REFORMS AND PUBLIC – PRIVATE PARTNERSHIP in Senegal’s Rural Water Sector

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Oumar Diallo, Senior Water & Sanitation Specialist
Dakar, Senegal

WORLD BANK GROUP

# Summary

1. **Country background**
   
2. **Senegal rural water reform**
   - Legal & Programmatic Framework
   - Institutional arrangements
   - Process
   - Implementation

3. **Lessons learned**
Country Profile (2015)
Land: 198,000 km²
Population: 15.1 million
- Urban: 44%
- Rural: 56%
GDP/capita: USD 1,050
GDP growth: 6.5%
Poverty line: 45.3%

Access Rate
- Water supply: 92.0% (Urban: 98% - Rural: 87.2%)
- Sanitation: 47.9% (Urban: 62.2% - Rural 36.7%)
BACKGROUND

Rural water supply schemes

ASSET:
1,600 Boreholes with MVS (Estimated cost: 440 M$) and 2,200 Hand pumps

Access rate: 87,2%
- Piped water: 74%
- Hand pumps: 13,2%

Average water price: 0.6 USD/ m³

Boreholes Fleet Evolution

October ‘2016 ---> 1600
+50 % are more than +20 years old

January 1981 ---> 210
**BACKGROUND**

**Successive reforms in the Rural water sector:**
- DHR: Rural water development (Investment)
- DEM: (1983) Support CBOs in O & M and training
- REGEFOR: (1996) Pilot project to set up ASUFORs (license, account, sales/m3)
- OFOR: (2014) – Framework for PSP – New role for ASUFORs

**Lessons learned from CBO/ ASUFORs Management:**
- Lack of transparency and accountability (functions of governance, operation & representation)
- Absence of a long term strategy for asset management (maintenance, renewal & expansion)
- Weak managerial and technical capacity, poor quality of service
- Cost recovery issues (low tariffs, O & M not covered, etc....)
Senegal’s water & sanitation sector reforms have been underpinned by a private participation strategy and continues to be a priority for the GoS

**Legal & Programmatic History**

- **1996** – PPP in urban water sector between SONES and SDE
- **1997-2005** – REGEFOS Management Reform Project of Rural Boreholes
- **2002-2007** – PAQPUD Autonomous Sanitation in Urban/ Peri-Urban Neighborhoods Program
- **2005** – Sector Policy Letter
- **2005-2015** – PEPAM Millennium Drinking Water & Sanitation Program
- **2014** – New PPP Act

**Water; Sanitation; Water & Sanitation**

- **2014** – OFOR Law to enable PSP in Rural water services
Objectives and Overall approach

• Ensure quality and sustainability of water service delivery in rural areas
• Meet the water needs of rural consumers at affordable price
• Strengthen the capacity of national and local contracting authorities on asset management, control and regulation
• Promote private sector participation in the management of the rural water supply schemes through performance based contracts
• Ensure in medium term the financial balance of the management of rural water services
• Strengthen the capacities of rural water sector actors
Evolution in RWS schemes Management

<table>
<thead>
<tr>
<th>Period</th>
<th>Investment</th>
<th>Operations</th>
<th>Maintenance</th>
<th>Development</th>
<th>Renewal</th>
<th>Monitoring, Control, Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1984</td>
<td>STATE</td>
<td>STATE</td>
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<td>STATE</td>
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<tr>
<td>1984-1999</td>
<td>STATE</td>
<td>CBO</td>
<td>STATE</td>
<td>STATE</td>
<td>STATE</td>
<td>STATE</td>
</tr>
<tr>
<td>1999-2014</td>
<td>STATE/LGs ASUFOR</td>
<td>ASUFOR/CBO</td>
<td>STATE/PRIVATE</td>
<td>STATE/ASUFOR</td>
<td>STATE/LGs</td>
<td>STATE/LGs ASUFOR</td>
</tr>
<tr>
<td>2015-2025</td>
<td>OFOR/PO/LG</td>
<td>Private Operator</td>
<td>Private Operator</td>
<td>OFOR/Private Operator</td>
<td>OFOR/Private Operator</td>
<td></td>
</tr>
</tbody>
</table>

RWS schemes Management

- Pilots
- SPEPA Law & OFOR creation

SECTOR REFORM
An improved institutional framework balances risks & accountabilities

The GoS plans to sign affermage contracts with private operators. In this arrangement, the operators will generate revenue from supplying water, in partnership with ASUFORs. In turn, ASUFORs will have a new customer advocacy role.

Risks transferred / not transferred

- Private operator will not be responsible for heavy repairs of equipment over 10 years old
- Private operator will have direct customer relationship to ensure quality of customer service, bill collection and data/feedback loop
Government actors, especially OFOR, have a crucial role in ensuring the success of rural water PPPs.

<table>
<thead>
<tr>
<th>Key Functions</th>
<th>Description</th>
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</table>
| Sector Policy & Planning          | • Promote consistent processes & standards across stakeholders and interventions within the water sector  
• Coordinate with resource management committees  
• Conduct due diligence for tariff setting  
• Develop investment plans for new assets |
| Public Investment & Financial     | • Renew aging infrastructure  
• Establish transparent financial systems  
• Engage private sector to address funding gaps for required investments |
| Management (OFOR)                 |                                                                                                                                                                                                            |
| Monitoring & Evaluation (OFOR)    | • Monitor operations to ensure service delivery by Private and ASUFOR partners  
• Monitor finances to ensure sustainability of operations and forecast needs  
• Monitor natural resources and infrastructure to repair and forecast renewal needs |
| Capacity Building (OFOR)          | • Provide technical assistance, training and resources to ASUFORs and their independent operators/distributors.                                                                                       |

**Spotlight on OFOR:**

• OFOR is a new corporatized public institution established in 2014 to replace DEM, the Directorate of Rural Water Operations & Maintenance.  
• OFOR is financially linked to the Ministry of Water & Sanitation through a performance contract.  
• OFOR will serve as the Government public contract authority in rural water PPPs.  
• Financial Model to monitor OFOR’s equilibrium

**Key Organizational Departments of OFOR:**

• Accounting (linked to Ministry of Economy & Finance)  
• Monitoring & Control of Infrastructure Operations  
• Asset Management, renewal & expansion  
• Legal & Administrative Affairs  
• Executive Units for IT, Audit & Control, Advice & Support, Communication & Training
### Private Operators duties for professional management of Rural water schemes

<table>
<thead>
<tr>
<th>Key Functions</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Operation &amp; Maintenance and Renewal</strong></td>
<td>• Production and distribution of water&lt;br&gt;• Network and Equipment maintenance&lt;br&gt;• Networks and connections expansion&lt;br&gt;• Renewal equipment &amp; devices under 10 years lifecycle</td>
</tr>
<tr>
<td><strong>Commercial &amp; Financial activities</strong></td>
<td>• Metering &amp; Billing&lt;br&gt;• Bills recovery&lt;br&gt;• Connections promotion&lt;br&gt;• Fees transfer to OFOR</td>
</tr>
<tr>
<td><strong>Customers &amp; Stakeholders relationships</strong></td>
<td>• Communication with costumers&lt;br&gt;• Complaints management&lt;br&gt;• Relations with ASUFOR, local governments, administrative authorities, civil society, etc.</td>
</tr>
<tr>
<td><strong>Ensure quality of service &amp; Performance reporting</strong></td>
<td>• Operating ratios (NRW, collection ratio, water quality, service quality, operating cost ratio, etc.)&lt;br&gt;• Data reporting&lt;br&gt;• Performance based contract: Bonus/ penalties formula based on Production and target ratios for NRW and bill collection</td>
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### Risks allocation

- Financing & Construction: OFOR & GOS
- Market & Collection: Private Operator
- Operation & Maintenance: Private Operator
- ASUFOR Risk: OFOR & Private Operator

### Performance monitoring

- Metering (Production)
- Billing (Software)
- NRW (Annual target)
- Collection ratio (Annual target)

Regulation by contract is used to monitor the performance of the Private Operator.

OFOR on behalf of the State is responsible for the control of the lease contract.
Process followed and Phases

Step by step process:

- 2012 - 2014: OFOR study through a participatory process and establishment of the financial model for (lease) contracts
- 2011 – 2015: Due diligence studies for PSP, Tender documents preparation (Clustering of RWS schemes, Zones of delegation: Central, North, South, NDP-GL, River region, etc.)
- Information workshops for Rural water stakeholders before launching the bidding process (February 2012 – Nov. 2013)
- Regional & Local meetings with Stakeholders: OFOR, LGs, ASUFORs, Local authorities, etc.
- Selection process: Prequalification, Technical & Financial stages, Award, Negotiation, Preparation, Operation starting.
- Criteria of qualification: (i) Previous experience in operation, maintenance or rehabilitation of water supply facilities, design of water infrastructure, relevant and recent experience in Africa, (ii) Annual turnover & Financial capacity
- Criteria of selection: (i) Technical & Financial eligibility and (ii) Lowest operation price (CFA/m3)
LESSONS LEARNED

Lessons from the recent lease contracts (1)

<table>
<thead>
<tr>
<th>Population served</th>
<th>500,000 people</th>
</tr>
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<tbody>
<tr>
<td>Production capacity</td>
<td>5.4 Mm³/year</td>
</tr>
<tr>
<td>Total Network Length</td>
<td>1,188 km</td>
</tr>
<tr>
<td>Total Investment</td>
<td>50 M$</td>
</tr>
<tr>
<td>Annual Turnover</td>
<td>0.83 M$</td>
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</table>

CONTRACT OFOR - SEOH : Started on July 1st 2015

KEY RESULTS

<table>
<thead>
<tr>
<th>Indicators</th>
<th>June 2015</th>
<th>June 2016</th>
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<tbody>
<tr>
<td>Water quality Index</td>
<td>Unknown</td>
<td>78%</td>
</tr>
<tr>
<td>Customers satisfaction ratio</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Network performance ratio</td>
<td>-</td>
<td>58%</td>
</tr>
<tr>
<td>Bill collection ratio</td>
<td>-</td>
<td>81%</td>
</tr>
<tr>
<td>Potable water access rate</td>
<td>-</td>
<td>83%</td>
</tr>
<tr>
<td>Average price/m³</td>
<td>$0.75</td>
<td>$0.55</td>
</tr>
</tbody>
</table>
Lessons from the recent lease contracts (2)

**CONTRACT OFOR - AQUATECH-SENEGAL: Signed on March 11, 2016**

- **Population served**: 1,600,000 people
- **Current production**: 5.5 Mm3/year
- **Number of boreholes**: 265
- **Tentative Starting date**: February 2017

- **Lesson #1**: Use of lease contracts helps address concerns over tariff increase
- **Lesson #2**: Clustering small RWS schemes help decrease transaction costs and increase the financial viability for the private sector
- **Lesson #3**: Need to streamline and improve the procurement process by building public sector capacity
LESSONS LEARNED

Key Factors to move in the rural sector reform

• Political will, appropriation and participative approach
• Clear definition of roles and responsibilities of actors
• Riks allocation and mitigations measures
• Communication plan on the reform towards Stakeholders
• Consultation with social partners
• Recruitment of operators: Transparency and Competition
• Mechanisms of regulation and conflicts resolving
• Fiscal issues to introduce in the contract clauses
LESSONS LEARNED

Guiding principles for successful water sector reforms

• **Transparency**: clear definition of roles and processes and distribution of responsibilities

• **Accountability**: appropriate risk allocation between actors; who is accountable for what?

• **Autonomy**: management of the water utility without interference from outside (Government)

• **Incentives**: incentives for performance, based on measurable indicators.
Thank you