak capacity. All factors that rendered reform urgent and precluded the option of normal preparation process with basic institutional steps and tariff adjustments introduced before PSP.

The outcomes of the Guinea reform have been positive with improvements in service quality, doubling of average consumption, substantial extension in Conakry and 25 other towns and financial stability. However, operational efficiency and billings are still low and tariffs are relatively high considering the low cost of the resource.

While the institutional framework was clear and roles and responsibilities well defined, the relationship between the operator and state organizations did not evolve into a partnership with sufficient trust and mutual interests. Unreliable reporting, monitoring and alleged high cost of technical assistance are factors that led the government to let the lease expire and to seek to re-launch PSP on new foundations.

3.4 Niger: SPEN-SDE

The case of Niger incorporates the guiding principles and practices illustrated by the Senegal case and goes somewhat further in enhancing the autonomy of the operator for undertaking capex without precluding access to external aid.

3.5 Manila and Buenos Aires

The mega-city concession cases of Manila and Buenos Aires are well known and have had a considerable influence on the practice concerning, in particular, the principle of structuring bids around a single parameter related to the price of water. The Manila PSP also popularized the idea of competition for-the-market by dividing the target city into two service areas and requesting separate bids for each.

Both Manila and Buenos Aires concessionaires have achieved positive results on a scale commensurate with the size of their cities and have improved services to low-income customers. One of the Manila concessionaires (Maynilad Water) has developed the “Bayan Tubig” program to extend services to low-income settlements relying on adapted standards and partnerships with community organizations.

Box 4 - Summary of Lessons from Country Cases		
Cote d'Ivoire - SODECI		
<p>Threat and problem factors:</p> <ul style="list-style-type: none"> - Lags in the payment of water bills from public sector agencies - Lack of clear allocation of responsibilities for contract supervision (DH and BNETD) - Weakness and lack of capacity of technical oversight by DH could lead to low accountability for capex planning and execution 	<p>Success factors</p> <ul style="list-style-type: none"> - Well established and stable policy framework - Local investors and employees participating in the capital of the operator - Financial and managerial autonomy of operator well established - Clear financing mechanisms for capex - Planning and execution of rehabilitation and service expansion delegated to operator - Contract stability combined with periodic adjustments - Incentives and financial capacity to extend services to the poor 	<p>Good practices:</p> <ul style="list-style-type: none"> - Well established process for tariff renegotiations - Social connections program - HRD policies and processes <p>Models and tools</p> <ul style="list-style-type: none"> - Tariff system based on IBT and including clear cost and allocation structure - Analytical accounting model to support tariff renegotiations - Financing mechanisms for debt service and capex - Management model including incentive systems and employees social fund - HRD tools: mission statement, etc.
Senegal - SDE/SONES		
<p>Threat and problem factors:</p> <ul style="list-style-type: none"> - Differences between baseline data and actual at contract launch compounded by extended transition period - Late involvement of labor and staff representatives - Problems encountered in transfer of movable assets from parastatal to operator - Lack of involvement of municipal and local authorities resulting in delays in payment of their bills - Operator performance dependent on measures beyond his control including capex managed by AHC which were delayed by cumbersome procurement procedures 	<p>Success factors:</p> <ul style="list-style-type: none"> - Sector assessment leading to clear objectives and sector-wide strategy - Political commitment at highest level - Legal and institutional framework established ahead of PSP especially AHC - Tariff brought appropriate levels before PSP - Transparent bidding process with clear evaluation parameter - Commitment and confidence level adequate to resolve dispute and address unforeseen issues - Operator given responsibility and financial capacity for rehabilitation and renewal linked to early improvements - Participation of local investors in the capital - Strong and effective donors coordination 	<p>Good practices:</p> <ul style="list-style-type: none"> - Steering committee (led by Ministry of Finance) - Designation of CEO to lead the transition - Agreement reached with labor and staff representatives on HRD issues - Government commitment to payment of water bills from public agencies - Mobilization of commercial financing on the basis of a financial model - Early emphasis on HRD and attitudinal changes <p>Models and tools</p> <ul style="list-style-type: none"> - Financial model - Well defined and time bound target for performance improvement linked to incentives - Local investors entitled to commission separate audit of operator (re. relationships between operator and majority shareholder)

Box 4 - Summary of Lessons from Country Cases (continued)		
Guinea - SEEG-ONEG		
<p>Threat and problem factors:</p> <ul style="list-style-type: none"> - Asymmetry in information and capacity between operator and public agencies in charge of contract monitoring - Lack of enforcement capacity: illegal connections - Non-payment of public sector - Limited incentives for efficiency - Lack of transparency in the commercial transactions between the operator and the professional partner - No participation of private local shareholders in the capital of the operator 	<p>Success factors:</p> <ul style="list-style-type: none"> - Operating subsidies provided during the initial years to stretch transition from very low to cost recovery tariffs 	<p>Models and tools:</p> <ul style="list-style-type: none"> - Financing of operational subsidies on a decreasing basis with external aid - Partnerships with community organizations to extend services to low income neighborhoods
Buenos Aires, Manila and Niger		
<p>Threat and problem factors:</p> <ul style="list-style-type: none"> - Very low bid in one of the Manila concessions reportedly based on assumed increase in value of property to be developed by one of the local partners - Shortfall in water available for the Manila concessions as a result of El Nino - In BA the high cost of connections (covering all additional reticulation) was a constraint in extending services to low-income settlements 	<p>Success factors:</p> <ul style="list-style-type: none"> - High level of political commitment - Favorable economic and political context: macro-Stability and drive for structural reform. - Financial viability; tariffs were adjusted before PSP - Transparent bidding process - Extension of services to the poor integrated in contract target 	<p>Good practices:</p> <ul style="list-style-type: none"> - Tariffs brought to near adequate cost recovery level before PSP - Competition on the basis of a single parameter related to the price of water <p>Models and tools</p> <ul style="list-style-type: none"> - Establishment of an investment fund funded externally and managed by the operator

4. WORKING GROUP REPORTS

4.1 Initiating Reform

4.1.1 Guiding Principles

- Maximum benefits from PSP will come with *higher degree of autonomy* to operator compatible with risks involved and what can be realistically achieved in critical areas: tariff, staffing, investment.
- The *enhanced lease* has emerged as the option of choice in African reform. Under the enhanced lease, the planning and execution capex critical for early improvements are delegated to the operator and related financing is ensured.
- Reform has to lead to *financial viability* and long-term financial autonomy through internal cash generation. The short-term financial viability (covering O&M) of systems to be established as autonomous entities should be established at the planning stage, i.e before undertaking related institutional restructuring.
- *Tariff adjustments* to achieve at least short-term financial autonomy, enabling *legislation* and *institutional* restructuring should be introduced *before PSP*. If required tariff increases are too steep, operational subsidies need to be secured as part of PSP during the transition to cost recovery tariff.

- Allocation of *responsibilities* among public sector actors involved in the reform need to be clear and credible. Lack of confidence in untested institutional arrangements will discourage bidders.
- The planning and implementation of reform has to be closely *coordinated* with the preparation of *external financing*. In most cases, the feasibility of reform depends on external funding either for investment or for needed rehabilitation and early improvements, and in some cases, for retrenchments and operational subsidies during the transition to cost recovery tariffs. The involvement of external partners brings added credibility and can render the contract more attractive to bidders.

4.1.2 Key Steps

1. **Strategic assessment** of WSS sector should preferably cover the sector as a whole and be guided by the long-term goal of universal service.
2. **Political Commitment.** The political will to carry out reform and support its objectives has to be clearly expressed and manifested by the highest political authority.
3. Establishment of a **Sector Reform Task Force** with proper authority, competence, representativity, resource. Task force to develop an action plan, organize specialized working groups and launch studies and surveys. Critical elements of which are:
 - (i) the development of the financial model for the sector;
 - (ii) transition plan for the existing institutions; and
 - (iii) program for extending services to low-income settlements.
4. Development of the **financial model and review of the tariff structure and level.** The purpose of the financial model is to map a path to financial autonomy. In the initiation phase, the financial model will serve to develop the financing plan and to assess the need for tariff adjustments. In subsequent phases, the financial model will serve in bid evaluation and for fine-tuning and periodic renegotiation of tariff.
5. **Communication and consensus building** need to be given high priority right from the start.

Box 5 - Summary Outcome of the Initiating Phase of the reform process
<ul style="list-style-type: none"> - Enabling legislation and new institutional structures in place - Tariff adjusted at least to short term cost recovery level - Financing plan agreed with external partners, including early rehabilitation and transition - PSP option selected and basic parameters of contract defined in line with objectives of reform - Transition management in place - Staff and labor redeployment program agreed, funded and initiated

4.2 Contracting for PSP

4.2.1 Guiding Principles

- Reform objectives should be translated into time-bound improvement in performance linked to incentives/penalties in PSP contract. Performance targets to cover:
 - Services (quantity, quality, reliability)
 - System efficiency
 - Billing and collection
 - Fiscal revenues
 - Extension and rehabilitation (new connections)
- Preference to output targets (number of new connections, service quality) rather than input targets (length of pipe laid, etc.) leaving room for innovations and know-how, especially relevant for services to low-income settlements.

- The PSP contract should specify the procedures for monitoring the performance indicators and the information to be prepared by the operator.
- Establish a clear and transparent process and stick to it. Allocation of responsibilities for the review of pre-qualification applications and for bid evaluation should be credible and inspire trust. Selection criteria should be simple and unambiguous, normally resting on a single parameter linked to the price of water billed.
- The process of evaluation and the authority of those responsible should be upheld to avoid interference.
- Foster competition and seek maximum participation in number and quality. Early start in establishing and developing capacity of public agencies involved in PSP transaction, in particular the AHC and the regulator, can reduce regulatory risk and build confidence.

4.2.2 Key Steps in Contracting PSP

- Hiring of transaction advisers: The hiring of qualified and reputable transaction advisers at an early stage is a critical step in the reform process. The development of the contractual framework and the drafting of the various legal instruments is a complex task requiring the combined skills of lawyers, financial experts, engineers, etc.
- Preparation of contracts documents:
 - Overall structure
 - Improvement targets
 - Investment program and financing plan
 - Basis for remuneration
- Preparation of pre-qualification and bidding documents
- Marketing. As worldwide opportunities for operators' services continue to increase, it is important to market PSP transactions and seek bidders' interest early
- Pre-qualification
- Information of local investors and workers
- Call for bids
- Pre-bid conference and information meeting
- Bid opening and analysis. Evaluation and selection normally in two stages:
 - (i) Evaluation of technical aspects and check responsiveness; and
 - (ii) Financial offer.

4.3 Contract Implementation and Regulation

4.3.1 Guiding Principles

- Focus on contract stability and long-term goals
The PSP operator and the Government are engaged in a long-term relationship bearing in mind the goals of:
 - (i) Ensuring the continued development of affordable quality water and sanitation services; and
 - (ii) Obtaining a reasonable profit.

Good contract design ensures that these goals are aligned.

Good contract oversight and monitoring ensure that they remain aligned over time.

The regulatory model for PSP based in Africa is still evolving. It seems the option of choice in countries where the responsibilities for WSS services are decentralized and several operators are present.

- Start early in building the capacity of public agencies responsible for contract supervision and regulation
- Foster the participation of local investors and of employees in the capital of the operator

- Establish processes for dealing with changes and resolve disputes
- Ensure regular payment of water bills of public sector agencies
- Establish operator's authority and procedures for disconnection for non-payment, including high visibility customers.

4.3.2 Key Steps

- Inception and start-up of PSP Contract
 - Priority to HR management and redeployment
 - Short transition
 - Executive level mechanism to resolve problems
 - Early results to build support for the reform
- Annual tariff adjustments and periodic tariff renegotiations.
 - Advance planning, process agreed
 - Information requirements well defined
 - AHC or regulator supported by technical auditors
- Review and planning of capex
 - Investment related to distribution and metering delegated to operator
 - Special financing mechanism for program to extend services to low-income settlements.

5. CROSS-CUTTING THEMES

5.1 Pro-poor Aspects of PSP (Annex 1.A)

Stage I – Initiating Reform

Given the pattern of urbanization, extending services to the poor has to be recognized as a strategic challenge for African WSS utilities and a central objective for the reform of sector.

An efficient and effective utility is a necessary but not sufficient condition for addressing the needs of low-income households.

Preparation of measures and programs to extend services to low-income settlements has to be part of planning the reform. First steps will be to survey the market for water and sanitation services, including SSIP's, and to identify regulatory constraints (standards, titling requirements, etc.)

Unserved, low-income households, community organizations and NGOs that work with them should be recognized as a distinct constituency and participate in consultation and program development.

Stage II - Designing the Contract

Specific targets for extending services to low-income settlements should be included in the contract, possibly through area specific targets and the financing plan.

Particular attention to exclusivity clause in situations where independent providers are established. Monitoring should include services provided through partnership between the operator and independent providers.

Stage III - Implementation, Regulation

Allow flexibility in approach through output-based targets.

Partnership/franchise arrangements with main operator considered more practical than regulation to improve service of SSIP; focus should be on water quality.

5.2 Resource Mobilization and Finance (*Annex 1.B*)

Urban WSS systems and utility reform need to be given higher priority, particularly under poverty reduction strategies.

External support agencies (ESAs) have generally adapted their policies to PSP contexts. ESAs are collectively reviewing ways to leverage commercial financing with aid funds in particular through the Africa Infrastructure Funds and through extended guarantee and re-insurance schemes (e.g., the African Trade Insurance Agency).

The case of Senegal suggests that once they have established credibility, AHC, with sound financial plan can be successful in attracting private financing. This is critical as external aid will not be able to mobilize the resource necessary to support sector development.

The mobilization of domestic capital, which is considered an important success factor in Cote d'Ivoire and in Senegal, deserves particular attention. Local investors should be given the opportunity to participate in the capital of the operator. Through commercial loans, local banks have a stake in the reform and become part of the broader oversight framework.

5.3 Optimal use of Local Capacity (*Annex 1.C*)

Optimal use of the staff of the organization being restructured should be an integral part of the planning. In many instances, most of the professional staff have found employment within the new structures. Sector-wide reform typically ends up by increasing employment in the sector, either in construction or in the management of decentralized systems. Training and information are critical. The emergence of local operators will be fostered by a policy of autonomy and delegation for small-town systems.

5.4 Enhancing Competition (*Annex 1.C*)

As worldwide opportunities for operators' services continue to increase, it is important to market PSP transactions and seek bidders' interest early.

Contracts that assign broad and undefined risks to the operator will attract few bidders and come in with higher price or attract operators of lower standards.

Transparency, clear process and criteria are key success factors in attracting quality bidders and in ensuring the benefits from competition.

Unnecessary qualification requirements and the high cost of preparing bids limit participation.

6. PERSPECTIVE FROM PRIVATE SECTOR OPERATORS

This section summarizes key points from the comments made by representatives from international WSS service operators invited for Day 3 of the workshop. Remarks that strengthen the reports from the Working Groups or the points made in the preliminary presentations have not been repeated but incorporated in previous sections. This concerns for example: (i) the proposition that higher autonomy would capture more of the benefits from PSP; and (ii) the need for a well-established and credible institutional framework.

- Comments from other participants are also taken into account.
- Access to external concessionary financing (grants and IDA credits) will remain necessary to support reforms of the WSS sector in Africa and ensure that they result in accelerated development of services; especially to low-income households. ESAs, and especially the Bank, have a critical role to play as a facilitator and partner as well as an advisor.
- Early opportunities to review and comment on draft contract documents would encourage participation in the bidding and would allow the identification of constraints and risks in particular concerning measures to be taken ahead of PSP, e.g., retrenchment plans and severance payments.
- The wish of operators to be allowed to present technical alternatives runs against the practical impossibility of evaluating and comparing them. The bidding sequence used in the case of Gabon offers a way of taking into account bidders' technical suggestions. In a first stage, pre-qualified bidders examined the draft contract and made comments. The contract was then revised, taking into account

their comments, and was signed by pre-qualified bidders who intended to submit an offer. In the last stage, bidders submitted their bid for the price of water.

- All operators stressed the long-term character of the PSP contract and the resulting importance of trust and continuity for which critical success factors are:
- an effective mechanism for resolving disputes; and
- joint planning and clear process for periodic renegotiations.
- While the need for stability and predictability is fully recognized, the usefulness of an independent regulator is not fully established. In any case, it should be established by law and not be party to the PSP contract. Particular attention needs to be paid to conflicts of competence between the regulator and the AHC and access to information.
- One point raised by private operators as well as public sector planners and managers concerns the need for better and more realistic understanding of what can be expected from PSP. The primary competence of the operator is his managerial and technical know-how. This is the area where he should be asked to assume risks.
- Public officials pointed out the challenge they face in dealing with seasoned global operators with no experience of their own and little exposure to the experience of other countries.
- Priority themes for further learning:
 - Financial model for the WSS sector
 - Regulatory regimes
 - Communication strategy
 - Financing

7. CLOSING WORDS

The workshop recognized that the evolving pattern of PSP transactions supported in Africa shows a learning process whereby each new case draws on the previous ones. However, this process needs to be broadened and strengthened through evaluation, consultation and dissemination.

While the need for improvements will always be there, it is important to publicize the benefits and the potential that PSP-based reform holds for redressing the performance in the sector and resuming its development and meeting the challenge for better WSS service for all.

PART II: OUTLINE OF A ROADMAP

INTRODUCTION

The need for change no longer in question

Service delivery is not keeping pace with demand, especially for the fast-growing number of low-income households living in informal settlements.

Quoting from the summary of the WUP workshop on services to the urban poor (Abidjan, Nov. 2001):

“By 2025, urbanization in Africa will have progressed from about 32 percent today to about 50 percent. The urban population will have grown from the current level of about 300 million to 700 million. If current trends prevail, the large majority of them will be living in poverty in unplanned or informal settlements without access to safe water and hygienic sanitation. Utilities will be hard pressed to prevent widening of the gap between the decreasing percentage of urban households which are connected to their networks and the growing number of unserved left to depend on more costly and often less safe and convenient alternatives.

The objective of increasing the overall percentage of urban dwellers served by a connection from the current 50% to 80% in 2025 would require on average about 5 to 4 million new connections every year; i.e. about 6,000 to 10,000 every day. Extending basic services to the urban poor, long considered a peripheral objective, has to be recognized as a strategic goal by planners and policy makers, and a matter of long term survival for utilities confronted with the prospect of playing an increasingly marginal role in sprawling and dysfunctional cities.”

Political interference and low tariff policies have led to inefficiency and chronic financial weakness of public utilities. The inability of WSS utilities to maintain and extend services has led typically to situations where subsidized services are denied to the poor who have to rely on more costly and lower quality alternatives.

A well performing utility is a necessary condition for enhancing the economic efficiency of cities and for accelerating the provision of services to low-income areas. However, water utilities in Africa have limited prospects for improving their performance unless they undergo structural reform.

Many governments across Africa have recognized the necessity of structural reform to improve water and sanitation services and to extend coverage in fast-growing urban settlements. As noted at the Kampala Conference on the reform of the water and sanitation sector (February 2001): utility reform in Africa is more a matter of “how” than a matter of “if.” More than 30 African countries are either engaged in, or planning reform to increase autonomy and ensure financial viability.

Most reform programs imply the participation of private sector operators through arrangements ranging from management contracts to leasing, concessions, and more rarely, outright asset transfers. In fact, private sector participation has become the method of choice for reforming water utilities and for establishing the conditions for improved efficiency and financial viability.

PSP-based reforms have generally succeeded in extending and improving services, and have in all cases restored a measure of financial viability to systems long starved of the necessary resource to support minimum O&M. There are also cases where the drive for reform has either faltered, or got sidetracked in half measures, or was abandoned altogether.

Systematic learning from the emerging African experience

The evolving pattern of PSP-based reforms across Africa shows a learning process whereby each new case draws on the previous ones. It is clear however that there is a long way to the go in attaining the more systematic approach to learning called for by the 300 participants to the Kampala Conference.

The Kampala Statement and the Proceedings of the Kampala Conference constitute in themselves a broad ranging review of the state of play on the reform of water and sanitation services in Africa and has highlighted the importance of:

- political commitment developed and sustained through advocacy;
- consultations involving all stakeholders throughout the process;
- restructuring of urban WSS services to be undertaken under broad water sector reform and enabling legislation and institutional changes introduced prior to PSP; and
- build-up of public sector capacity for regulatory oversight and of contract management and monitoring.

The Conference also pointed out issues in need of attention:

- the need to put extension of services to the urban poor as a central objective of sector reform;
- the limited inflow of private financing in reformed WSS systems and the importance of leveraging of aid fund to mobilize private investment; and
- the limited competition among a limited number of small international operators and related concerns about the development of domestic and regional capacity.

A Roadmap to get it right the first time

The World Bank, which since the mid 1980s has supported most of the ongoing PSP-based reform of WSS services in Africa, shares the desire for more systematic learning as a way of improving the quality of its advice and the effectiveness of its operations. It felt that a roadmap, structured along the key stages of reform, would be a useful format.

The next step was to involve Bank clients and partners. The Dakar Workshop on PSP-based reform of the WSS sector brought together about 70 participants, including approximately 60 decision makers from 17 African countries, senior staff from development agencies and professional organizations as well as representatives from international and regional private operators. The present outline of the Roadmap is based on the outputs from the working groups of the workshop, whose goal is to contribute to better WSS services by improving the quality and accelerating the pace of reform through learning and exchanges.

In its first stage, the Roadmap is defined as a guidance document on PSP-based reform in the WSS sector anchored in regional experiences.

In a second stage the Roadmap could provide the framework for participatory knowledge sharing, learning and networking among decision makers, planners, managers and practitioners engaged in WSS services in Africa.

The objectives of the Roadmap are to:

- develop a shared vision of the conditions for sustainable and socially responsive PSP-WSS services in Africa;
- offer easy access to the good practices and guiding principles emerging from the experience of African countries;
- provide practical guidance to planning, implementing and sustaining PSP-based reforms; and
- facilitate coordinated action by donors.

The **audience** includes three groups

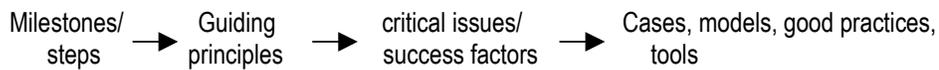
Policy makers, generalists
 Planners and decision makers
 Practitioners, sector specialists

Interests

(i) : overview, guiding principles and key steps
 (i)+ (ii) : critical issues/pitfalls, success factors
 (i)+ (ii)+ (iii) : tools, cases, models, etc.

Structure and format. The Roadmap has a three-layered structure in line with the interests of the three groups that make up its audience.

Layer 1	Layer 2	Layer 3: Data basis	Exterior links with other web data basis
<ul style="list-style-type: none"> - Narrative overview of the PSP process with guiding principles and key steps 	<ul style="list-style-type: none"> - Threats/problem - Factors and success factors 	<ul style="list-style-type: none"> - sector overview: e.g., Kampala Statement, WUP5 Summary - country cases: e.g., Senegal, Côte d'Ivoire, Ghana, Uganda. - good practices: e.g., consultation process, recruitment of transaction advisers, two stage bidding, guarantees for payment from public agencies, etc. - models & tools: financial models, indexation formula, performance criteria; TOR's for sector: assessments for transaction advisers, for technical audit. 	<ul style="list-style-type: none"> - WUP web site - WUP5 toolbox & good practices - WSP web site - World Bank toolbox - Waterpage - NEPAD - GWP - IRC, CAPNET, etc.



The plan of the Roadmap follows the three phases of:

- 1) **initiation** of sector reform; key steps in planning and preparation, selection of PSP option, etc.
- 2) **contracting** : contract documents, biddings, transition
- 3) **execution and monitoring**: start-up, tariffs negotiation, regulation, etc.

THE ROADMAP

Before getting started

There is ***no standard approach***, each country has to develop its own. Learning from other country experiences needs a good understanding of commonalities (e.g., lack of resource for investment, lack of regulatory tradition and capacity) and differences (e.g., legal systems especially between Anglophone and Francophone).

Designing a successful PSP transaction is essentially about ***understanding risks***, trying to reduce them and make sure that they are allocated in line with competence, capacity and that they reflect ability to control.

PSP is not an end in itself but a means to get ***better services to more people***. PSP in Africa has to be put in the context of strategies to reduce poverty. WSS reform should be justified in terms of their outcome on services to the poor. Early on, the proponents of reform should develop advocacy based on information on the current situation and on the implications of the status-quo in the face of fast growing urban settlements.

1. INITIATING REFORM

1.1 Guiding Principles

1.1.1 Maximum benefits from PSP will come with higher degree of autonomy of operator compatible with risks involved and what can be realistically achieved in critical areas: tariff, staffing, investment.

The options cover:

- service contract (e.g., billing and collection) with low autonomy and limited responsibilities;
- management contracts where the operator assumes operational technical responsibilities but with no commercial risk; and
- lease or affermage in which the operator is responsible for management and maintenance but not for investment
- concession where the operator is responsible for investment as well.
- (embedded link to Layer 3 (EL3) to primer on (i) various form of PSP, responsibilities, period etc.; (ii) risks involved in WSS delivery of services).

Factors to be considered in assessing feasibility of higher options:

- Institutional arrangements: degree of independence of the public utility → higher options
- Water resources: availability and closeness to the sources → higher options
- Financial situation of the sector
 - viable → higher options
 - non-viable → lower options
 - significant tariff adjustment requires gradual process
- Size of the utility:
 - the bigger the size → higher options
 - smaller size → opportunity for clustering
- Investments requirements
 - medium term → lower options (lease)
 - long term → higher options (concession)
 - local capacity to generate funds → higher options

- Staffing and human resources
 - overstaffing → lower options
- Availability of reliable information
 - facilities, accounts, HR, customers etc → higher options

The **enhanced lease** has emerged as the **option of choice** in African reform.

The evolution of the model of “enhanced lease/affermage” has been driven by efforts to redistribute risks among the operator, the Asset Holding Company (AHC) and the Government. The trend has been to:

- (i) specify output rather than input targets for key areas of improvements;
- (ii) grant higher autonomy to the operator in the planning and execution of capex needed to bring early improvements in services provision; and
- (iii) guarantee the availability of related financing, usually from external sources and often on concessionary terms.

The latter two features have also rendered the transactions more attractive and enhanced competition.

Reforms have to lead to financial viability and long-term financial autonomy through internal cash generation.

- The State will not be able to support operational subsidies.
- Public sector, including external aid, will not be able to mobilize the resource necessary to support sector development.

One of the roles of the AHC under the lease model is to provide a consolidated balance sheet for the urban WSS sector.

The short-term financial viability (covering O&M) of water supply systems to be established as autonomous entities should be assessed at the planning stage, i.e., before undertaking the related institutional restructuring.

The ability of autonomous water supply systems to operate as going concerns will depend on size, natural factors, density, geographical spread, etc.

As a rule, it will be difficult to achieve the minimum required level of financial autonomy with less than 20,000 connections. Options : - clustering, single tariff.

1.1.2 Tariff adjustments to achieve at least short-term financial autonomy and enabling legislation and institutional restructuring should be introduced before PSP.

- If required tariff increases are too steep, operational subsidies need to be secured as part of PSP during the transition to cost recovery tariff.

1.1.3 Allocation of responsibilities among public sector actors involved in the reform need to be clear and credible.

Particularly important if reform involves:

- transfers of responsibilities: e.g., from municipal to central or among central ministries (from water to local government); or
- establishment of new agencies and independent regulator.

The Institutional Framework for PSP Monitoring and Regulation		
	Who decides	What the decision covers
Policy	Government and parliament	Statement of sector policy Water act and water legislation: Service level Sector financing equilibrium Social equity Environmental sustainability Private sector participation
Strategy	Ministry responsible for WSS services Other public sector agency Asset Holding Company	Preparation of development plans within financial constraints defined by policy Service level objectives Tariff level and structure setting Sanitation strategy Contract enforcement
Operation and investment	Utility:- Private or public - National, regional or municipal - Water only or water and sewerage	Service delivery Operations & maintenance Commercial operation Project management (capital expenditure financing)
Regulatory functions	Regulator or AHC or Sector Ministry or other government agency	Tariff level and structure setting Monitoring of service level Competition and transparency monitoring Pre-arbitration /mediation of disputes

Threats/Problem factors:

- overlapping mandates
- overreach of regulator with public sector
- lack of independence of regulator, by-pass
- lack of confidence in untested institutional arrangements will discourage bidders.

1.1.4 The planning and implementation of reform has to be closely coordinated with the preparation of external financing.

In most cases, the feasibility of reform depends on external funding either for investment or for needed rehabilitation and early improvements, and in some cases, for retrenchments and operational subsidies during the transition to cost recovery tariffs.

The involvement of external partners brings added credibility and can broaden interest from potential bidders.

1.2 Key Steps

1.2.1 Strategic Assessment of WSS sector

- Scope:
- legal and institutional framework and capacity
 - resources, constraints
 - performance
 - financial situation, debt
 - demand
- Outcome:
- medium and long-term capacity requirements
 - choice of institutional options
 - roadmap for transition
 - critical risks factors

Threats /problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - steering group dominated by vested interest - narrow scope; pre-emptive partial reforms - unrealistic standards 	<ul style="list-style-type: none"> - sector-wide perspective - outside expertise (international and regional) combined with local consultants - benchmarking - realistic services objectives: priority to access - special attention to services to the poor 	<p>Cases: Uganda, Senegal, Ghana TOR's for assessment</p> <p>Models and TORs for: Surveys of WSS services markets including SSIP's WTP studies</p>

1.2.2 Political Commitment

Political will to carry out reform and to support its objectives has to be clearly expressed and manifested at the highest political level usually through a cabinet decision and a Letter of Sector Policy.

Threats /problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - weak record in carrying out reform - lack of consistency with overall policies - externally driven - exemptions from payment of water bills granted to public sector agencies 	<ul style="list-style-type: none"> - objectives clearly defined and link with overall policies (fiscal, poverty, environment) - broad and high level support - allocation of responsibilities within cabinet well defined - task force nominated and empowered - timeframe well defined 	<p>Cases: Uganda , Senegal, Ghana</p> <p>Practice: support of political opposition sought ahead of election (Ghana)</p> <p>Models of Letters of Sector Policy</p>

1.2.3 Establishment of a Sector Reform Task Force (TF)

A task force needs proper authority, competence, representativity, and resources.

Its work program will include coordinated studies and surveys to:

- (i) complete information linked to asset conditions, operations, human resources, finances, demand/market for services;
- (ii) prepare investment;
- (iii) develop financial model and review the level and structure of tariffs; and
- (vi) develop special program for extending services to the poor.

Task force to:

- organize specialized working groups in line with reform objectives
- hire and collaborate closely with transaction advisors
- develop and implement transition plan within the existing institution
- develop and implement communication/consultation strategy

Outcome:

- financial model and tariff adjustments
- medium-term investment program
- financial plan in consultation with external partners
- HR redeployment and retrenchment program
- asset inventory
- capacity requirements for contract monitoring and regulation defined

Threats/problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - lack of independence from sector departments and agencies - underestimation of capacity requirements - delays in mobilizing resource; fragmented and uncoordinated funding and TA. - task force itself not properly funded. - weak leadership 	<ul style="list-style-type: none"> - oversight by central ministry (Finance) and strong link with privatization units. - new CEO named with mandate to manage change/transition - external advice - study tours - timely funding for entire work program as well as TF operations 	<p>Cases: Uganda , Senegal, Zambia</p>

1.2.4 Development of Financial Model and Review of Tariff Structure and Level

The development of the financial model for the sector is a critical element of the preparation and the reform, and its purpose is to map a path to financial autonomy.

In the initiation phase, the financial model will serve to develop the financing plan and assess the need for tariff adjustments.

In subsequent phases, the financial model will serve in bid evaluation and for fine-tuning and periodic renegotiation of tariff.

Threats/problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - lack of separate accounts - no customer roster and billing records to project revenues - non-payment from public agencies - debt undefined 	<ul style="list-style-type: none"> - WSS services under separate parastatal entity - audited accounts - WTP - restructuring of debt and consolidation of pending accounts from public agencies - flexibility on mix of on-lending and equity - availability of financing for transition to cost-recovery tariff 	<ul style="list-style-type: none"> - Model: Financial model for projecting financing capacity in relation with acceptable tariff levels in order: <ul style="list-style-type: none"> to adjust financing plan ; in particular mix of loan and equity (Senegal). to assess need for operational subsidies during transition (Guinea). - Financing mechanisms to ensure adequate funds for early improvements (Niger, Tanzania)

1.2.5 Communication and Consensus Building

Broad consultation and participation of key constituencies:

- public agencies concerned: central and municipal levels
- elected representatives: parliament, municipal councils, mayors, etc.
- civil society: business and industry, customers associations, labor
- staff and employees
- NGO's, community organizations and programs involved in WSS services to the poor
- small independent service providers

Need to analyze the impact of reform on various classes of customers:

- already connected high income, low-income
- unconnected within reach of existing reticulation network
- unconnected out of current reach of utility, etc.

Guiding principles:

- start early
- explain benefits and compare with current trends

- establish credibility through reliable information, openness and follow-up
- keep information flowing (newsletter)
- give communication function visibility within TF and resource it properly

Threats/problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - opposition to rent seekers (illegal connections, suppliers etc.) - labor opposition - lack of credibility or resource for retrenchment program - communication function not identified as requiring specific capacity and resource 	<ul style="list-style-type: none"> - early start with high level involvement - advocacy based on benefits for various constituencies - participation of staff and labor in TF - clear policy on retrenchment and re-deployment - commitment to retain certain or all staff/workers - study tour for key stakeholders - advocacy through broadcasting of changes and benefits in the local media and in the local languages 	<p>Models: communication strategy</p> <p>TOR's for communication advisers</p> <p>Tools: analysis of impact of reform on various class of customers.</p>

Summary outcome of Phase 1: Initiating the Reform

- enabling legislation and new institutional structures in place
- tariff adjustment procedures covering short-term cost recovery level agreed and in place
- financing plan agreed with external partners, including early rehabilitation and transition support
- PSP option selected and basic parameters of contract defined in line with objectives of reform
- transition management in place
- staff and labor redeployment program agreed, funded and initiated.

2. CONTRACTING for PSP

This section focuses on activities specifically linked to preparation, bidding and award of the PSP contract. It ends with the transfer of responsibilities to the operator. It covers the contractual framework, the guiding principles, and the key steps.

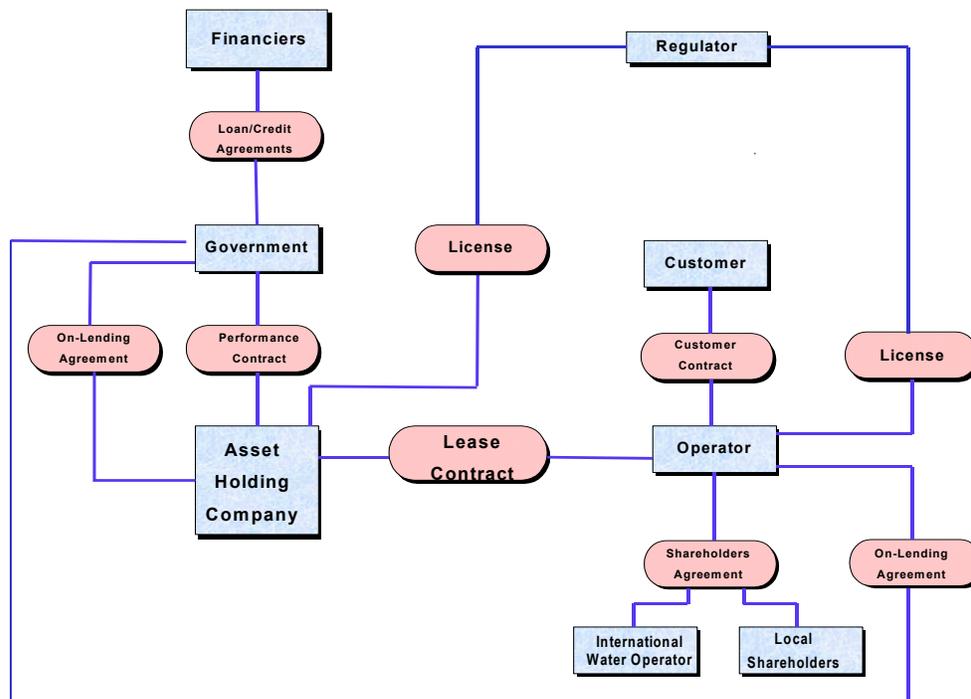
2.1 The Contractual Framework for PSP

WSS lease typically involves a complex web of inter-related legal undertakings:

- the Government establishes an asset holding company (AHC) with which it enters into a performance contract and a development/financing agreement;
- the AHC (jointly with the Government in some cases) retains a private operator through a lease/affermage contract; and
- further legal instruments cover: (i) the financing plan; and (ii) the relationships between the local operator and the strategic partner (usually an international professional WSS services operator).

The authority and responsibilities of the independent regulator, where it exists, is established by law. The regulator is not part of the PSP contract but issues licenses both to the asset holding company as undertaker and to the operator.

The diagram below is a simplified version of an actual case.



The hiring of qualified and reputable transaction advisers is a critical step in the whole reform process. The development of the contractual framework and the drafting of the various legal instruments is a complex task requiring the combined skills of lawyers, financial experts, engineers, etc.

2.2 Guiding principles

2.2.1 Reform objectives translated into time-bound improvement in performance linked to incentives/penalties in PSP contract

Performance indicators cover:

- services (quantity, quality, reliability)
- efficiency (network losses)
- billing and collection (ratio)
- fiscal revenues
- extension and rehabilitation (number of new connections)

The targets for extension and for quality of services should cover low-income settlements, in particular through area specific targets, to which specific funding is attached (monitor extension and improvement targets concerning low-income settlements to allow inclusion of services provided through third parties, e.g., community organization, SSIP, etc.)

Preference to output targets (number of new connections, service quality, quantity of water sold to specific areas) rather than input targets (length of pipe laid, etc.) leaving to the operator the choice of technical options, hence fostering innovations and drawing maximum benefits from the know-how and experience of the operator.

Monitoring: - process for monitoring indicators to be specified in contractual documents
 - information to be provided by the operator also to be specified: scope, format, coverage periodicity, etc.

Threats/problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - performance target not related to compensation - information requirement and process not defined - lack of means to verify information - baseline data not measured or incorrect 	<ul style="list-style-type: none"> - realistic and clearly defined targets in limited number (Senegal 17) - financing for related investment identified and if needed provided - independent monitoring in particular through technical audits - fine-tuning of targets and related timeline after inception period - flexibility with defined review process 	Practice: review process Models: <ul style="list-style-type: none"> - schedule of improvement linked with compensation (Senegal) - for reporting and monitoring arrangements information requirements - TORs for technical audit

2.2.2 Establish a clear and transparent process and stick to it

Allocation of responsibilities for evaluation should be clearly defined and process should be credible and inspire trust. Well established and stable allocation of responsibilities is critical to discourage interference and manipulations. Selection criteria should be simple and unambiguous, normally resting on a single parameter linked to the price of water.

Threats/problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - interferences by bidders - acceptance of alternative - high risk perception 	<ul style="list-style-type: none"> - provide bidders with opportunity to review draft contract documents and put forward comments and suggestions - pre-bid conference - information shared with all bidders - responsibilities and process publicized 	Practice: - data room - evaluation process Models: for pre-qualification and evaluation Case: Gabon two-stage process

2.2.3 Foster competition and seek maximum participation in number and quality

The primary competence of the operator is his managerial and technical know-how. This is the area where he should be asked to assume risks. The transaction should be structured to limit the risk assumed by the operator in areas not under his control or affected by large uncertainties. Contracts that assign broad and undefined risks to the operator will attract few bidders and come in with higher price or attract operators of lower standards.

As world-wide opportunities for operators' services continue to increase, it is important to market PSP transactions and seek bidders' interest early.

An early start in establishing and developing capacity of public agencies involved in PSP transaction, in particular the AHC and the regulator, can reduce regulatory risk and build confidence.

Threats /problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - unrealistic expectations - low country rating 	<ul style="list-style-type: none"> - quality and availability of information - pro-active role of transaction advisers and financial partners (comfort, credibility) - early consultation with potential bidders - availability of local financing - high visibility in the country - perspective for further development in the country or the region (e.g., RSA) 	<p>Practice: marketing plan (Gabon road show)</p> <p>Model: information package</p>

2.3 Key Steps

Steps	Responsibilities	Success factors (SF) Layer 3: cases, practices, models, tools
1. Hiring of Transaction Advisers (TA) <ul style="list-style-type: none"> - scope of services: - duration from ... to 	<ul style="list-style-type: none"> - by Minister responsible upon recommendation of TF and after no objection from financial partners 	<ul style="list-style-type: none"> - SF: - strong international/regional reference; experience in WSS PSP ; combined with good knowledge of local legal systems - Models : TOR's for transaction advisers
2. Preparation of contracts documents <ul style="list-style-type: none"> - overall structure - financing plan - basis for remuneration - baseline data 	<ul style="list-style-type: none"> - by TA with support for TF - manages parallel studies , surveys on : <ul style="list-style-type: none"> baseline data investment HR issues 	<ul style="list-style-type: none"> - Model contracts: refer to Bank tool box Bank procurement guidelines
3. Preparation of pre-qualification and bidding documents	<ul style="list-style-type: none"> - by TA with support of TF 	<ul style="list-style-type: none"> - SF: - criteria not unnecessarily restrictive - survey of local capacity - Model criteria
4. Marketing	<ul style="list-style-type: none"> - by TA with participation -role of external financial partners 	<ul style="list-style-type: none"> - SF: - accurate and complete information including local financial sector
5. Pre-qualification	<ul style="list-style-type: none"> - managed by TA and TF - review by evaluation committee - decision by Minister overseeing reform 	<ul style="list-style-type: none"> - SF: - process well defined and credible
6. Review and validation of bidding documents	<ul style="list-style-type: none"> - by pre-qualified bidders - comments and follow-up communicated to pre-qualified bidders 	<ul style="list-style-type: none"> - SF: - revise and adjust documents to take into account comments by bidders and incorporate their suggestions
7. Information of local investors and workers	<ul style="list-style-type: none"> - by TF and TA 	<ul style="list-style-type: none"> - SF: - participation of local investors in capital of operator - Practice : Senegal, Gabon.
8. Call for bids	<ul style="list-style-type: none"> - by chair evaluation committee (minister in charge) 	<ul style="list-style-type: none"> -

9. Pre-bid conference and information meeting	<ul style="list-style-type: none"> - organized by TA and TF - information systematically shared in particular any revision of docs or changes in procedures -under two stage (Gabon-IFC) approach bidders contract at the end of stage 	<ul style="list-style-type: none"> - SF: - data room - sharing systematically of all new information with all pre-qualified bidders - Practice from successful cases
10. Bid opening and analysis selection in one or two stages - Evaluation normally in two steps: 1) evaluation of technical aspects and check of responsiveness; and 2) price	<ul style="list-style-type: none"> - organized by TA and TF directly overseen by Minister in charge - evaluation committee with technical working groups - under two stage Gabon-IFC approach bidders only submit price 	<ul style="list-style-type: none"> - SF: - high visibility for bid opening - process and rule defined in advance - impartiality - Practice and models: from Gabon¹ case
11. Award		- total responsibility of award committee
12. Validation of investment program and tariffs		

¹ The bidding sequence used in the case of Gabon offers a way of taking into account bidders technical suggestions. In a first stage, the pre-qualified bidders review the draft contract and make comments. The contract is then revised as appropriate taking into account their comments. The pre-qualified bidders intended upon submitting a bid are requested to sign the contract. In the last stage, the bidders submit their bid for the operator's price.

3 CONTRACT IMPLEMENTATION AND REGULATION

This section covers activities involved in the monitoring and management of the PSP contract.

3.1. Contract stability and long-term goals

Independent regulation arises from the need to provide stability to the PSP contract and ensure that it remains aligned with sector goals and policies.

The PSP operator and the Government are engaged in a long-term relationship with the goals of:

- (i) ensuring the continued development of affordable quality water and sanitation services; and
- (ii) obtaining a reasonable profit.

Good contract design ensures that these goals are aligned.

Good contract oversight and monitoring ensure that they remain aligned over time. This requires the willingness and the capacity to respond to changes in circumstances (drought, change in macroeconomic conditions, etc.), and at the same time, protection from action driven by short-term objectives of either party; e.g., Government refusal to grant scheduled tariff adjustments before elections; early termination by the operator after profits realized on procurement of works and equipment and technical services.

The regulatory functions:

- Tariff level and structure setting:
 - initial tariff level aligned with the operator's price as results from his bid
 - revision through indexation – annually
 - renegotiations of tariff level and structure – periodically, e.g., every five years or as needed, e.g., large devaluation.
 - Regulator needs detailed information from operator on operations, investments, etc.
- Service level monitoring
 - Regulator needs information from asset holding company/authority, operator and consumers
- Competition and transparency monitoring through licensing of AHC and operators
 - Regulator needs information on statutes and services
- Pre-arbitration/mediation of disputes
 - Mostly between AHC/conceding authority and operator as first level panel of experts

The independence of the regulator guaranteed by:

- tenure
- immunity
- financial autonomy (usually funded by a fee paid by the operators).

The regulatory model for PSP-based in Africa is still evolving. It seems to be the option of choice in countries where the responsibilities for WSS services are decentralized and several operators are present.

3.2. Guiding principles

- Start early in building the capacity of public agencies responsible for contract supervision and regulation
- Define information requirements and related responsibilities
- Foster the participation of local investors and of employees in the capital of the operator
- Establish process for dealing with changes and adjustments
- Ensure regular payment of water bill of public sector agencies
- Establish operator's authority and procedures for disconnection for non-payment, including high visibility customers

- Ensure timely execution of capex under the responsibility of AHC, by delegating project management responsibility to operator for rehabilitation and distribution.

3.3. Key Steps

3.3.1 Inception and Start-up of PSP Contract

- put priority on HR management and redeployment
- shorten the transition
- establish executive level mechanism to resolve issues and disputes
- seek early results to build support for the reform
- put the relationship with AHC on positive footing

Threats/problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - disagreement on baseline data - transfer of movable assets - unsettled HR issues : unpaid retrenchment 	<ul style="list-style-type: none"> - agreed process for adjustment and fine-tuning of baseline to reflect actual conditions - clear process for staff transfer and redeployment - early emphasis on training and attitudinal changes - strong information/communication within operator and with AHC and public at large 	Practice: <ul style="list-style-type: none"> - independent inventory and valuation of movable assets - staff transfer and redeployment plan

3.3.2 Annual tariff adjustments and renegotiations

- advance planning, process agreed
- information requirements well defined
- AHC or regulator supported by technical auditors

Threats /problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - unavailability or delay in indexes - information retention - regulatory capture by operator 	<ul style="list-style-type: none"> - establishing and maintaining a simple tariff structure - early planning, clear process and advance preparation - analytical accounting/financial model - reliance on external expertise for technical audit 	Model: <ul style="list-style-type: none"> - indexation formula - analytical accounting model (SODECI)

3.3.3 Review and planning of capex

- planning and execution of investment related to distribution and metering delegated to operator
- special financing mechanism for program to extend services to low-income settlements

Threats /problem factors	Success factors	Layer 3: cases, practices, models, tools
<ul style="list-style-type: none"> - lack of capacity of AHC - cumbersome procurement procedure - delays and quality shortfall 	<ul style="list-style-type: none"> - delegation of project management to operator - effective coordination among external financial agencies - separate funding mechanism for extension of service to low-income settlements 	Practice: WUP5 (SODECI, ONEA)

ANNEX 1: CROSS-CUTTING THEMES REPORTS

A. Pro-Poor Aspects of PSP

Key Constraints. A utility view

- Corruption/distorted decision making, controlling influences
- Legal restrictions, unregistered tenure, risk of uncertain tenure
- Inappropriate tariff - blocks & multiple families, cross subsidies
- High costs of connections, vendors/intermediaries
- Poor credit worthiness - pay by day, low demand=low profit
- Process intensive - sensitizing, collecting & billing small quantities
- Inappropriate levels of service - restrictive standards, unaffordable
- Unplanned/physical layout, marginal land (costly to serve)
- Insecurity - risks in collecting/disconnecting, clandestine operators
- Poor information/- consumer registers, customer preferences/demand, changing needs
- Weak regulatory capacity, inappropriate rules, misinterpreted, interference

Stage I – Selecting An Option

- Decision to proceed with PSP not based on addressing the needs of the poor – improved quality of service, operational efficiency, investment capital.
- However, inadequate attention to issues affecting low-income consumers may derail efforts to introduce PSP – tariffs and pricing, anti-PSP lobby.
- Key differences in approach between countries – Senegal, Ghana (Francophone vs. Anglophone policy framework).

Efficient and effective utility is a necessary but NOT sufficient condition for addressing the needs of low-income consumers.

Key Issues

- Does the option selected enable the poor to be reached early in the process?
- Are the needs of the poor understood and to what extent has consultation been carried out?
- Are all stakeholder groups on board – and kept informed as part of the communication strategy?
- Is the reform designed to take into consideration the needs of the poor – institutions, strategy?
 - Pricing policy/tariffs (financial equilibrium)
 - Legal/regulatory aspects (exclusivity and SSIPs)

How well is Government equipped to address these issues during the reform process?

Stage II - Designing the Contract

- Integration of pro-poor aspects in contract must be influenced by local conditions
 - Senegal/Côte d'Ivoire – social connection policy (high coverage rate at start, civil code)
- What role for the transaction advisors in design of enabling environment for contract?
 - Financing, policy, communication, consensus building

Ensure that the necessary conditions for success of the transaction process are in place.

Key Issues

- Extend TORs for transaction design and provide other types of support for reform process
 - Tools for improving pro-poor aspects of contract
- Information required to inform contract design – gaps often relate to poor
 - Set performance targets
 - Include other actors – SSIPs, NGOs
- Solutions tailored to existing situation
 - Expansion programs and how they are financed – donor role
- Communication strategy to gain and maintain support for the process

Stage III – Implementation, Regulation

- Focus on whether and where to establish regulatory capacity
- Pro-poor aspects not central to discussions at this stage

Key Issues

- Flexibility in adapting contract
 - Tools for negotiation and arbitration (tariff adjustments)
 - Consultation, consensus building and communication
- Monitoring performance targets
 - Tools for information management/data collection
 - Role of NGOs and SSIPs
- Role of asset holder, operator, government in prioritizing expansions
- Who regulates what aspects (e.g., SSIPs, sanitation)?
 - Role of PGA, operator, regulator, contract

B. Resource Mobilization and Finance

Donors' policies

- External support agencies (ESA) generally in support of PSP but need to prioritize utility reform under poverty strategy.
- Effective coordination among ESAs, particularly important for support to PSP-based reform; program approach called for rather than separate project.
- As long as competitive and open procurement procedures are applied, the presence of a private operator should not raise a problem as at any case external funding would be channeled through the Government.
- ESAs are collectively reviewing ways to leverage commercial financing with aid funds through extended guarantee and re-insurance schemes (e.g., the African Trade Insurance Agency).

External funding could be targeted to poverty objectives in particular programs for low-income settlements.

Private Finance

- Typically, equity limited to Working Capital
- Local commercial loans: rare, short-term, expensive, but can still be mobilized (Gabon, Nigeria, Senegal).
 - Bankability, financial plan
- World Bank guarantees (with expected leverage effect towards private finance).

C. Local/Regional Capacity – Enhancing Competition

Optimal use of local capacity

- Review situation of the labor market in-country/region *vis-à-vis* private sector attraction and participation in the sector.
- Determine capacity of the local/regional private sector participation in PSP Programs.
- Review capacity and willingness of the banking/financing sector to invest in PSP in the water sector through short/medium/long-term financing; including financing of employee buy-out schemes/share holdings in new entity.
- Enhance the quality and quantity of management to participate fully and efficiently in reformed sector.
- Determine the potential of the sector to generate funds through trust/funds (e.g., Water funds) to finance PSP, especially for local SME operators in small towns.
- Enhance local capacity to generate and disseminate accurate and usable information on PSP and options available for local/regional participation. If not available, seek external assistance.
- Review local capacity to design PSP and options available for local/regional participation. If not available, seek external assistance.
- Review local capacity to design to PSP options and process procurement for the selected option.

Enhancing Competition

- Ensure availability of broad information of private operators
- Enforce equitable competition
- Enlarge the pool of eligible companies/firms by limiting the requirements

- Establish favorable conditions to enable several firms to submit bids (reduce the cost of bids preparation)
 - Design flexible contracts with adjustments and possibilities of renegotiation
 - Legal and institutional framework well established.
-

ANNEX 2: ANALYSIS OF QUESTIONNAIRE

Responses to Questionnaire

Table 1A: Institutional Affiliation and Involvement in Reform

Institutional Affiliation of Participants	Number of individuals	Number of Countries/ Agencies/ Firms
Central Ministry/Department/Secretarial/Commission (Finance, Planning, Economy, Privatization)	5	5
WSS Ministry/Department	11	6
Regulatory Agency/Asset Holding Entity	4	3
Public Utility	12	8
Private Operator	(5)	2
	Day 1 and 2 Day 3	5
Country	20	4
	External Support Agencies: Multilateral Bilateral	2
Professional Associations/Programs	2	2
Others: NGOs, Consultants, etc.	2	2
Other	70	Countries: 17
	Total	Agencies: 0
	Country	Other: 10
	Other	

Table 1B: Status of PSP-based Reform

	Not Started	Starting	Contracting	Managing
17 countries represented at workshop	4	7	1	5

- Note:** – **Not started:** no PSD-based sector reform underway.
– **Starting:** sector reform initiated but contracting option not yet defined.
– **Contracting:** contract documents under preparation or bidding or contract negotiations underway.
– **Managing:** private operator in place.

Table 2: Understanding and Beliefs Concerning WSS Service in Africa

Urban WSS services in Africa	Agree ²	Total ³	Agree % of Reponses	
	#	#	FR ⁴	ENG ⁵
In Africa, access to clean water and hygienic sanitation remains inadequate with serious consequences on poverty and health.	34	37	91%	
			87%	100%
Service delivery is not keeping pace with demand, especially for the fast growing number of low-income households living in informal settlements.	35	36	97%	
			95%	100%
Political interference and low tariff policies have led to inefficiency and chronic financial weakness of public utilities.	31	37	84%	
			78%	93%

² Total Number of responses: "Strongly Agree" and "Agree"

³ Total Number of responses received

⁴ FR: Percentage of Francophone responses: "Strongly agree" and "Agree"

⁵ ENG: Percentage of Anglophone responses: "Strongly agree" and "Agree"

The inability of WSS utilities to maintain and extend services has led typically to situations where in fact subsidized services are denied to the poor who have to rely on more costly and lower quality alternatives.	32	35	91% 87% 100%
A well performing, citywide utility is a condition necessary for enhancing the economic efficiency of cities and for accelerating the provision of services to low-income areas.	36	36	100% 100% 100%
Water utilities in Africa have limited prospects for improving their performance unless they undergo structural reform	32	37	86% 87% 86%
Over the past ten years, PSP has become the method of choice for reforming water utilities and establishing the conditions for improved efficiency and financial viability.	28	34	82% 82% 83%
Although experience has demonstrated that private sector participation can improve service delivery, major educational efforts are required on the role of the private sector and on the design and implementation of reform.	36	36	100% 100% 100%

Comments:

A) Convictions et Opinions

- La faillite des sociétés distributrices d'eau potable est liée à la mauvaise gestion.
- Le secteur de l'eau et de l'assainissement est prioritaire pour le développement des pays africains. Il joue un rôle critique pour l'agriculture, l'industrie, le tourisme, la santé, l'hygiène, etc.
- L'expérience du Sénégal prouve l'aptitude d'un opérateur privé pour rehausser les performances et accélérer l'alimentation en eau des zones périurbaines.
- La transparence entre acteurs est essentielle.
- Les structures étatiques peuvent être performantes si l'état donne plus d'autonomie aux dirigeants.
- Les augmentations de tarif intempestives et non-expliquées conduisent la population à utiliser des sources traditionnelles.

B) Understanding and Beliefs

- Not sure what emerging experience is.
- The issues of political interference are debatable because the politicians want efficient services at reasonable prices for their poor electors.
- Lessons learned on PSP not very well articulated and disseminated, best practice in Africa not well known.

Table 3: Issues and Options Concerning PSP-based Institutional Reform

Issue: Poor Understanding of success factors for PSP-based reforms	#	#	%	
			FR	ENG
The process of PSP-based reform has been protracted, lengthy and costly with frequent backtracking and uncertainties increasing the risk and eroding the potential benefits	28	34	82% 81%	85%
Opportunities				
The emerging African experience offers the basis for a better understanding of the political economy of WSS	11	13	84% 100%	60%
Guiding principles	26	34	76% 80%	67%
Reduction in transaction cost and streamlining of formats and processes	21	32	65% 65%	67%

Comments:

A) Francophone

- L'eau potable et sa mise à disposition des consommateurs à un coût, toutefois, elle ne saurait être traitée comme n'importe quelle marchandise. Il faut dans la politique tarifaire tenir compte à la fois des équilibres financiers et de la capacité réelle des consommateurs.

B) Anglophone

- Upfront communication on a consistent basis is a major factor of success for transaction closure, thus avoiding delay in the benefits of the reform.
- Some fast-paced reforms have left some casualties behind, i.e. retrenchments without compensation
- Actually the process of PSP takes a long time.

Issue: Lack of capacity to supervise and regulate PSP contracts	#	#	%	
			FR	ENG
Public agencies have been ineffective in managing contracts and in carrying out regulatory oversight due to inherent imbalance between weak and fragmented public agencies and well organized and sharply focused global private operators	26	32	79%	85%
Opportunities				
Better understanding of the regulatory function	37	33	96%	100%
Guiding principles to match regulatory arrangements with available capacity	31	33	90%	100%

Comments:

A) Francophone

- La régulation est un système nouveau qui pour remplir sa mission dont justice et équité requiert une bonne compréhension de la mission, une expertise confirmée dans le domaine, une indépendance d'esprit.

B) Anglophone

- The issue is that agencies are not taking the leap of faith and are unsure about what control they have over the contracts. This is a factor in delaying political support for PSP
- Capacity building for operators of regulatory function is initial
- Capacity is an issue in most public agencies
- The real issue is that the public utility lacks "negotiation skills" and is often short changed by a monopolistic private sector with few players.
- Is there a real competition among PSP water service operators?
- Can the "regulatory function" be conducted only by an "independent regulator"?

Issue: PSP market dominated by few global operators	#	#	%	
			FR	ENG
The market for PSP in large cities, which has received most of the attention so far, is still dominated by a limited number of large Europe-based operators with limited competition	34	35	100%	93%
The development of domestic and regional capacity is increasingly seen as a requisite for the widening and sustainability of PSP in WSS	29	34	75%	100%
Opportunities				
Seek to enhance competition by reducing risks and complexity	32	35	86%	100%
Foster the development and the participation of local capacity	34	34	100%	100%

Comments:

A) Francophone

- Une part plus grande devrait être faite aux privés nationaux dans la formation du capital et cadres nationaux pour les postes stratégiques.
- L'intégration des capacités locales est une condition de réussite des réformes mais un choix judicieux doit être opéré.
- Le peu d'intérêt manifesté pour le secteur est perçu comme un manque de professionnalisme de la part des opérateurs privés.
- La transparence dans la gestion est de mise, mais il faut éviter de transférer les monopoles étatiques à quelques poignées repreneurs privés monopolistes.
- Création de partenariat avec le secteur privé local, l'implication des travailleurs au capital et accélération du transfert de connaissance doivent être intégrés aux objectifs des réformes.

B) Anglophone

- This is for technical capability as well as financial resources. The challenge is how globalization can benefit the underdeveloped world
- Recognize the role played by other actors – SSIPs, NGOs, communities, etc.
- Proper risk analysis and allocation is critical in the pre-transaction stages: considering social, political, technical, financial and sovereign risk issues

Issue: Resource mobilization impact of PSP limited	#	#	%	
			FR	ENG
In spite of progress toward financial viability, there are still very few instances where PSP-based reform has led to the mobilization of resource from the financial sector, either domestic or external	27	35	77%	81% 71%
PSP has in some instances slowed down or restricted access to aid fund as donors have not yet adjusted their policies geared primarily for public sector management and ownership	19	34	56%	65% 43%
Opportunities				
Models to leverage aid funds and mobilize non-sovereign financing and guarantees	31	33	94%	95% 92%
Consultation among donors to harmonize their policies	30	32	94%	95% 92%

Comments:

A) Francophone.

- La PSP devrait être un élément positif pour la participation des bailleurs de fonds et du secteur privé au financement du développement du secteur de l'eau.
- La concentration avec les bailleurs de fonds est nécessaire pour harmoniser les politiques.
- La maîtrise des coûts nécessite des financements concessionnels.
- Rechercher des montages financiers qui combinent les financements commerciaux avec l'aide durant une période transitoire suffisamment longue.
- Attirer le maximum de financement concessionnel, requiert une concentration permanente entre bailleurs de fonds.

B) Anglophone

- The economic rationale for financial support to PSP should be developed and debated among donors
- Even when PSP is in operation, donor funds should continue to flow towards areas not yet under PSP, i.e. rural water supply and also the area of sanitation, which is often ignored.

- The capacity of local financial markets and their perception of risk-benefit spectrum in public utilities is limited.
- The local market must be seen to be intervening side by side with the international donor community.

Issue: Improvement of services to the poor needs early and sustained attention	#	#	%	
			FR	ENG
Early reform efforts have not integrated the objective of extending services to the poor	23	32	72% 80%	58%
The introduction of profit-driven operators brings the issue of service to the poor into sharp focus as it seems that prospects of private deprivation is politically and socially less acceptable than long-standing public neglect	24	31	77% 84%	67%
Opportunities				
Improvement of services to low-income households has to be a central objective of WSS sector reform	29	34	85% 90%	77%
The principles and practices uncovered under WUP Project # 5 offer the basis to integrate the objective of services to the urban poor in the reform process	23	27	85% 93%	75%

Comments:

A) Francophone

- Il faut documenter de manière objective l'impact des contrats PSP sur les services aux pauvres à partir de situations de départ bien étudiées.
- Intégrer les objectifs de couverture un contrat en assurer le financement
- Mécanismes de consultation des quartiers défavorisés
- Seule la conciliation apparemment contradictoire entre profit et nécessaire prise en compte du revenu des ménages peut conduire à une réussite du processus en cours.
- L'AEP des zones pauvres nécessite des approches appropriées (branchements sociaux, BF, etc.) à des coûts accessibles.
- Cette option permet de réduire les crédits que l'Etat accorde à la santé
- Le périmètre d'exploitation doit intégrer les zone sub-urbaines et progressivement les ruraux immédiats.

B) Anglophone

- The issue of political and social acceptance is, however, much broader and needs to be considered in its own right.
- For as long as the interest of the poor is neglected in contract planning, the whole process will be viewed as anti-poor and therefore a social/political time bomb.
- Interestingly that private sector is under such scrutiny, i.e. serving the poor – the question is where is the scrutiny coming from? (Generally not locally driven).

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