

# Water privatisation in SSA: Progress, problems and policy implications

by

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## 1 Introduction: water in SSA is not like other commodities

Water privatisation is increasingly widespread and in sub-Saharan Africa, privatisation is now on the agenda in most countries. This paper aims to analyse developments in water privatisation in SSA by looking firstly at what privatisation has taken place in the region. The subsequent section then considers the countries where privatisation has not taken place and the reasons for this. There is then a review of findings from case studies on the impact of privatisation. Finally we consider the lessons to be learned and policy implications from the experience of privatisation in SSA.

Water in SSA is not like other commodities. Consumers in SSA are among the poorest in the world. Furthermore, the currencies of these often fragile economies are vulnerable to fluctuation and devaluation. These features present particular difficulties in promoting the water sector as an attractive business prospect. In much of SSA, the institutional structure of the public sector is weak. This, for some, presents a reason to privatise. However, the consequent weak regulatory capacity could also be a reason for retaining water in the public sector.

In much of the region, the water sector, starved of investment from cash-strapped governments, is generally in a bad state of disrepair. Water privatisation is largely donor sponsored which means that the release of aid funds is often conditional on the privatisation of water (Grusky 2001). Water privatisation in SSA has always required a foreign investor but so far only a handful of companies have taken part in privatization tenders. The international dimension of privatization requires extra vigilance in regulation to monitor transactions between the domestic operation and the parent MNC.

## 2 What has been privatised?

Table 1 below charts developments in water privatisation in SSA. In most water supply contracts in SSA, the government retains responsibility for ownership and capital investment while the investor is responsible for operation and management of the water supply.

**Table 1: Water privatisations in sub-Saharan Africa, November 2002**

Date	Country	Contract duration and type	Lead Company
2002	Republic of Congo (Brazzaville)	Contract awarded but details not known	Biwater
2002	Uganda	2 year management contract	Suez - Ondeo
2001	Burkina Faso	5 year management contract	Vivendi
2001	Niger	10 year renewable contract for water and electricity supply	Vivendi
2001	South Africa	5 year management contract	Suez
2000	Chad	30 year concession (management contract initially)	Vivendi
2000	Mali	20 year lease	Saur
1999	Cape Verde	50 year lease	Aguas de Portugal / EdP
1999	Mozambique	Maputo and Motola 15 years; Other 3 cities: 5 years	Aguas de Portugal
1999	South Africa	30 year lease	Biwater / NUON

Date	Country	Contract duration and type	Lead Company
	(Nelspruit)		
1999	South Africa (Dolphin Coast)	30 year lease	Saur
1997	Gabon	20 year concession	Vivendi
1996	Senegal	10 year lease	Saur
1993	South Africa (Stutterheim)	10 year lease	Suez
1992	South Africa (Queenstown)	25 year lease	Suez
1991	Central African Republic	15 year lease contract	Saur
1989	Guinea	10 year lease	Saur
1960	Cote d'Ivoire	Contract started in 1960. In 1987 was renegotiated for 20 years	Saur

Source: PSIRU database [www.psiru.org](http://www.psiru.org)

The table above shows some 18 ongoing water contracts in SSA towards the end of 2002. Of these, three are management contracts ranging from two to five years. These were all awarded in the past two years. The longer term concession contracts run for up to 50 years. Twelve of the contracts were awarded in the past five years suggesting that the pace of privatisation is increasing. Cote d'Ivoire stands out as something of an anomaly here in that it privatised its water in 1960, nearly 30 years before the next privatisation which was in Guinea in 1989. Guinea is the only contract which has actually run its course. Other contracts have been terminated as we will see later but the Guinea contract was for 10 years and so ran out in 1999. Although it has been renewed on an annual basis, the government is reluctant to award the concessionaire, Saur, a new long term lease. So-called Francophone countries have been privatising more than the rest of SSA – possibly because of links with France where most of the world's private water originates.

The privatizations are overwhelmingly dominated by the same French MNCs - Saur, Suez and Vivendi - that control the world's private water supply (Hall 2002). Africa is particularly important to Saur, where the company earned about one fifth of its revenue in 2001.<sup>1</sup> The company has four long term contracts (Senegal, Cote d'Ivoire, CAR and South Africa as well as Guinea although this may be due to finish imminently – see below). The company is also involved in separate electricity projects in Guinea and Cote d'Ivoire. Vivendi has three big contracts – Gabon, Chad and Niger, all acquired in the past five years. Suez has just one long-term contract – Queenstown in South Africa. The company's other contracts are short term (Uganda – 2 years; South Africa – 5 years) and they now have two construction contracts in the water sector (Burkina Faso, Senegal).

Despite the French dominance, two other firms have managed to move into the region. UK firm, Biwater, has recently (March 2002) managed to secure a contract in Congo and the Portuguese government's Aguas de Portugal has contracts in Cape Verde and Mozambique.

Four of the enterprises privatised are joint electricity and water utilities (Gabon, Mali Chad and Cape Verde). Thus rather than unbundling before privatising, these are sold intact. This can provide economies of scale but also ensures that the enterprise is of sufficient size to be of interest to investors (as was the case, for example, with the sale of the water and electricity utility in Gabon (Samuel 1999).

### 3 What has not been privatised and why?

So far privatisation has been carried out to some degree in fourteen countries in SSA. However, privatisation is planned in many other countries but not yet reached completion. Some countries have been attempting to privatise for years but without success. There are also some that have terminated privatisation contracts. Finally there are examples of effective water provision through the public sector.

#### 3.1 Planned privatization

Several governments have announced plans to privatize their water. For example, in Burundi the Privatisation Minister reported in February 2002 that the privatisation of the National Water and Power Distribution and Production Company (REGIDESO) was in an advanced stage.<sup>2</sup> In Nigeria, the World Bank is assisting with establishing a regulatory framework for privatizing the water sector through a concession contract<sup>3</sup> and in February 2002, the government of Nigeria received a 14 person delegation of potential investors in the water sector from the UK.<sup>4</sup> In Rwanda, a management contract for the electricity and water utility, Electrogaz, was scheduled to be completed in 2002.<sup>5</sup> The Ugandan water authority has a management contract with Suez subsidiary, Ondeo, with a view to eventually establishing a lease arrangement separating responsibilities for operating the water supply from developing the infrastructure.<sup>6</sup> In Zambia, the World Bank is assisting with the privatization of the Lusaka Water and Sewerage Company.<sup>7</sup> In Kenya, the Bank is developing plans for privatizing water supply and sewerage in Mombassa and the coastal region<sup>8</sup> as well as providing technical assistance for the preparation of a privatization strategy for the water supply and sewerage in Nairobi.<sup>9</sup> In Malawi the Bank is providing assistance for an assessment of the options for private involvement in the water sector in Blantyre and Lilongwe.<sup>10</sup>

#### 3.2 Slow privatization

Some governments have intended to privatize but have found the process interminably slow (these may also be 'planned privatisations'). Despite lengthy negotiations, privatization processes have been running for years sometimes with no conclusion in sight. These experiences demonstrate the difficulties that privatisation presents. Delays are usually due to inadequate investor interest, or to weak institutional capacity.

In Tanzania, the privatisation of the poorly performing Dar es Salaam Water Supply and Sewerage Authority (DAWASA) was one of the preconditions given for Tanzania to qualify for the Highly Indebted Poor Countries (HIPC) initiative of the World Bank and the IMF.<sup>11</sup> The government began the privatisation process in 1997 when international operators were invited to pre-qualify for participation in DAWASA. However, no contract was awarded and a subsequent bidding round for a lease contract took place in 1999. Two companies (Saur and Vivendi) submitted bids but their financial bids were found to be non-compliant. Bidding was re-launched in 2001. This time there were too few bidders (Wateraid 2002). In 2002, bids were received from Biwater (UK) and Gauff (Germany) for the dollar-based contract. Suez and Vivendi both withdrew, despite pre-qualifying.<sup>12</sup>

The privatisation is intended to take the form of a lease contract for the first ten years before it becomes a concession contract. During the first phase, the dilapidated infrastructure is to be rehabilitated using loans totalling \$145m. The winning bidder will only have to spend about \$6.5m "to cover metres and standpipes," thereby securing its future invoicing.<sup>13</sup> Thus, the private sector will not take over the infrastructure until it has been improved.

In Guinea-Bissau, there were reports of planned privatisation of the Electricity and Water company of Guinea-Bissau (EAGB) as far back as 1995.<sup>14</sup> Bid opening was scheduled for November 2000. Then in February 2002, it was reported that "the process for the privatisation of EAGB could shortly be abandoned in favour of a direct sale following the withdrawal of some companies and fresh interest displayed by others."<sup>15</sup>

Attempts to privatise the water supply in Cameroon have run into difficulties. The sale to Suez was reported in May 2000 when Suez was the only bidder for the utility, SNEC. The government had to privatise at speed to meet conditions set by donors for the receipt of aid.<sup>16</sup> However, some two years later the negotiations failed.<sup>17</sup> It was reported that the price put forward was considered by the government to be too low.<sup>18</sup>

In Ghana, bids have been invited for two leases for the national water supply which has been divided into two 'business units.' One lease will run for 30 years and one for 10 years.<sup>19</sup> Private operators are expected to be in place by March 2003. An earlier attempt to involve the private sector failed when the World Bank withheld financing of \$100m on account of the lack of transparency surrounding the award of a contract to Enron subsidiary, Azurix, for a BOOT water project in 2000.<sup>20</sup>

In 1999, UK company, Biwater after extensive negotiation withdrew from a water privatisation project in Zimbabwe on the grounds that local consumers could not afford tariffs that were sufficient to generate an adequate commercial return for the company. According to the then Biwater country manager for Zimbabwe, Richard Whiting, "*From a social point of view, these kinds of projects are viable but unfortunately from a private sector point of view they are not,*"<sup>21</sup>

Also in 1999, the municipality of Gweru, Zimbabwe, awarded Saur a contract for water provision. Negotiations broke down following firstly the 50% devaluation of the Zimbabwe dollar in the crisis of 1999-2000 and secondly because the municipality was committed to gradual tariff increases, rejecting the 100% increase proposed by Saur (though the council is reported to have introduced massive price increases itself since then). The negotiations remain suspended.<sup>22</sup>

### 3.3 Failed privatisation

In the Gambia, Kenya and South Africa, privatisation contracts have been terminated. In the Gambia, the termination followed a military coup while in Kenya and South Africa they were the result of procedural irregularities which came to light following protest and campaigning from civil society. In the Gambia in 1993, a subsidiary of Generale des Eaux (now known as Vivendi), was awarded a 10 year contract for the operation of water and electricity services. However, from the start, relations between the private operator and the government were tense. There was weak capacity and lack of clarity between the state holding company which owned the water infrastructure and the private operator regarding responsibilities for maintenance and investment. The situation deteriorated further after the 1994 military coup when the private operator initiated an aggressive campaign to disconnect non-payers (Kerf 2000). Finally, in 1995, the new government was reported to have arrested staff under allegations of contractual failures.<sup>23</sup> The gains that were achieved during the contract, in terms of increases in connections and reductions in UFW, were due not to the lease contract but to the implementation of a donor funded project by the public authorities (Kerf 2000).

In July 2001, the government of Kenya suspended a controversial water contract with Vivendi subsidiary, Sereuca Space. Originally this was a \$5m billing and accounting project but there was an outcry when critics pointed out that Sereuca would not invest any money in infrastructure during the 10 years that the contract was to be in force but was to just install a new billing system at City Hall for which the company was to earn 14.9 per cent of the Ksh12.7 billion (\$169 million) collected over the period. Furthermore, the city council's water and sewerage department was supposed to reimburse the cost of the computer equipment and hardware to the company at the end of the 10 years with no provision for depreciation.

In response to protests, Vivendi agreed to contribute a further \$150 million in expansion, repair and maintenance of the network (suggesting there was considerable slack in the contract from Vivendi's end). However, there was still further criticism of the project, this time from the World Bank on the grounds that it was expensive and had not been competitively tendered.<sup>24</sup>

In South Africa, the contract for Fort Beaufort (Nkonkobe) water was nullified in December 2001, effectively cancelling the contract with Suez subsidiary, WSSA. The lawyer for Nkonkobe council said the court found the contract was invalid as it had not been published first for comment by members of the public and approval from the local government MEC was never obtained.<sup>25</sup>

### 3.4 Special Case: Guinea

The water lease in Guinea, implemented with a consortium led by Saur, reached the end of its ten year duration in 1999. The contract did not run smoothly and prices have escalated (See Bayliss, 2001, and Menard and Clarke, 2000, for more details<sup>26</sup>). The government subsequently signed an interim one-year lease contract. However, efforts to negotiate a new 15 year lease contract broke down and the government has asked for World Bank assistance with an interim organisational arrangement and with organising a competitive tender for SEEG.

The World Bank is obviously unhappy with the breakdown in negotiations: *“After more than 10 years of private management of water operations in Guinea, the outcome of these negotiations represents a serious drawback to one of the first established private public partnerships in the sector, and in the region. Delays in paying Government's water consumption is still one of the main issues in the sector...”*<sup>27</sup>

For the government, however, the high prices charged under the concession were not acceptable. According to Guinea's national radio in January 2001, the existing lease arrangement was to be replaced by a new privatisation in the hope that such a measure might bring prices down. *“After more than 10 years of contract operations between the two firms, it was realised that the consumer was paying too high a price for pipe borne water.”*<sup>28</sup> In a move reminiscent of re-nationalisation, SONEG, the public sector owner of the water infrastructure, was intending to assume water management in urban centres, according to local weekly paper *“Le Democrate.”*<sup>29</sup>

### 3.5 Public provision of water

In some parts of SSA, water has been provided effectively by the public sector. This is not to say, however, that these will not be privatised. Botswana, Namibia, Burkina Faso and the South African district of Odi all demonstrate positive results from the public provision of water.

In Botswana the Water Utilities Corporation (WUC) substantially increased the proportion of the population with access to safe water over the period from 1970 and 1998. The population served increased from 30,000 to 330,000 while the average daily consumption rose – from five to 84 mega-litres.<sup>30</sup> The WUC operates on commercial principles and sets tariffs which allow a ‘fair’ return on its services and assets employed. The corporation maintains a policy of cross-subsidy to ensure that domestic consumers at the lowest band have access to water supplies. The corporation is headed by a Chief Executive who is accountable to a Board of Directors which consists of six to eight members. The board members are appointed by the Minister of Mineral Resources and Water Affairs.<sup>31</sup>

The Namibian Water Corporation Ltd (NamWater) was officially registered as a company on 9<sup>th</sup> December 1997 and started business as a fully government owned company in 1 April 1998. It supplies water in bulk to industry, municipalities and the Directorate of Rural Water Supply. The company's operations are financed through the sale of water and to a lesser extent irrigation water to farming communities. All surplus is accumulated into a fund which is used to finance capital development renewal expenditure and reduces the need for external borrowing. Namwater receives a government subsidy which will be phased out over a period of five years. In 2000, the company redesigned the tariff structure on a zone basis to enable cross subsidy.<sup>32</sup>

There were a number of layoffs in the restructuring. Total employee numbers were reduced from 1180 to 975. For the staff that remained, wages and benefits increased, working conditions improved and staff development programmes were introduced.<sup>33</sup> The company has made efforts to increase debt collection and cut costs. As a result, in 2000 (two years after restructuring) the company recorded an operating profit when it was not expected to break even for five years. The company publishes audited accounts.<sup>34</sup>

In South Africa, the district of Odi was set to become the country's first public-public partnership in September 1999. The parastatal Rand Water Board was to develop capacity in the local authorities in the municipalities of Winterveld, Mabopane and other peri-urban areas under the Easter District Councils. After

three years, the municipalities were to take full responsibility for the systems. There was significant support from unions and promises of financial support from the municipalities and the Department of Water Affairs and Forestry (DWAF).

However, a year later the project was in financial difficulties because of continued non-payment as well as the failure of the municipalities and government to make their promised contribution. The lack of government commitment to the project has raised the question of whether the PUP was meant to succeed or if in fact, public ownership was never really the preferred option.<sup>5</sup>

The water utility in Burkina Faso, ONEA, was restructured between 1990 and 1998. The process aimed to create a commercially viable enterprise while expanding service to the poor and low-income areas with a commitment to ensuring that low-income groups do not pay more for services than connected households. The water utility has since recorded impressive indicators. Coverage reached 85-86%, UFW was 18%, collection was above 95%, metering was 100% and cost recovery was at 96% of all costs (Werchota 2001). The multinationals are now moving into Burkina Faso water. ONEA has now been made subject to a management contract with Vivendi for five years from 2001. In addition, Ondeo won a construction contract in 2002.

## **4 What has been the impact of privatisation?**

Privatisation has been heavily promoted as the solution to the problems of the water sector in SSA, yet there has been limited research into its impact. This section reviews evidence on the impact of privatisation and relies heavily on the few case studies that have been carried out in sub-Saharan Africa (outside South Africa). These have been in Guinea (Menard and Clarke, 2000); Cote d'Ivoire (Menard and Clarke 2000a); Gabon (Tremolet and Neale 2002); Senegal and Cote d'Ivoire (Tremolet et al 2002) and Cote d'Ivoire, Senegal, and Guinea (Kerf 2000).

In the same way that privatisation typically has many goals, the impact of privatisation needs to be considered from several perspectives. This section considers the evidence on the impact of privatisation on firstly, enterprise performance, secondly, regulation, thirdly the extent of risk transfer and finally the role of politics following privatisation. The evidence from these case studies shows, broadly, that privatisation has not performed miracles but that enterprises continue to perform well or not so well, depending on their state when they were privatised and the wider economic context. Furthermore, all countries had difficulties with regulation and politics remained influential.

The section will not, however, discuss the impact of privatisation on prices as the link between prices and privatisation is not clear cut and water pricing is itself the subject of an extensive literature. However, prices do need to be mentioned in the context of Guinea where prices rose to unaffordable levels as a result of the privatisation and this has had a significant impact on other outcomes. In Guinea, prices before privatisation were very low at \$0.12 a cubic metre. They were expected to increase to \$0.76 before falling to \$0.68. However prices rose by more, reaching \$0.83 per cubic meter in 1996. As a result, there was a steep fall in collections and a rise in inactive connections. High prices made it difficult for even wealthy people to pay and were higher than average prices in Africa and Latin America. It is not entirely clear why prices rose so much but there appear to be a number of contributory causes. Costs were high because of low labour productivity, a large presence of expatriate staff and considerable bad debt. The pressure from the regulator to control these costs was weak - the government did not renegotiate a reduction of the lease contractor rate or revise the cost indexation formula (Brook and Locussol, 2001). The huge price increase seems to undermine the bidding process where two bids were submitted and the Saur consortium won by putting forward a bid tariff which was 30 percent below consultant estimates and 15 percent below the other bid.



## 4.1 Performance

The historical and economic context in which privatisation is implemented has a crucial impact on the outcome of the policy. In Guinea the water sector (and the wider economy) was in crisis before privatisation in 1989. In many ways this mirrored the country's wider economic situation. The utility was under-funded and over-staffed. Collection rates were very low and in 1987 it was estimated that only 15% of those billed, paid for the water. The network was in very poor shape with unaccounted-for-water (UFW) at 50% and a connection rate below 40% (Menard and Clarke 2000). Before privatisation, the government established SONEG – the state-owned national water authority. The lease contract was awarded to Saur (with Vivendi) who established the management company, SEEG.

In Gabon, on the other hand, the water utility was performing well before privatisation. Assistance in the privatisation process was provided by the World Bank's International Finance Corporation (IFC). According to Francois Wohrer, investment officer in IFC's privatisation and financial advisory group, SEEG (the utilities of both Gabon and Guinea have the acronym SEEG) was a 'relatively wealthy company' in better shape than many African utilities. Speaking just before the contract was awarded, Wohrer said *'They have been showing limited losses but will make a fairly decent profit in 1996...The company was a little messy before 1993 but there has been a nice cleaning process over the last three years. There is no overstaffing and the company is quite well managed.'*<sup>36</sup>

The utility in Senegal was also performing well before privatisation. Following financial difficulties and the need for major investment, reforms began in 1993 and in 1996 a ten year lease contract was signed with a Saur-led consortium known as Senegalaise des Eaux (SdE). Before the privatisation, water services within urban centres were well managed by the public utility, SONEES. Labour productivity was high (7 per 1000 connections in 1994), UFW was at 30% in 1994. 80% of the population had access to water (Kerf 2000). However, the company's financial position was overshadowed by non-payment by government agencies and low prices. Aside from any efforts by the investors, following privatisation the financial position was greatly improved thanks to a World Bank loan of \$247m (Tremolet et al 2002).

In Cote d'Ivoire the water utility SODECI was privatized in 1960. Operational performance has always been very good (until recently). There has been high water quality, a high collection rate from private users (although not from public users), high labour productivity (8 workers per 1000 connections in 1987); low levels of UFW (about 15% in 1987 – similar to Western Europe). In 1987, the sector suffered a severe financial shock when an ambitious expansion programme coincided with macroeconomic shock and depressed demand for water. Large industrial users which were paying the highest rates sharply reduced their water consumption, meanwhile poor consumers increased theirs but they paid less so while the total number of consumers was unchanged the total revenue fell. SODECI's remuneration was about the same for all tariff levels but the revenue available to government was reduced substantially. The contract was renegotiated for a further 20 years from 1987. During renegotiations, the authorities managed to negotiate a 20 percent reduction in the fees paid to SODECI by suggesting that they might allow other companies to bid for the contract (Menard and Clarke 2000).

- **Unaccounted for water (UFW)**

In Guinea, ten years after the start of the lease, UFW was still high at about 47%. The structure of the contract meant that the private operator had little incentive to reduce UFW (Menard and Clarke 2000). In Gabon losses on average are about 14% (Tremolet and Neale 2002). In Senegal, leakage was cut from 31% to 22% (although this is still higher than the 15% target set in the contract) (Tremolet 2002a). In Cote d'Ivoire, UFW has been consistently less than 20% in Abidjan since the early 1960s and was about 16% nationally (Menard and Clarke 2002s). However – following recent social tensions in the country - the figure for UFW is reported to be increasing and now stands at about 23% of water production (Tremolet 2002a).

- **Connections**

The connection rate measures the proportion of the total population that has access to safe water. Calculations take the total number of connections and makes an assumption regarding the number of people

per connection (for example, Menard and Clarke in their research on Cote d'Ivoire assume 13.5 people per connection (Menard and Clarke 2000a)).

In Guinea, extension increase was limited, increasing from about 38 to 47 percent (Brook Cowen, 1999). To some extent, the increase in connections that did occur was financed by the World Bank under its Second Water Supply Project. The limited increase is due partly to the high price of water and connection costs. System expansion was also slowed by disagreements between SEEG and SONEG over who was responsible for what. The low connection rate means that water-related health problems remain a major issue due to the large number of customers who consume unsafe water (Menard and Clarke 2000).

In Gabon, the private operator appears to have overshot targets for increasing the connection rate by a comfortable margin. In the capital, Libreville, the connection rate increased from 49.3% to 62%. However, the company admits that this apparent success does not mean that they invested particular energies into extending services but simply that the targets were based on initial coverage figures that were underestimated (Tremolet and Neale 2002).

In Dakar, Senegal, about 80 percent of the population had access to safe drinking water in 1994. This increased slightly to 82% four years after privatisation (Kerf 2000). In Abidjan, Cote d'Ivoire, the connection rate declined from 81% in 1980 to 74% in 1986 but rose again to reach about 84% in 1996 (Menard and Clarke 2000a).

- **Metering, billing and collection**

In Guinea one of the first effects of privatisation was a massive increase in the extent of metering. Before reform about 5% of customers had working meters. By 1996 98% of private customers were metered and 100% of administration connections were metered. Bill collection from private customers improved initially but this fell when the price increased. The collection rate fell from 75% of the amount billed in 1989-90 to under 50% in 1991-1992, recovering to around 60% in 1993 where it stayed. The fall in collection rates is due to the increase in the price as water as well as the fact that the government still fails to pay its water bills (Menard and Clarke 2000).

In Gabon, customers were already paying their bills before privatization when levels of recovery on monthly billing for electricity and water were around 93%. According to the IFC adviser on the project before the privatisation, *'People are paying their bills quite well -- this is a very high level of compliance for a developing country, and helps to explain the interest from bidders.'*<sup>37</sup>

In Senegal, bill collection was also good before privatisation but it improved from 91% to 97% due in part to government starting to pay their bills. (Tremolet 2002a) as well as adopting a strict disconnection policy. In 2002 it was reported that as many as 12% of existing connections were not in service in the area of operation in the capital, Dakar. The rate outside Dakar was even higher (Tremolet et al 2002).

In Cote d'Ivoire, collection rates from the private sector are high but they are low from the public sector. By the early 1980s, metering was almost universal and billing was executed efficiently with a computerised system. However, this achievement conceals a substantial social cost in the form of disconnection of non-payers. Private sector customers have been routinely cut-off for non-payment and households were entitled to receive a free 'social' connection only once. In 1997, it was estimated that SODECI carried out 17,000 forced disconnections and in some of SODECI's areas of operation, up to 20% of connections are inactive (Tremolet and Neale 2002). Collection rates from the public sector (which accounted for 25% of total sales) have been much lower. SODECI is unable to cut off public sector entities for non-payment (Menard and Clarke 2000).

- **Water and customer service quality**

Although there is little technical data, researchers found that almost everyone agreed that water quality had improved in Guinea after privatisation. Customer service has also improved (Menard and Clarke 2002). In Gabon, targets regarding quality and sanctions were left vague and are still not in place, five years after the

start of the contract. However, researchers consider that the water is clearer (with less turbidity) in Libreville but the 'drinking quality of water everywhere is not guaranteed' (Tremolet and Neale 2002). In Senegal, SdE has exceeded targets for water quality since 1999 and customer service has improved (Tremolet et al 2002).

In Cote d'Ivoire, the utility SODECI, was reported to be providing high quality water in the early 1980s, and met 99% of WHO water standards in 1997 (Menard and Clarke 2000). However, in 2002 it was reported that performance had begun to decline and a third of the production centres, many of them in the interior, no longer met the WHO's water quality standards (Tremolet et al 2002).

- **Profits**

In Guinea, despite disappointing results according to a number of criteria above, the company, SEEG, still made a profit. The financial position of the private operator improved rapidly as a result of improvements in billing and large increases in tariffs. In 1996, the company made profits of \$3.2m (Menard and Clarke 2000). In Gabon, turnover has risen and since its first year of operation, SEEG has paid dividends to its shareholders. In 2000, the company reported a profit of \$6.89m and in 2001 this rose to \$9.67m (Tremolet and Neale 2002). In Senegal financial results are not available (as the company is not listed on the stock exchange) but they are reported to be disappointing due to demand falling below projections although the company is now posting stable profits (Tremolet et al 2002). In Cote d'Ivoire, the utility SODECI has remained profitable since 1986 and profits were approaching \$4m in 1996 (Menard and Clarke 2000). Recently, however, revenues have been stagnating and profits have been reduced. The state remains a bad payer and collection rates have gone down with the recent economic crisis (Tremolet et al 2002).

## 4.2 Regulation

All the case-study countries encountered difficulties with regulation of one kind or another. The inability of the regulator to enforce compliance on private companies is a widespread weakness of privatization worldwide. However, in poorer countries, where companies are operating monopolies in the delivery of water – a basic need for all – and often with support from international donors, regulatory failings are of greater concern. In many countries the weak regulatory capacity is compounded by limited investor interest. In circumstances where the government has gone to considerable lengths to attract investors and only one or two bids are received, the threat of re-tendering the contract in the event of non-compliance has little credibility.

The regulator in Guinea has been unable to force the utility, SEEG, to comply with financial reporting requirements which means that it is unable to assess whether SEEG's requests for remuneration increases are reasonable. SONEG has been unable to get SEEG to clearly separate SEEG's activities under lease contract and public work activities conducted under separate contracts. Without such separation, SEEG might be able to allocate any cost overruns incurred because its operational activities – for which SEEG should bear some commercial risk – to its construction activities for which it does not bear commercial risk (Kerf 2000).

Weak capacity in the regulator has been partly responsible for water prices in Guinea reaching unaffordable levels. According to the World Bank an audit discovered that the pricing formulae had been wrongly applied. The misapplication of the formulae that adjust prices in response to cost changes resulted in overvalued tariffs. Because of this and because of the informal price negotiations, the private operator was receiving more than twice the revenue per cubic metre than was originally anticipated. Furthermore, the weak institutional framework has meant that there has been no independent body to enforce the contracts between the parties involved in the privatisation. Instead, disagreements between operator and public sector have had to be resolved at the highest levels of government. The weak judicial system makes it difficult to collect payments from consumers who refuse to pay (Menard and Clarke 2000).

In Cote d'Ivoire there are concerns about the regulator's ability to efficiently monitor SODECI's investment activities. Under the terms of SODECI's contract all projects valued below a certain threshold can be implemented without the need for competitive tenders. The company may then give undue priority to small

investments or lose efficiency by dividing large investments into a series of smaller projects and thereby earn excess profits (Kerf 2000). SODECI's contract does not contain precise performance targets and the company does not submit information on its performance to the conceding authority at regular intervals. SODECI is supposed to submit annual reports about its activities and is supposed to be liable to pay sanctions for failing to meet such performance targets, however the company has not paid penalties (Tremolet et al 2002).

In Gabon, many of the contractual details for effective regulation are still not in place some five years after the start of the contract. For example the contract required that a cost-accounting system was established within the first three years of the contract but four years later this had not been done making it difficult to ascertain the performance of the company: *"In the absence of regulatory and monitoring tools to enforce quality... it is very difficult to ascertain the potential for further improvements and the overall efficiency of the company. This is particularly true in the regional centres where very few monitoring systems are in place"* (Tremolet and Neale 2002, p51).

Other tasks also remained outstanding: the preparation of an inventory of assets to be returned to the state at the end of the concession was supposed to be done within 6 to 12 months after the contract signing. Likewise the documents on service quality were still not drawn up, four months into the contract so that *the conceding authority has very few tools at present at its disposal to monitor and regulate service quality in a credible way in the absence of appropriate penalties'* (Tremolet and Neale 2002, p31).

In the lease contracts described above, the government has to work closely with the private operator both to oversee the company's operations and to carry out investment and maintenance in the water sector. Where this relationship is uncooperative, monitoring and investment activities suffer. Both Guinea and Senegal have experienced problems with poor coordination between the operational and investment activities as well as disputes over the exact scope of maintenance and investment responsibilities and lack of accountability for overall performance.

In Senegal the less-than-target progress with respect to access and UFW can be partly attributed to disagreements between the state holding company / regulator and the private operator. Tensions persisted because of staff resentment due to the transfer of operational responsibilities to private operator (Kerf 2000). Although detailed contracts were drawn up, a number of uncertainties have led to difficult negotiations between the parties (Tremolet et al 2002).

In Guinea both government and operator blame each other for slow progress of investments. The problem was exacerbated by the lack of a clear separation between SEEG's activities as an operator, for which it theoretically bears some commercial risk and its activities as a service contractor to SONEG for rehabilitation and extension works which are performed on a cost-plus basis. Weak regulation makes it difficult to assess requests for increases in the overall tariff and the share that goes to the private operator. This creates a situation where the government responds passively to proposals from SEEG for tariff increases SEEG's commercial risk is reduced as there is effectively a pass through on costs. According to Brook-Cowen, this means that the contract is more like a management contract than a lease in terms of the degree of risk transfer but without the controls that are in place with a management contract (Brook Cowen 1999).

Transactions between different components of the same company are difficult to regulate and can obscure irregularities. In Guinea, SEEG, in addition to the water lease, carried out maintenance inputs and bid on construction contracts but failed to produce separate accounts for different functions, even though these were required by the contract. Without these, it was difficult to assess the profitability of the lease contract. The two French MNCs – Vivendi and Saur - signed a technical assistance contract with SEEG to provide managerial support, technical assistance and financial expertise. For this, remuneration was set at 2% of SEEG's revenues (Menard and Clarke 2000).

In Senegal, SdE, the water company has extensive transactions with its parent, Saur. At the start of the contract, when SdE was setting up computer systems and equipment, these were procured using SAUR's purchasing systems and still many purchases are centralised via SAUR's headquarters (Tremolet et al 2002).

### 4.3 Risk transfer

Lease contracts in the water sector are designed to ensure that the risk levels that private firms face are not so high that they will be put off investing. Private operators are usually invited to take over responsibility for operating and managing the network but are not required to invest in the infrastructure. Contracts are designed to minimise exposure of investors to commercial and currency risk.

With the privatisation in Guinea, for example, it was assumed that no investor would want to take on investment and debt service risk so a lease contract was adopted where SEEG took on responsibility for operation and maintenance and renewal of small pipes. The risk exposure for SEEG was further reduced by the weak regulatory capacity of the government as the company has been able to increase its remuneration, for example to cover increases in costs, with little pressure to account for rises.

In Cote d'Ivoire, the contract with SODECI was renegotiated in 1987 and the government tried to persuade the company to take on a full concession and thereby have some responsibility for investment and debt service. SODECI refused. As a result, the new contractual arrangement gave SODECI planning responsibilities and therefore a large degree of control over investment but it remains a lease because SODECI does not commit its own resources to implement the investment program and to cover debt service charges and it does not therefore bear any investment-related risks (Kerf 2000).

Investors are also insulated from commercial risk in that they usually receive a fixed payment for each unit of water sold. This means that they are paid the same regardless of the price at which the water is sold. Where there is a fall in demand which means that industrial users may reduce levels of usage and more consumers are just consuming water at the level of the social tariff, the government receives less revenue but the private operator's revenue is not changed if the composition of demand changes. The government may also suffer if consumers fail to pay (although some lease contracts (e.g. Senegal) include collection rates as a target objective for the operator). The scope for governments to increase prices to compensate for falling demand is limited as it can result in lower collection rates as happened in Guinea.

Investors are insulated from currency risk as dollar-based contracts are becoming increasingly common, for example they are currently planned for water leases in Ghana and Tanzania. Other contracts (for example, Cote d'Ivoire) have clauses for renegotiation of the operator's payment and one of the factors in determining the fixed fee is the value of the exchange rate. Thus firms are able to pass on exchange risk.

### 4.4 Role of politics

One of the core objectives of privatisation is to reduce the level of political interference in the operation of an enterprise or sector. However, to some degree political influence is inevitable in the operation of the water supply. From a welfare and social perspective the government has a responsibility to ensure that the poor have access to water. Pricing cannot be left to the 'market' as there is not one. Furthermore, the designs of lease contracts are usually such that the government has to work with the operator on extension and maintenance of infrastructure which means that the public sector is closely involved in the operations of the water sector.

However, the financial well-being of the water sector in many countries has been undermined by the non-payment of water bills by government agencies. After privatisation, government agencies in Senegal and Gabon now do pay their bills while in Guinea and Cote d'Ivoire they do not. In Gabon the government continued not to pay for two years until debt moratorium was signed in 1999 where the government agreed to pay a proportion of its debt owed to SEEG each month. The state has since paid its bills regularly (Tremolet and Neale 2002).

In Guinea and Cote d'Ivoire, however, political influence remains substantial. For the first two years of the lease, under donor pressure, the government of Guinea paid its bills regularly. But in 1991, the government

collection rate fell to less than 50 percent and then dropped further to close to 10 percent in 1993. When government failed to pay, the private operator withheld its rental payments due to the government thus restricting scope for future investment.

SEEG however did not disconnect government agencies that failed to pay although it was allowed to. This was in part because it wanted to keep on good terms with the government that was operating in its interests. SEEG was trying to get the government to approve larger price increases and the government was represented on the board of SEEG. The absence of an independent judiciary in Guinea meant that even if disputes were resolved it would not be possible to force the government to comply. As a result, problems were resolved through informal negotiations. Thus outcomes were unpredictable depending on key individuals and relations between the private operator and government were tense (Menard and Clarke 2000).

## 5 Lessons emerging

Three main points emerge from the above discussion. Firstly, the limited impact of privatisation depends on the initial state of the enterprise. Secondly, regulation has proved extremely difficult even where regulatory capacity is relatively advanced and thirdly, privatisation has been constrained by the lack of investor interest in the water sector in the region.

Firstly, the case studies above reveal that privatization has had limited impact on the performance of the water utilities in Guinea, Gabon and Senegal. Guinea which was in crisis before the start of the contract remains in poor shape. The gains that have been achieved are in terms of short term profitability (rapid increase in metering and profitability) or are due to investment by donors. On the other hand both Senegal and Gabon were well-run before privatization and they continue to be so. Privatisation has brought about little change in any of the three utilities – to quote the researchers:

- Guinea: *'Although performance has improved, many of the changes have been quite modest, especially considering the poor initial performance of the sector.'* (Menard and Clarke 2000)
- Gabon: *'SEEG's organization today is quite similar to that at the time of privatization'* (Tremolet and Neale 2002, p15).
- Senegal: after privatisation *'no major restructuring was deemed necessary'* (Tremolet et al 2002, p78).

Furthermore, in Cote d'Ivoire, performance standards have started to slip due to developments in the country's wider economic circumstances. This result suggests that little can be expected of privatisation per se in terms of its impact on an enterprise. It is what public and private enterprises have in common within a country that determines performance rather than the nature of ownership.

Secondly, the failure to comply with regulation and the limited disclosure by private firms has been a major weakness of the privatisation contracts that have taken place. While firms may claim major successes, it is not always possible for observers – even for regulators – to validate some of the claims because of the limited availability of information. Regulators appear to have little to hand in the way of sanctions against private operators. Furthermore the threat of further eroding investor confidence makes it difficult for regulators to take action against MNCS. Asymmetries in capacity and resources further undermines the effectiveness of regulation of water in SSA.

Thirdly, in much of SSA it has been difficult to rouse investor interest. This is in part because of the problems with reconciling the conflict between the profit motive and the provision of a social service. Such incompatibility has recently been highlighted by water companies themselves, as for example in the withdrawal of Biwater from Zimbabwe, above.

Staff from Vivendi participated in a conference in Kampala in 2001, providing an illuminating insight into privatisation from the firm's perspective. According to the participants, private firms need to be able to

generate a 'fair' profit (quotation marks added). This then limits investment to '*big cities where the GDP/capita is not too low.*' Private firms are available as much as the project is bankable and bankability comes from '*Guarantees securing the flow of payments by the municipalities or Governments*' and / or '*Sufficient and assured revenues from the users of the service.*'<sup>38</sup> Thus Vivendi can only participate in investments where either the government or consumers can pay enough to generate a commercial return. Private firms do not bring finance but seek profit.

Similarly, in a recent presentation to the World Bank, Mr Talbot the CEO of Saur, highlighted the unrealistic demands on the private sector in developing countries (such as providing "connections for all"). He spoke of '*A marked increase in risk for the private operators, particularly in developing countries*' as well as '*An emphasis on unrealistic service levels*' leading to '*limited interest in the market.*' He went on to say that the level of investment required cannot be met by the private sector and '*water pays for water is no longer realistic in developing countries: Even Europe and the US subsidise services....Service users can't pay for the level of investments required, not for social projects...The scale of the need far out-reaches the financial and risk taking capacities of the private sector.*'<sup>39</sup>

There appears to be something of a conflict going on in the water sector in SSA. While the CEO of Saur above has expressed concerns at the extent to which private firms can be used to develop the water supply, the Bank continues to promote privatisation. The apprehension of Saur – which has withdrawn from its investment in the water sector in Mozambique – does not seem to sit well with the World Bank's enthusiasm for privatisation. Africa is not an attractive investment for MNCs at present.<sup>40</sup>

Continuing to force privatisation in these circumstances will mean that governments will have to offer greater incentives to attract investors. Contracts will have to ensure that less risk is transferred to the private sector and regulation – even if it is in place – will be less enforceable as the ultimate sanction of re-tendering will not be a valid option. Such measures may considerably undermine the benefits that privatisation is supposed to achieve.

## 6 Conclusions and recommendations

Although widely promoted across SSA, privatization is difficult and costly to achieve in practice and the results may be limited. The discussion above shows that privatisation is not a miracle cure for a poorly performing utility. Privatisation is just one of a number of reform options and needs to be considered as such. The starting point for reform should be an assessment of objectives and an evaluation of options. Privatisation may bring little from investors in the way of finance beyond equipment for financial management. Much of the money associated with privatisation comes from donors through the release of aid funds and this distorts the perspective of the policy.

The public sector can be an effective provider of water as the examples above demonstrate. While reform efforts have sometimes met with failure, the case of Guinea demonstrates that privatisation cannot be expected to transform an enterprise. There is often considerable opposition to privatisation which means that the process can be delayed. Where the disbursement of aid funds is contingent on the adoption of privatisation, such a policy means that the water sector is starved further of finance until privatisation.

Given the widespread weakness in regulation of the water sector in SSA (and elsewhere) some alternative means of accounting for the performance of MNCs in the water sector in poor countries is required. The conventional approach to regulation pre-supposes a capacity and a bargaining position which is often absent in many low-income economies. Where MNCs are supplying water – an essential service – to some of the poorest in the world, it is important to know that consumers are not being exploited. Companies need to be required to publicly disclose details of their operations in poor countries including information on turnover, profit, number of connections, average price charged, capital expenditure, transactions with parent company and outstanding debts. The information should enable policy makers in the host country and those proposing privatisation elsewhere to assess whether and how any efficiency gains have been achieved.

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