

Barclays Africa Water Utility Workshop

Water Utilities Management and Financing

Johannesburg, South Africa

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Presentation outline

1. Introduction
2. Water needs Money!
3. Typical Utility Challenges in Developing Economies
4. Any Success Stories of Utility Reforms- Public and Private??
5. Need for Water Infrastructure Financing in Africa!!!!
6. Way forward - Africa



Water Needs Money, Like the Desert Needs Rain!

Water can be seen

- a) As a **Resource** to be developed and managed for the benefit of all it's functions and users

Or

- b) As a **Service** to be provided to it's different users after abstraction from the source.

Both aspects are grossly underfunded in Africa today.

- Financing is needed to support water resources management including, development of hydraulic infrastructure, hydropower, implementing conservation measures, data collection, land-use regulation etc.
- Financing is also needed for infrastructure and management of water supply and sanitation services (WSS)



I. Introduction

A Gloomy Picture- The Well is Dry!



Credit: KS Manu

The YOUNG génération is calling us to Leadership in a Sector where:

- Over 784 million people do not have access to safe water sources. 344 million (over 40%) of these are in Africa
- Over 2.4 billion people do not have access to improved sanitation. 557 million (over 20%) of these are in Africa

It gets worse:

The situation is deteriorating both in Africa and Asia as the Population continue to increase and resources constrained. We must act NOW and TODAY!!!

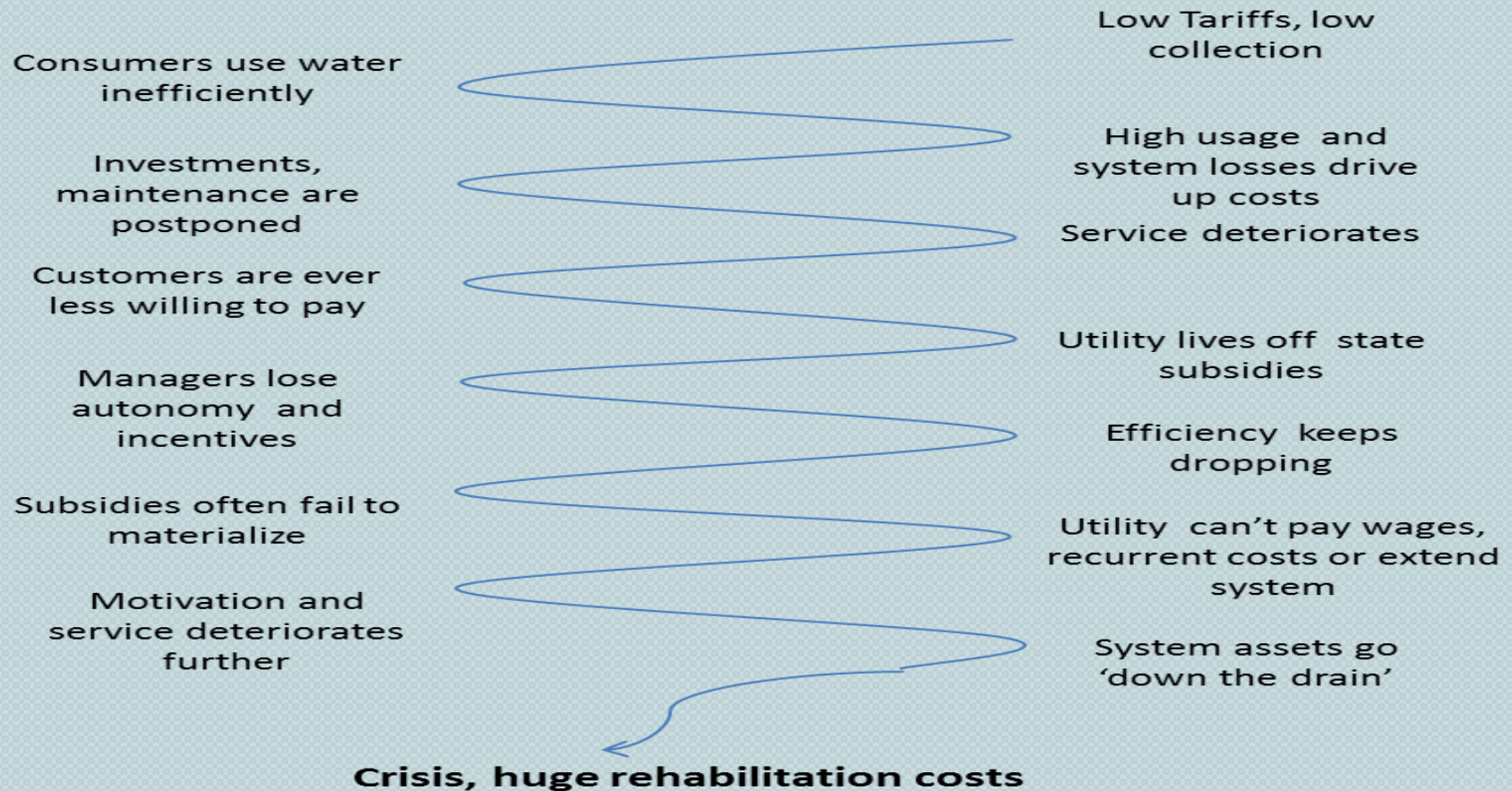


WELCOME to WHERE?



MOST WATER UTILITIES ARE LOCKED IN A SPIRAL OF POOR PERFORMANCE

Source: New Designs for Water and Sanitation
Transactions: Making Private Sector Participation
Work for the Poor, WSP/PPIAF, 2002



Typical Utility challenges in Developing Economies

Low service coverage	Inefficient/intermittent water supply : <i>2-10 hours of supply/day</i>
Large inefficient work force with conflicting roles: <i>staff productivity of 30-50 staff/1000c</i>	Poor organisational culture – <i>corrupt field staff, late coming, drunkenness</i>
Low operational efficiencies: <i>NRW 50-70%</i>	Monthly deficit (<i>unable to pay staff salaries, chemicals, power, etc</i>)
Poor customer care	High operating expenses (admin, medical, transport)
Low collection efficiency (<i>Collection Efficiency 40-70%</i>)	High debt burden (borrowed money for infrastructure development & operations)
High level of debtors, <i>debt age >8 months</i>	Poor incentive structure

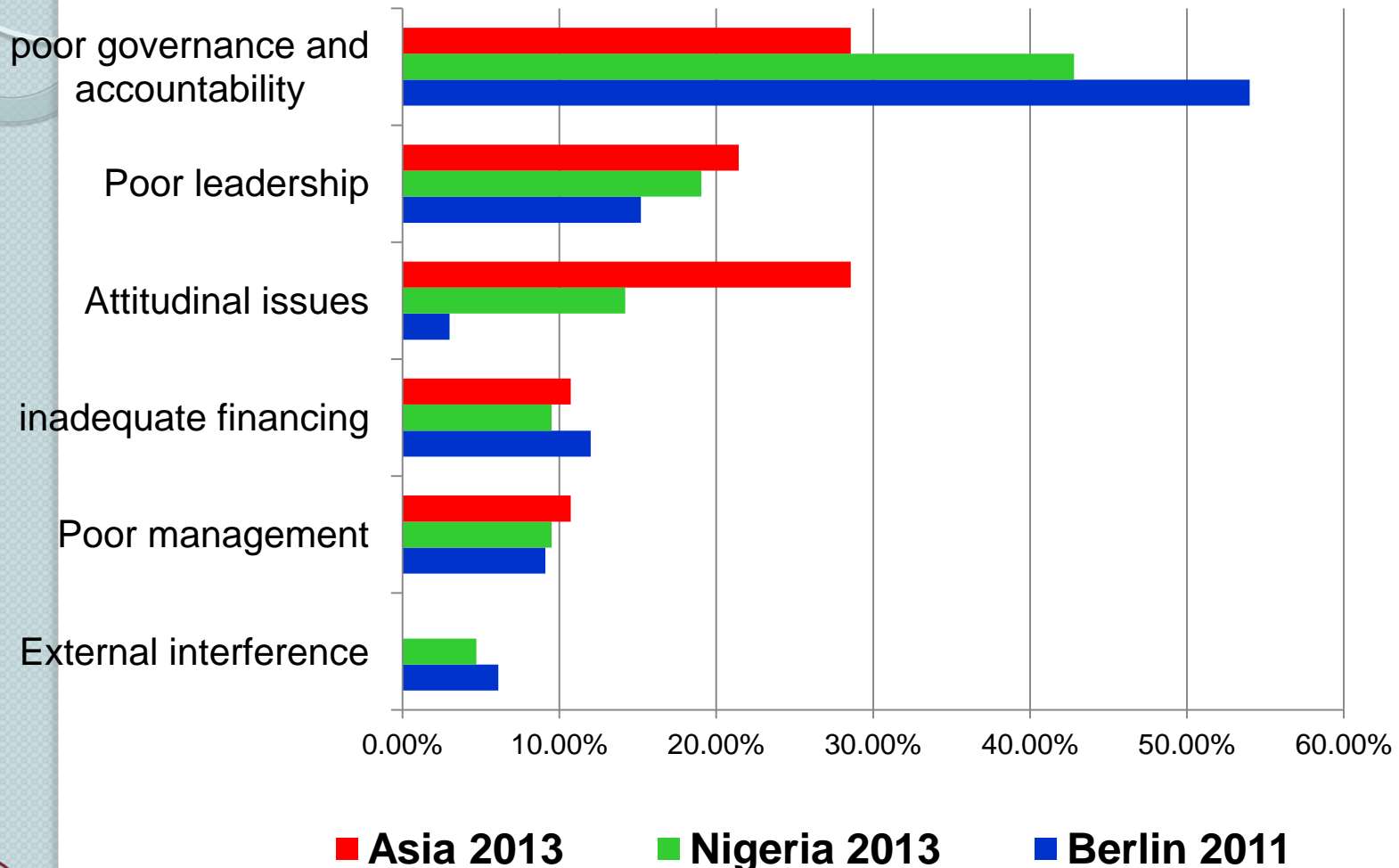


THE VICIOUS SPIRAL OF POOR PERFORMANCE HAS BEEN ° ATTRIBUTED TO MANY FACTORS:

- 1) Poor Governance & Accountability
- 2) Poor Leadership
- 3) Attitudinal Issues
- 4) Inadequate Financing
- 5) Poor Management
- 6) External Interference



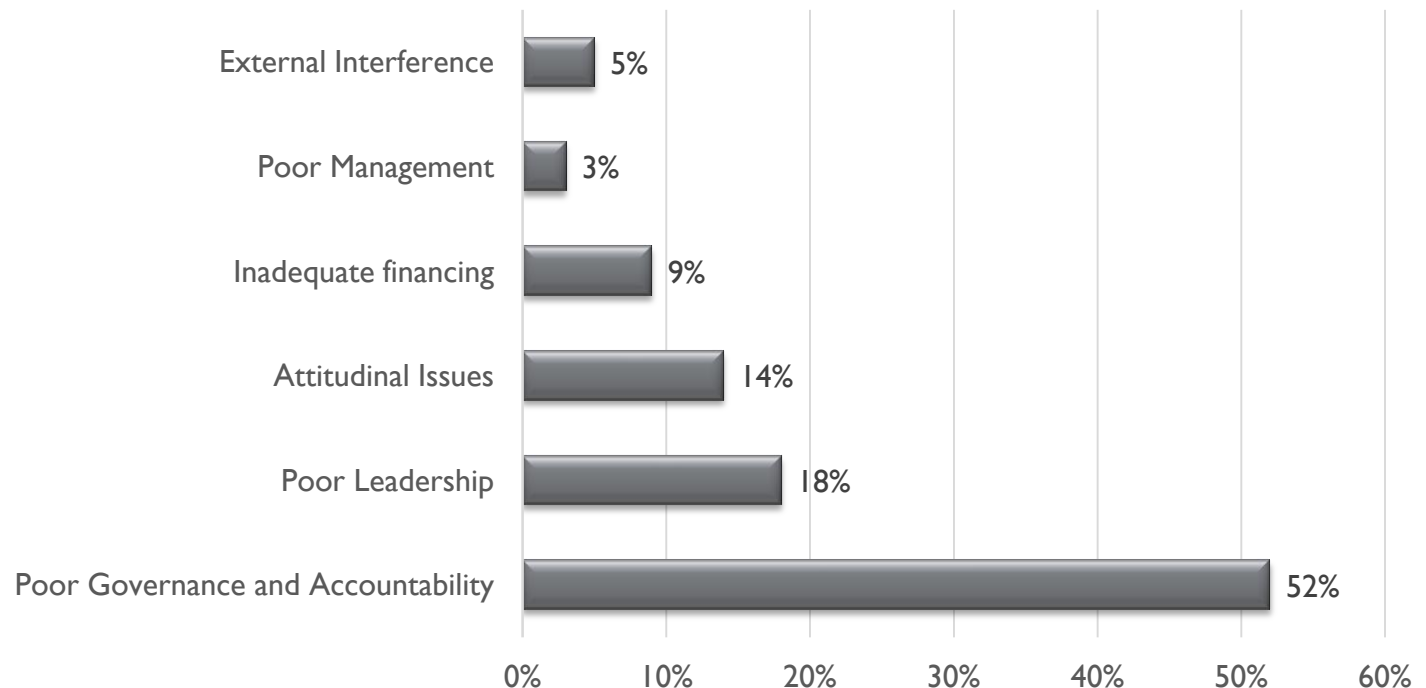
Why do we see poor delivery of urban water supply and sanitation services in developing countries?



Why do we see poor delivery of urban water supply and sanitation services in developing countries?

The Barclays Bank Group Workshop South Africa Response

% Distribution of Responses



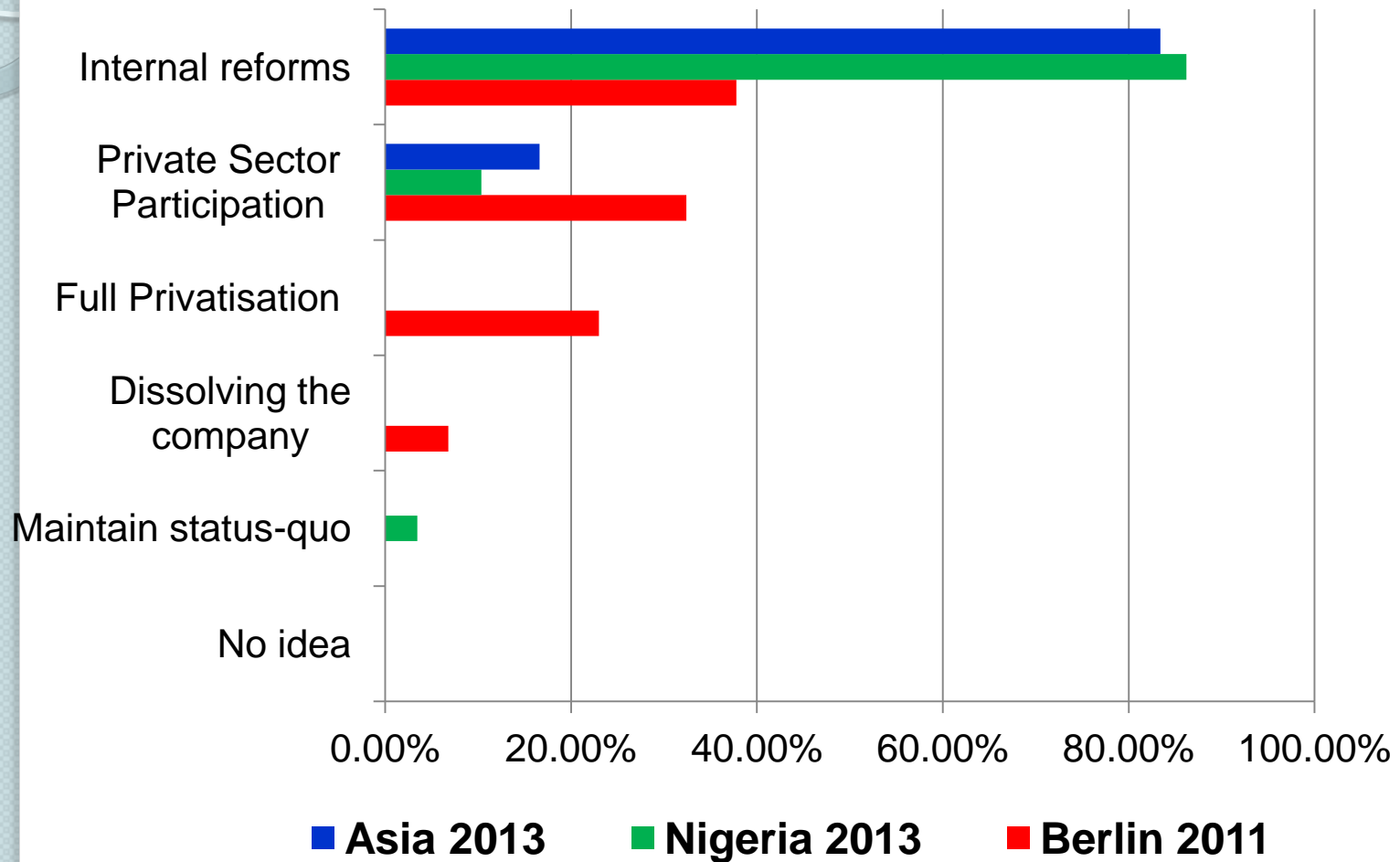


How do you think the delivery of urban Water and sanitation services can be improved and sustained?

1. Internal reforms
2. Private Sector Participation
3. Full Privatisation
4. Dissolving the Company
5. Maintain the Status quo
6. No idea

How to sustainably improve delivery of urban water and sanitation services?

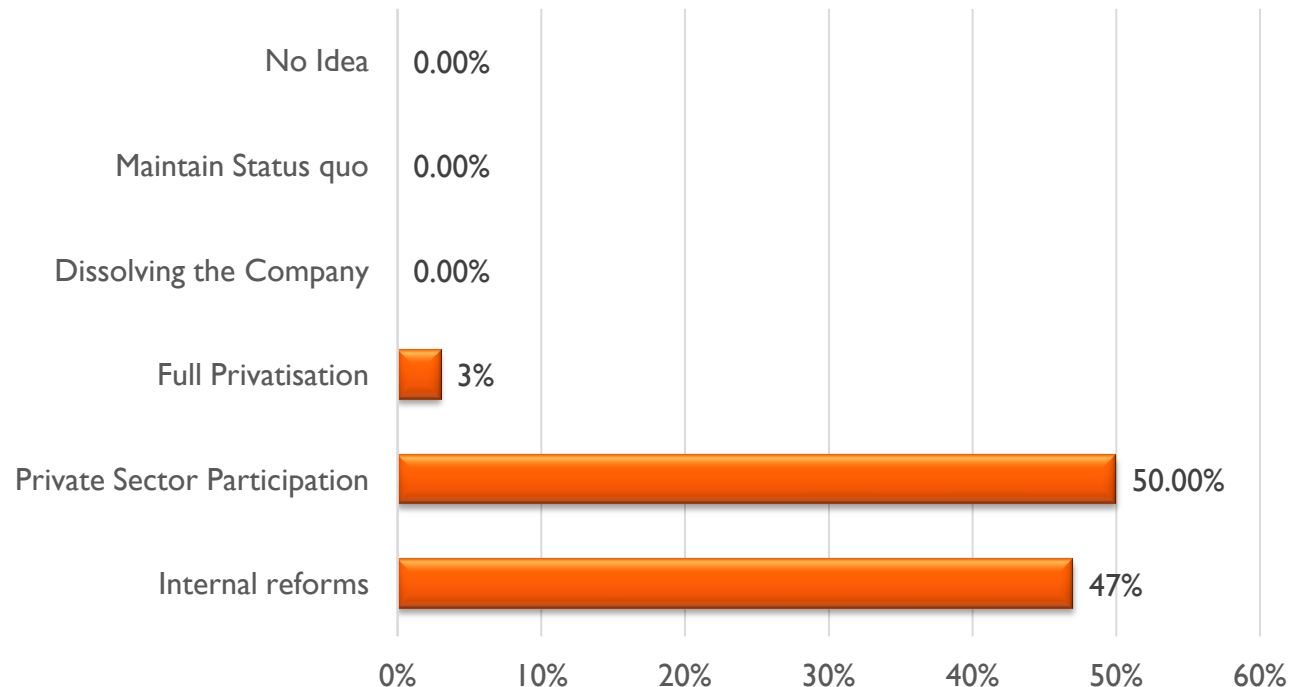
Comparison of the different groups responses – Asia, Africa and Europe



How to sustainably improve delivery of urban water and sanitation services.

Barclays Africa Water Utility Workshop Response

% Distribution of Responses



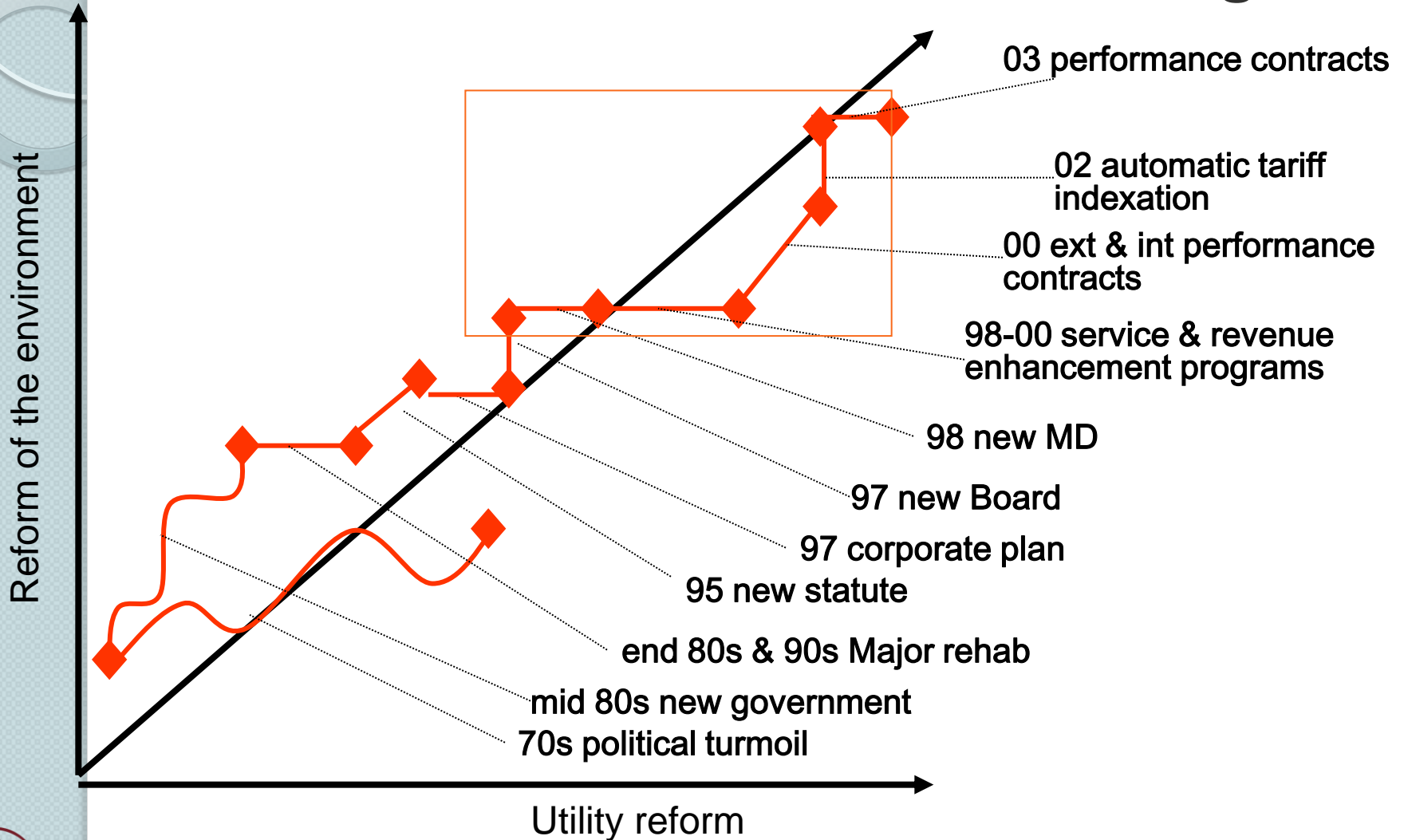
The Big Question is:

- Do we have any success stories to talk about in this developing World????



Institutional Reforms

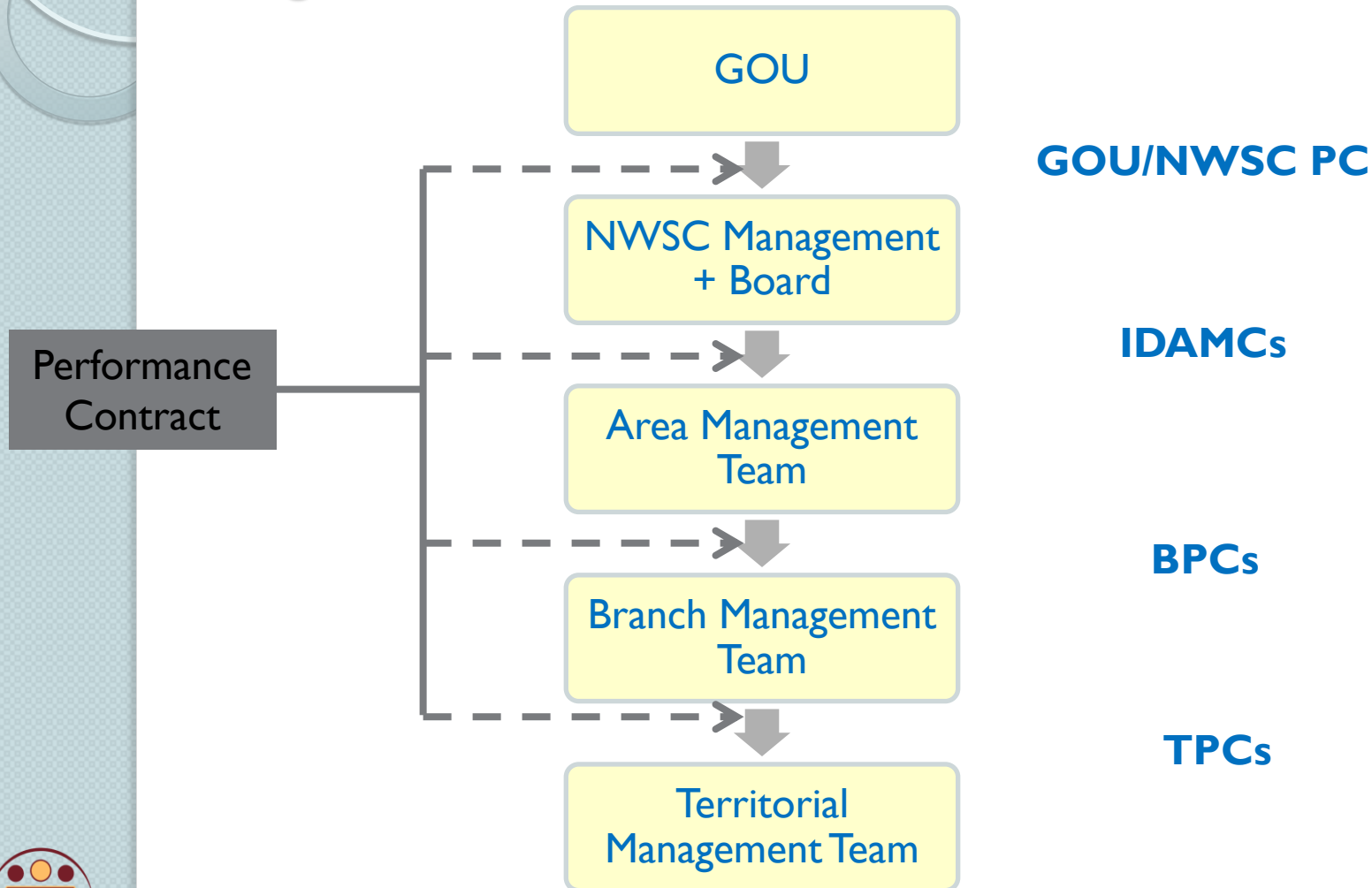
The route to reforms never linear: NWSC, Uganda



Success Stories- Utility Reforms

i) NWSC Uganda

Cascading Nature of the Internal Reforms



NWSC Performance Based Incentives...I

Financial Incentives

- If an Area meets SMART targets (50% salary as bonus); if an Area meets STRETCH targets (100% of salary as bonus).
- Performance below minimum performance targets attracts a penalty of up to 25% of partners' gross salary
- Incentive sharing takes into consideration a combination of pro-rata and equal sharing
- A total of about **USD 2 million** is paid as incentives every year – but they are *self financing*

Non-financial incentives –

- Team/Area competitions,
- Naming and shaming;
- Publication of Monthly, Quarterly and Annual Performance of Best and worst.
- Individual Praise or recognition



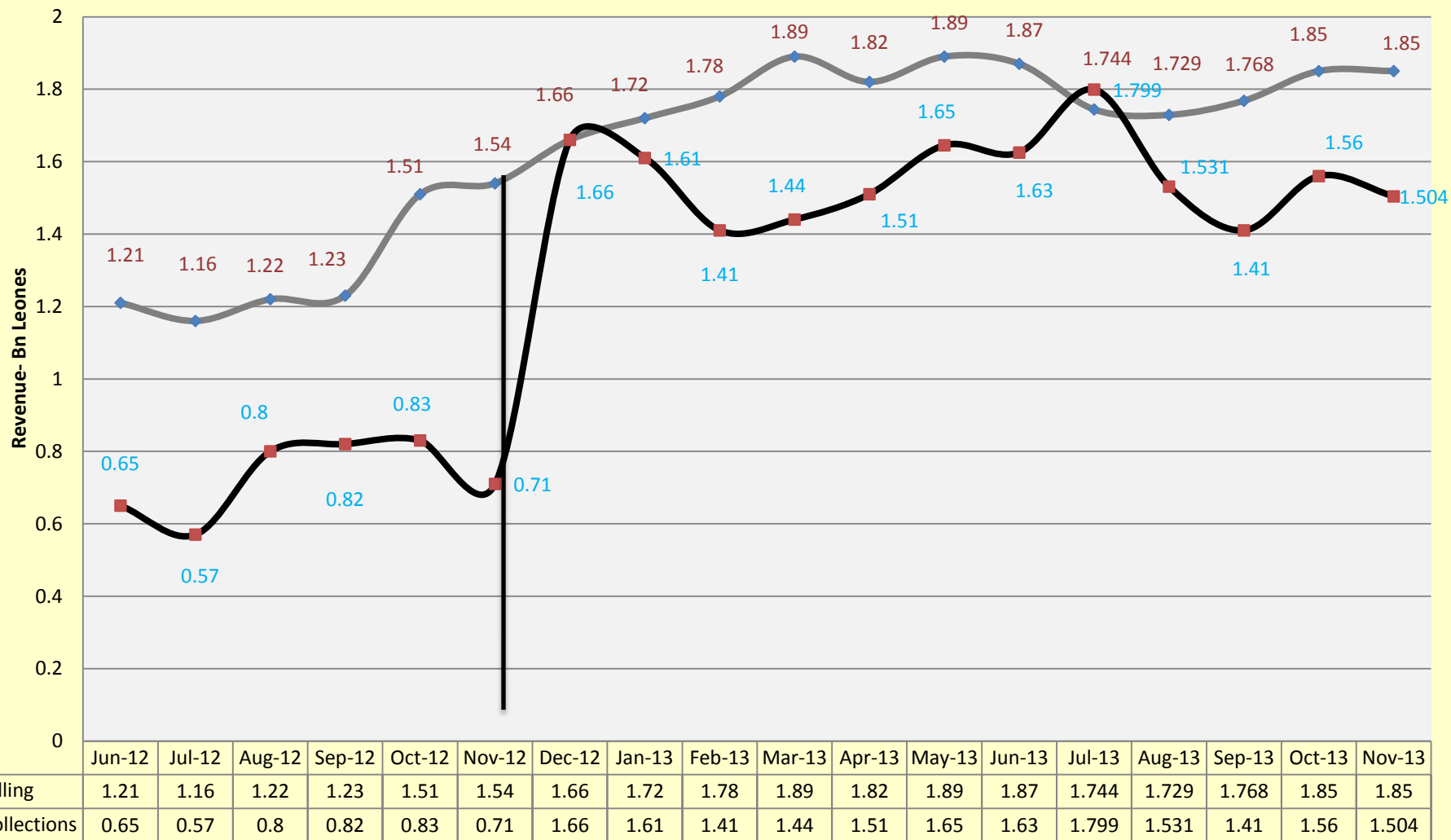
Results of the Internal Reforms in NWSC-Uganda

Performance Indicator	1998	2012
Service Coverage	48%	77 %
Total Connections	50,826	296,206
New Connections per year	3,317	25,000
Metered Connections	37,217	295,444
Staff per 1000 Connections	36	6
Collection Efficiency	60%	98 %
NRW	60%	32.2 %
Proportion Metered Accounts	65%	99.7 %
Annual Turnover (Billion Shs)	21 (\$18 million)	157 (\$62 million)
Profit (Before. Dep.) (Millions USD)	4.0 (loss) or Ushs 4.6bn	15 (Surplus) or Ushs 38 billion

Source: NWSC Audited Financial



2.Guma Valley Water Company (Sierra Leone) - 100 Days Performance Gains Have Been Sustained



3. Phnom Penh Water Supply Authority - Cambodia

Financial turnaround of the Utility

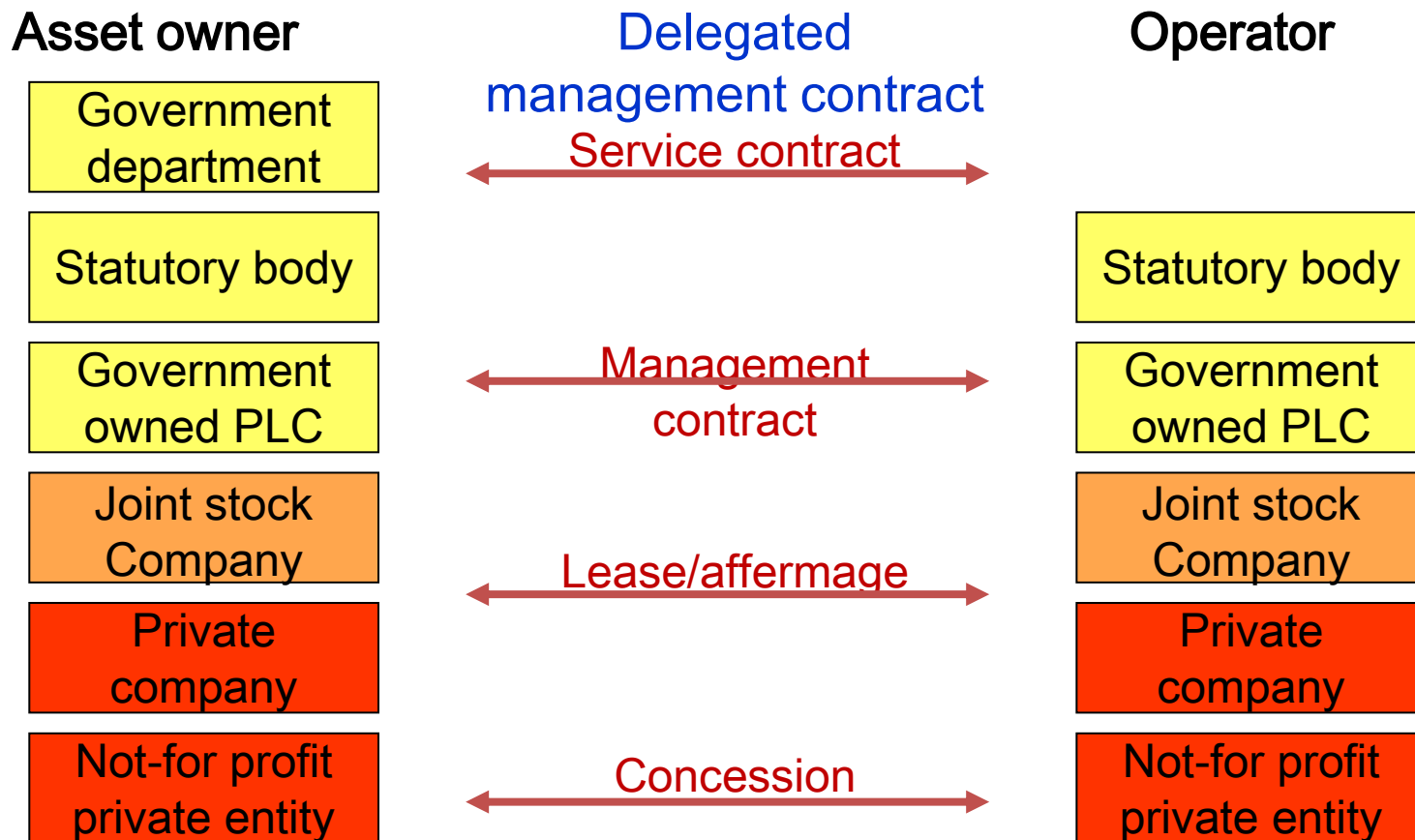
- New management team (incentive payment)
- Reformed to government-owned company
- Revolving fund for connections for the poor
- Automated billing system (replacing corrupt collectors)
- Customer surveys & public info campaign
- Meters installation for all connections
- Fines for illegal connections
- Leakage reduction
- **Automated accounting & management system**
- **New tariff structure introduced based on long-term projection model**

	1997	2004
connections	39,000	133,777
Total revenues (B riel)	14,2	50.4
Net income (B riel)	-0.7	+8.4
Unaccounted for water	65%	16%
Collection ratio	89%	100%
Average tariff (Riel/m ³)	895	965



Key Lesson: A multitude of models exists

“One size does not fit all”



Key to ownership:



100% public



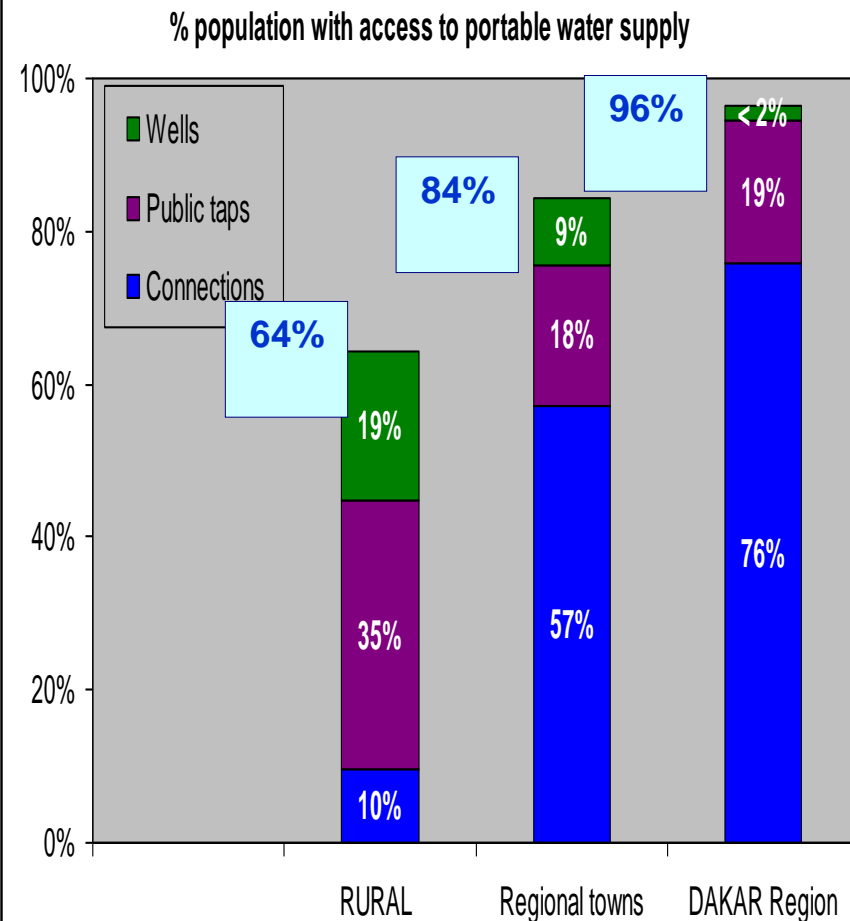
Mixed public/private



100% private

Senegal-Impact after 10 years of PSP

- Access to water supply increased 74% to 96% of urban population
- Water supply service 24/7
- 1.6m gained access to water and 830,000 access to sanitation
- Investment: Total US\$515M, including US\$225M from IDA
- Public asset holding company for planning and financing investments
- Private operator for water supply services



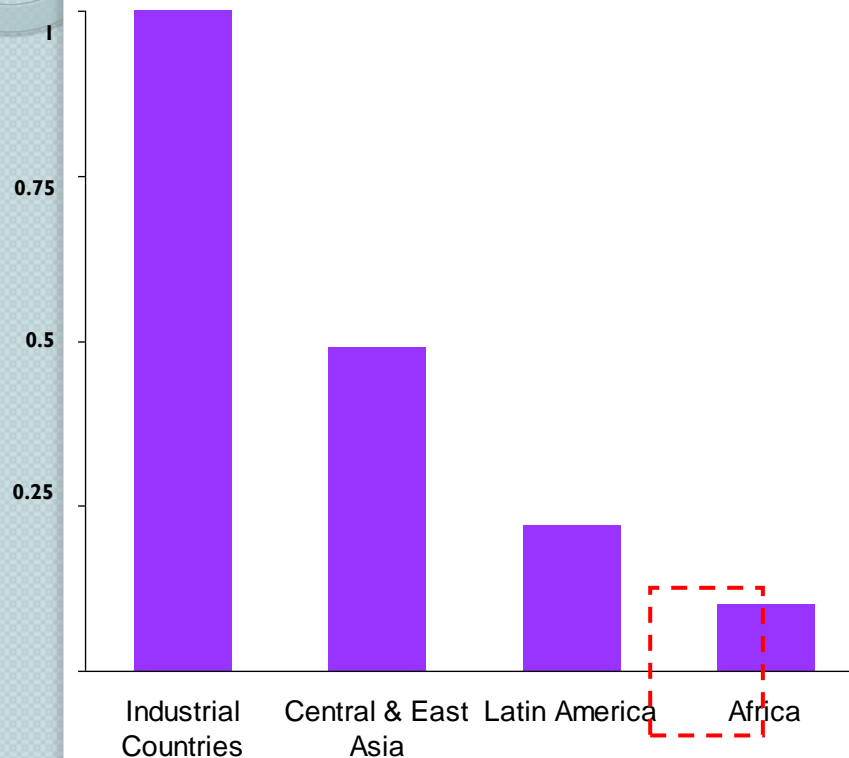
Another Big Question:

- What do we do with the rest of the Untold Stories????



Africa's Infrastructure Density

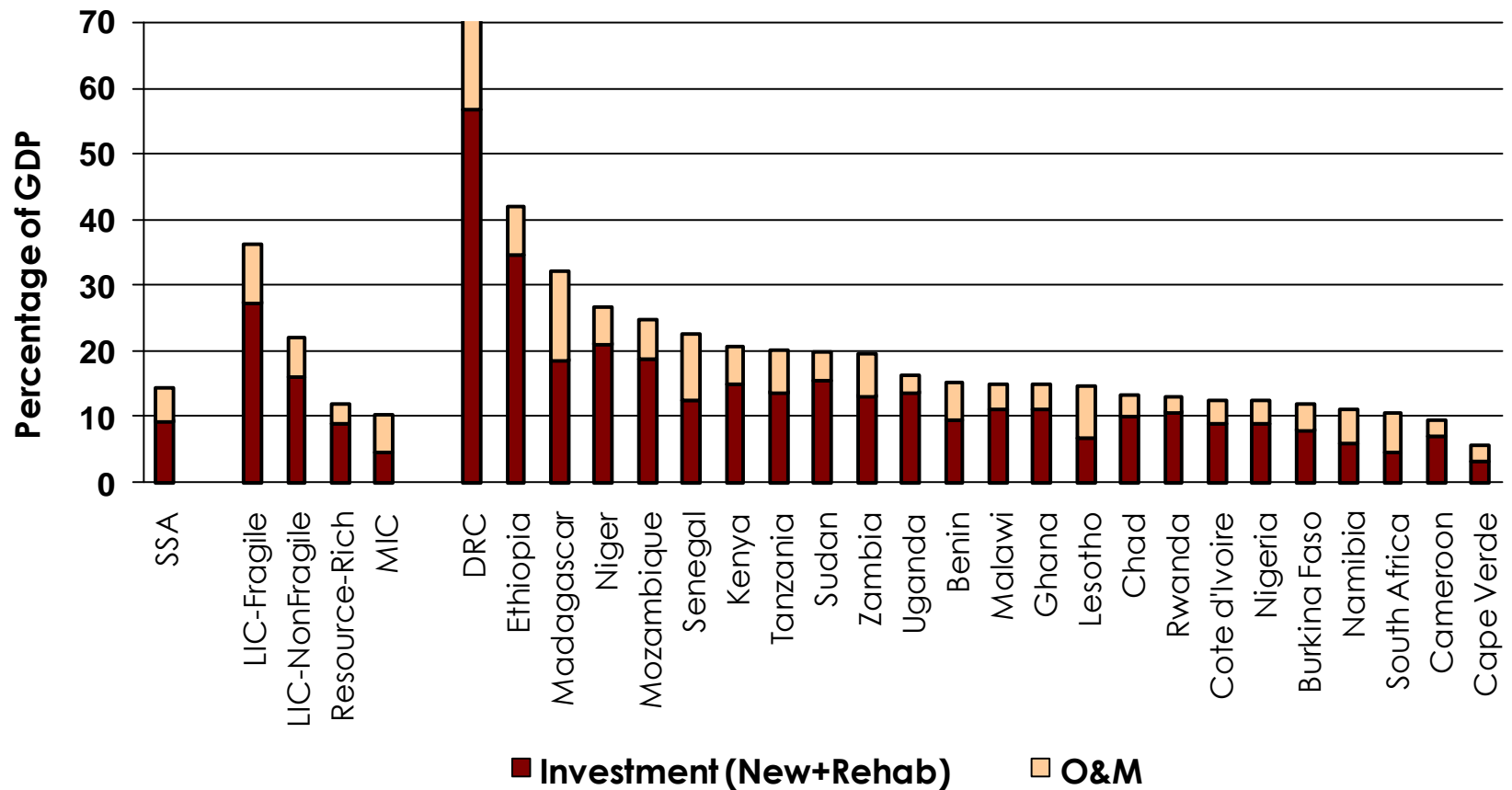
Infrastructure density index



- Africa ranks far behind other emerging markets in terms of infrastructure density
- Africa is in dire need of improvements to its infrastructure
- There is a marked shortfall in the investment required for the needed improvements to the continent's infrastructure
- Water is in particular need of investment

Source: UN Economic Commission for Africa, UBS Research

Infrastructure investment needs in Africa are substantial



Source: AICD 2010

In Africa, private investment is critical

Annualized Overall Spending Flows

	Public sector (capex) and O&M	Private Sector	Non-OECD financiers	ODA	Total
Total SSA \$bn pa	29.8	9.4	2.5	3.6	45.3

- In Africa, Private Sector contributes about 21% of total current investment – more than either ODA or Non-OECD flows.
- But this is only 50% of \$93 billion funding required in Africa p.a.

Source: AICD, 2010

....but several constraints need to be addressed to scale up private Water investments in Africa

- No or limited sector reforms
- State-owned utilities are generally not performing (e.g. high level of losses, low collections)
- Tariffs do not always reflect full cost recovery
- Poor sector planning (crisis planning)
- Reluctance to embrace transparent award process/PEP involvement
- Perception of high country risk
- Limited project development resources dedicated to creating bankable projects

5. What is the Way Forward- Africa

Africa cannot wait for 10 years of reforms and Innovative Financing!

- Federal and State Ministries together with Municipalities must decide
 - Legacy – the Private and Public Sector leadership has to undertake to make the impossible possible
 - Political capital – doing the job Your Governments and Customers called you out to do
- Management Team and Staff
 - Professional pride
 - Responding to your mandate
 - Potential for increasing salaries in a credible way
 - Opportunities for career advancement



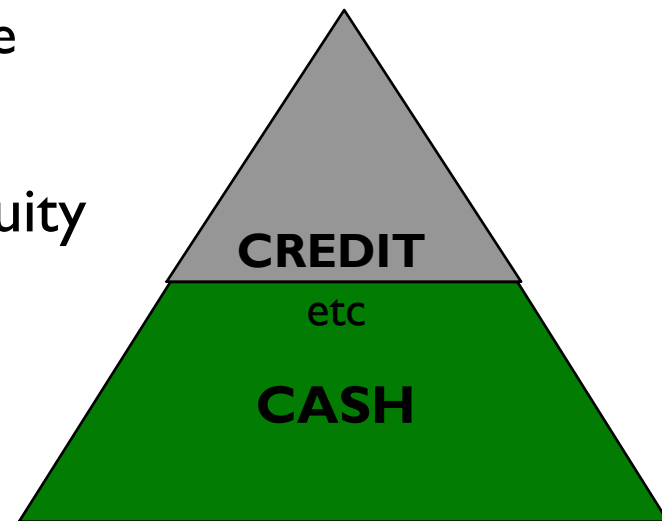
Stick to key elements of reform– Whether using Public or Private service delivery model

- Financial sustainability- only guarantee for long-term service provision
- **Utilities must**
 - Reduce cost
 - (a) better management, (b) sound O&M, (c) adequate designs, and (d) financial planning
 - Increase revenues
 - (a) collect bills, (b) improve pricing / subsidy policies, (c) increase access
- Good governance – all segments benefit
 - Autonomy
 - Accountability for results
 - Customer-orientation (strong participation and feedback)
 - Market-orientation (strong communication strategy)

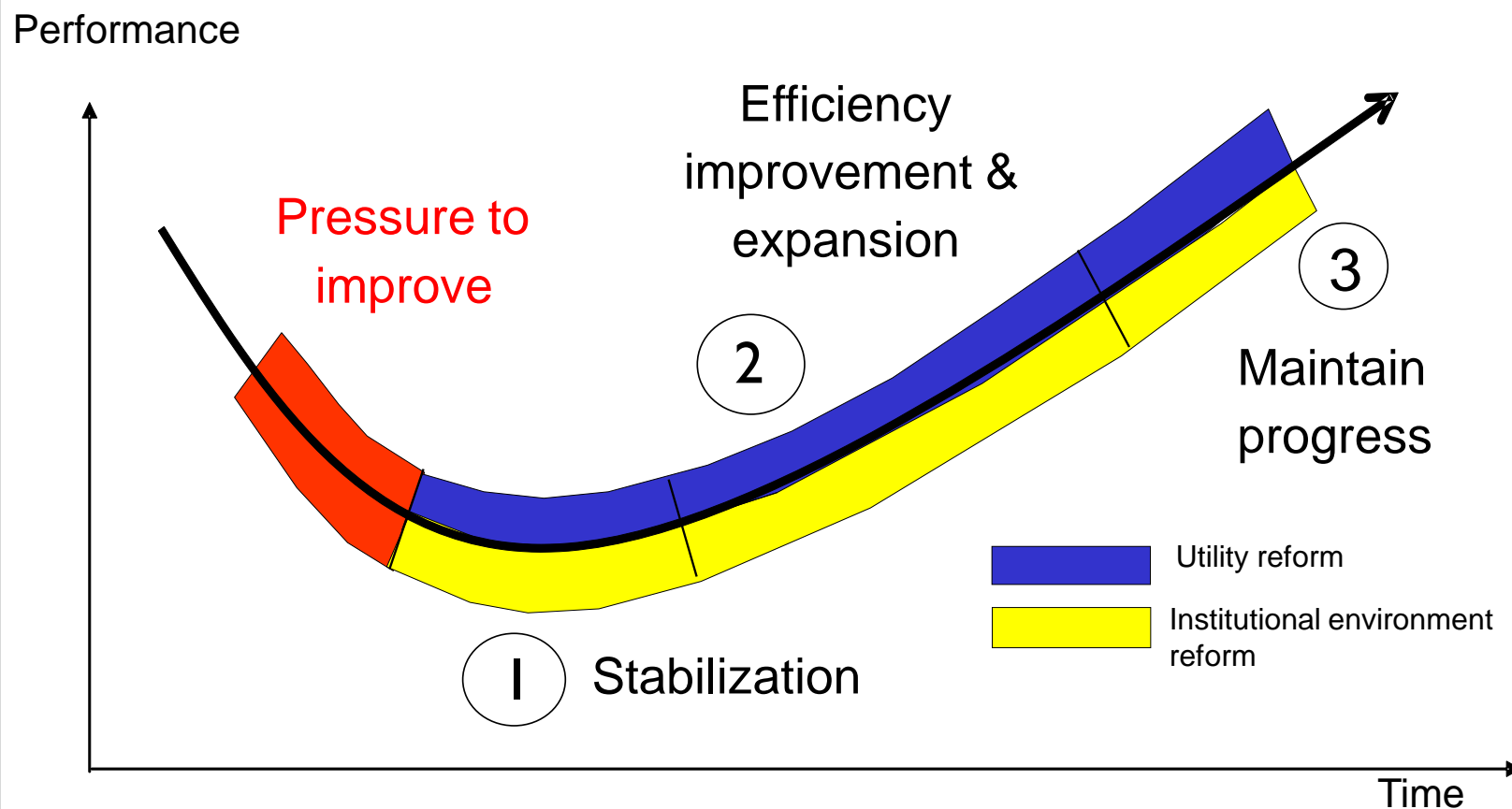


Cash from operations is the engine!

- The largest source of WSS investments
 - asset renewal
 - most small, routine investment
 - the only source in many LDCs / transition countries
 - a major component of concession finance
- Basis for any use of credit or private equity



Phases in Project Finance turnaround



iv) What Next for Africa?

Challenge in Africa is Enormous

Going from a few cities with 24/7 water to many cities with sustainable services in the 10 years.....

- **Strengthening Service Delivery Arrangements?**
 - Public and private models can be adapted to strengthen governance & accountability aspects
 - Standardized models can be developed to cater to varying 'sizes and scale' of cities
- **Mobilizing Resources?**
 - Professional 'cadre of staff/advisors', including standardized training to address large scale requirements
 - Clear 'roadmap and milestones' to achieve financial sustainability
- **Focusing on Results?**
 - 'Performance linked financing' to incentivize service delivery improvements and achieve cost-effectiveness





Thank You For Your Attention

आपको धन्यवाद देता हूं।

