PPP and the Poor in Water Supply Projects: The Ghanaian Experience

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Abstract
This fact sheet highlights some key issues that have emanated from the Ghanaian experience with Public Private Partnerships (PPP) and how these efforts are impacting on supply of water to the poor. The information was gathered from the Author's experience in the Ghanaian Water Sector, and also from a number of publications relating to the sector reform in Ghana as well as on the outcomes of a recent study sponsored by NGO caucus of the Netherlands Water Partnership (NWP-NGO).

Context to the PPP Process in Ghana
Ghana water sector is segmented into two parts. The community water sector deals with over 16000 rural communities and some 287 small towns. Management of water supply is the responsibility of District Assemblies with facilitation and oversight role by the Community Water and Sanitation Agency (CWSA). The urban water sector comprises about 87 cities and towns where the state water utility - the Ghana Water Company Limited (GWCL) owns and manages water supply.

The term “public” as used within the sector in the Ghanaian context includes all government agencies (Ministries, Departments and Agencies), and local authorities (District, Municipal and Metropolitan Assemblies). The Ghana Water Company Limited (GWCL), the main utility in charge of urban water supply, though registered currently as a limited liability, company still receives financial support from Government. It has no shareholders and does not pay dividends. Hence within the context of the current discussions, the GWCL is still considered as a public organization.

The term “private” refers to the private sector and is used in two different contexts. Firstly, to describe the formal private sector ranging from multi-national companies through to small/medium sized private enterprises and informal service providers who basically operate with a profit motive. In the second instance, the word private in the developmental context is used simply to contrast the public sector. Within this context NGOs, civil society groups, community-based organizations and other not-for-profit organizations can all be considered as part of the private sector although they do not meet the criteria of profit making and their status as economic agents is open to discussion.

The terms ‘public private partnership (PPP),’ ‘private sector participation (PSP),’ and ‘privatization’ are often used interchangeably. Generally the terms PSP and privatization refer to the involvement of the private sector in some form, at some stage in the delivery of water supply services. The involvement could range from PSP in management contracts to complete divestiture of public utilities. There are some examples of public-public and public-private partnerships in small towns – but most of the discussions on PPP within the urban sector in fact relate to PSP. In discussions on water supply to poor areas the term tripartite partnership (TPP) is an increasingly popular concept that is used to describe situations where NGOs work in tandem with the public and private sector.

Ghana's Urban Sector-Recipe for Privatization?
Under the management of the public sector (through the GWCL), the urban water sector has experienced considerable deterioration. Coverage figures are given as 70% but it is estimated that only about 40% of the urban population have water flowing regularly through their taps. There has been no significant rehabilitation or extension over a long period and a lack of autonomy and weak management has resulted in poor operational efficiency and a very precarious financial situation. Since 2002, GWCL has more or less been bankrupt. Cost recovery barely keeps the company operational or meets the recurrent costs. Meanwhile the company is estimated to be indebted to the tune of US$400 million. About 50% of all water production is unaccounted for. In 2003 alone, losses in operations were of the order of US$34 million – almost 100% of total revenues. It is also estimated that the company actually needs about US1.8 billion to extend, rehabilitate and renew systems so that water can be extended to all the urban population over the next 20 year period. Since 1995 very little inflow of capital has occurred to meet this need. Generally water supply in urban poor areas is very poor and communities are forced to buy water from tankers – often at prices of up to 10 times the recommended tariffs.
Overview of PPP in Small Towns

Under the on-going decentralization process, management of small towns water supply is the mandate of the district assemblies with the support of the Community Water and Sanitation Agency (CWSA). Until the year 2000, PPP was virtually unknown in small towns. A pilot project sponsored by the World Bank’s “Public Private Infrastructure Advisory Facility (PPIAF)” initiated private sector involvement in decentralized water supply management in 4 small towns with populations between 5000-25,000. This process involved relatively small local water enterprises.

A feasibility study sponsored by the Netherlands Water Partnership in 2004 broadly reviewed PSP processes in small towns and peri-urban areas in cities. The review of the PPIAF Projects led to some important conclusions. (i) The introduction of private operators allows some continuity in a regularly changing political stage where local level institutions (like the District Assembly, small towns Water Boards and Watsan Committees) regularly change composition due to elections or power play; (ii) Before PPP can be feasible and adequately pro-poor, fine-tuning of institutional frameworks and substantial capacity building is required for most stakeholders. Regulation of small towns water supply, in particular, needs clarity; (iii) There is strong evidence that NGOs in small towns often contribute in a creative and innovative way to support the roles of these small scale water operators and are effective in advocating for the needs of the poorest in the community. Tripartite partnership involving public, private and NGOs presents a feasible option for effectively dealing with the needs of the poor.

On-going PSP Effort in the Urban Sector and it’s Implications for the Poor.

Between 1995 and 2002 the urban water sector made significant advances in pursuing PSP as a feasible option for improving efficiency and attracting investments in the sector. Initial proposals for PSP involved 87 urban water systems packaged into two large concessions to be leased to two different foreign companies over a period of about 10 years. Like many business framework documents for PSP in the sector, the initial proposals laid emphasis on the legal, technical and financial issues. The initial proposals for the PSP were hotly debated. Key NGOs and civil society organizations (CSOs) formed a ‘Coalition against the Privatisation of Water in Ghana (CAP)’ to oppose the official plans. The key arguments of the CAP was that the proposals for the PSP were not pro-poor. The CAP also questioned the transparency of the process and the track record of many of the short-listed operators with regard to their performance in similar assignments in other countries. Following several months of social and political agitation, plans for implementing the PSP were finally suspended in 2002.

Following the unsuccessful initial attempt to introduce PSP in the urban sector, the original proposals have been revised. A new Project - “The Water Sector Restructuring Project” has instead been put together to advance the PSP agenda and a grant of about US$105 million has been made available by the World Bank to start implementation. The key strategies of the new project involve:

- A 5-year management contract instead of a 10-year lease as originally proposed;
- Strengthened role of Government and the Regulator in the process;
- A limited supportive role of the private operator and less emphasis on capital mobilization and role of external donors;
- More clearly defined pro-poor interventions; and
- Increased attention to stakeholder needs in terms of the social, political, cultural and legal environment of Ghana.

Generally debate in the sector on how to make the PSP process pro-poor has led to a convergence on a multi-pronged approach for raising the profile of service delivery to the poor:

Box 1: Some Options for making PPP more pro-poor.

The current discussions are seeking to incorporate the following interventions:

- Increased investments to ensure network expansion to poor areas;
- Increased reliability of water to poor areas to reduce reliance on water vendors;
- Targeted subsidies involving the establishment of a lifeline tariff for low income houses;
- Establishment of a revolving connection fund to assist poor houses finance the costs of new connections;
- Establishment of a low-income unit within the Sector Ministry to strengthen advocacy on pro-poor issues, promote research and policy debates;
- Regulation of water tanker services to discourage excessive pricing for poor consumers.
Conclusions / Lessons Learned

Despite the lack of success in achieving the ultimate objectives of PSP in the urban sector so far, the experiences have provided many useful insights as follows.

Acceptability of the Process. The Ghanaian experience clearly shows that the process towards the introduction of a PPP in urban areas and small towns is a complicated process with far reaching socio/political consequences. Political will for the PPP process is a key pre-requisite but not enough to guarantee a successful PPP process. The processes adopted prior to the award of contract – during the stage when the rules of the game are set - ultimately determine the acceptability of the PPP process and the level of success with regard to the ultimate quality of service delivery to the poor.

Stakeholder Involvement. A key lesson is that stakeholder involvement is crucial in the process of setting out the framework for the PPP and all effort should be made to ensure dialogue between government agencies, donors, civil society, NGOs and private groups. Ignoring stakeholder concerns could result in a limited success or complete failure of the process. Successful engagement with NGOs and CSOs in this area requires a long time frame.

Pro-poor Measures. PSP efforts are unlikely to work without a commitment to protect low-income consumers. The Ghana experience has clearly shown that there is a dearth of knowledge on policies and strategies that make PPP efforts truly pro-poor. Key constraints to delivering services to the poor such as inequitable tariff structure and unaffordable connection fees are difficult to deal with at a sectoral level.

Other Alternative Approaches to PPP

For poor urban areas and small towns, options that involve NGOs and CBOs working in tandem with public and/or private bulk providers are feasible in ensuring improved sustainable service delivery to the poor. Recent discussions in the sector have led to agreement on the need to review current approaches to PPP which only emphasizes the involvement of large multi-nationalists and places less emphasis on local small scale private entrepreneurs and the potential facilitative role of NGOs.

Leadership Role of Government. Government’s ownership and technical leadership of the process is essential to ensure stakeholder acceptance. In Ghana the public perception of the process was negatively affected by: (i) an excessively strong influence by donors like the World Bank and (ii) a rather inexperienced team of Government advisors to provide management of the process. This led to a lingering perception among the public that the Government did not ‘own’ the process and the donors are driving the process to suit the foreign operators. These factors contributed to the mass resistance by civil society groups which led to the rejection of the initial proposals of the PSP process.

The Myth of Increased Investments

The Ghanaian experience leads to the conclusion that PSP does not always lead to leveraging of financial resources (credit, capital and insurance markets) as the proponents of PPP often strongly argue. In developing countries like Ghana, the process of PSP does not imply financing problems can be overcome by mobilizing finances from the private sector. In the case of Ghana, only about 20% of the needed funds were secured or pledged from donors before the process was stalled in 2002.

Challenge of Linking up with CSOs

The Ghanaian example clearly illustrates the immense influence that Civil Society Coalitions can wield in the PSP process. On one hand the CAP effectively advocated for the poor and helped highlight issues concerning the inadequacy of the PSP proposals. But the entrenched position of the CAP to discussions on the involvement of multinational companies and their failure to bring forward any viable alternatives led many stakeholders, including poor urban communities, to question the real intentions and commitment of CAP to improving the plight of the poor. The general lessons are that adequate government-driven public education, a greater transparency in the PSP process, and increased stakeholder involvement which provide for the voices of the poor to be heard is important in ensuring that the PPP process is not derailed by well-resourced civil society groups who have little to offer by way of alternative proposals for meeting the real needs of the poor.

Capacity Building of Sector Institutions

Ongoing discussions in Ghana have clearly established the need to develop the capacity of the Regulating Body and to emphasize its independence in the process. From the Ghanaian context the Public Utilities Regulatory Commission (PURC) could have a crucial role in ensuring service delivery to the poor in two ways: (i) regulation of informal service providers (eg. tanker services) which serve about 40% of the populations in some cities, and (ii) defining a social tariff that is better structured to benefit low income households and by eliminating access to the lifeline tariff by middle and upper income customers.

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