INTERNATIONAL
Poverty Centre

One pager

April, 2007 Number 31

Privatising Basic Utilities in Africa: a Rejoinder

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In their IPC Policy Research Brief on “Privatising Basic Utilities in Sub-Saharan Africa: the MDG Consequences”, Bayliss and McKinley are right to argue that (i) few private investors have taken much interest in water and electricity firms in Africa and of those that have, many have done a poor job; (ii) African governments were pushed into accepting private participation in basic infrastructure by international financial institutions and donors; (iii) African governments still own and operate the bulk of the water and electricity sectors and public ownership in these crucial areas will continue for the foreseeable future; (iv) a larger percentage of the desperately needed capital to rehabilitate and expand these networks has to come from internal and ‘official’—i.e., donor—sources; and (v) efforts to improve the operation of publicly-owned water and electricity firms have to be redoubled.

Since I agree with so much of their diagnosis, why do I still feel they have not offered the right prognosis and prescription? The reasons are three:

First, I believe the authors ***overestimate the ease of improving performance in state-owned firms***. In many African water and electricity utilities, reduction of system losses, improved maintenance, and network expansion were attempted for years prior to the privatization push. But under pure public management, the positive results, with or without donor assistance, were modest in the extreme. The problem in Africa is that: historically, publicly owned and managed utilities in these sectors, operating at less than cost-recovery tariffs, have delivered an inadequate quantity and poor quality of service; and they have delivered mainly to the better off segments of the urban population. What new and different methods of public management are being proposed to correct these failed past efforts? Perhaps they can be found in the longer study from which the Policy Research Brief is drawn; I find none here.

Second, they ***underestimate the amount of investment capital required in run-down African water and electricity sectors***. The financing needs are huge—much larger than any realistic increases in both internal revenue generation and donor funds. True, a number of past efforts to attract private investors have proven costly and counterproductive, but the fact remains that private capital must somehow be tapped if Africa is to repair and enlarge its basic infrastructure to meet ever-growing demand.

Third, ***the Policy Research Brief does not mention the promising ‘hybrid’ experiments that combine local African private management with public ownership***. For example, the Athi Water Services Commission (AWSC) is a hybrid mechanism to manage the water supply of the greater Nairobi area. The physical and financial performance of the traditional water department of the Nairobi City Council (NCC) had been disastrous. In 2000, donors recommended a lease contract to attract international private providers. The Kenyans rejected this advice and constructed the following: at the top, they created a new national water regulator (which will eventually set tariffs and monitor service quality, but does little right now). Next, the AWSC was created and its management procured from the Kenyan private sector—no non-Kenyans were allowed to bid. The team chosen basically consists of engineers who used to work in the city water department. They had to resign from government service to seek these new posts.

The AWSC is a corporation, a joint stock company. All of its shares are owned by the Nairobi City Council. AWSC was given a lease to manage the water production and distribution and the revenue collection in the area. It has to pay a small fixed percentage of its collections each month to the regulator and a much larger ‘lease fee’—also a fixed percentage of revenues collected—to the NCC. It hires and supervises a water providing company, which is paid for its costs. As of 2006, all workers in the water providing company were former employees of the water department of the NCC. To reduce worker opposition to the scheme, this provider was not competitively procured; the former NCC employees were given the chance to prove themselves.

In its first 18 months of operation, AWSC succeeded in covering Operations and Maintenance costs due to much more rigorous collection efforts, even though the tariff had not changed, and even after subtracting the 15 per cent of revenues paid to the NCC and the regulator. Customer satisfaction is up considerably. Performance has definitely improved. But AWSC is covering only variable costs (though this in itself is an uncommon achievement). It has also inherited substantial debt that is not being serviced. AWSC is negotiating with the NCC and the central government to reduce this burden, attributable to the poor management of the past.

Depreciation of capital is not being covered, nor is there yet any surplus for crucially needed investments and expansion. The hope is that in the short term donors will meet these needs—the French have already contributed a modest amount and negotiations are planned with the World Bank.

To be sure, this is a first and partial step, with a number of problems still unresolved, chief among them the lack of a solution to the critical investment problem. But it is a promising combination of private management and public ownership that just may generate more private money. Similar schemes of this sort are in progress in several other African cities.

So, in a nutshell, the solution is not to eschew private investment, but rather find mechanisms to make it more politically acceptable, more socially responsible and more mutually beneficial.

Reference:

Kate Bayliss and Terry McKinley, “Privatising Basic Utilities in Sub-Saharan Africa: The MDG Impact”, IPC Policy Research Brief # 3, January 2007.

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