

GOVERNANCE & PRIVATE INVESTMENT IN AFRICA:

LESSONS FROM A FAILED LEASE IN THE WATER SECTOR

**(DAR ES SALAAM
WATER AUTHORITY)**

PRE-LEASE, STATE O & O DAWASA IN CRISIS

- **LITTLE WATER DELIVERED; UNSAFE**
- **LOSSES AVERAGE \$3 mn (US) PER ANNUM OVER 15 YR. PERIOD**
- **INVESTMENT/REHAB. COSTS \$600 mn US**
- **UFW EST. AT 70 %**
- **BILL COLLECTION VERY POOR**
- **HUGE UNSATISFIED DEMAND**

CLASSIC SOE PROBLEMS

- **PRICES LONG SET BELOW COST**
- **THEFT OF WATER TOLERATED**
- **MNGT. WEAK, INEFFECTIVE**
(E.G., POOR ACCOUNTS,
RECORDS, NO BASIC INFO)
- **REFORMS NOT IMPLEMENTED**
- **DONORS WEARY OF PUTTING**
\$ IN NON-PERFORMING SOE

2003 — LEASE TO PRIVATE OPERATORS

- **LONG PREPARATION; TWO FAILED BIDS; FINALLY**
- **10 YEAR LEASE SIGNED WITH CWS CONSORTIUM (BIWATER OF GB LEADS); 1 FINAL BIDDER**
- **DAWASA BECOMES ASSET MANAGER**
- **DONORS FINANCE \$144 mn INVESTMENT/REHAB. PROGRAM**

DONOR CONCERNS

- **2 PRE-QUALIFIED BIDDERS
WITHDREW**
- **REMAINING BIDDER BARELY
QUALIFIED**
- **WB TEAM UNCERTAIN
BUT DID NOT OBJECT**
- **DEAL WENT FORWARD**

PRIME ASSUMPTION:

**PRIVATE OPERATOR
COULD NOT, WOULD NOT
UNDER-PERFORM
PUBLIC FIRM—
BUT THAT IS
WHAT HAPPENED**

CWS OPERATIONAL RESULTS 2003–2004

- **COLLECTIONS RISE THEN DROP;
AVERAGE 20 % < PRE-LEASE**
- **WATER PRODUCTION <**
- **NEW CONNECTIONS SAME; FAR <
CONTRACTED**
- **METERS INSTALL. < CONTRACT**
- **NEW BILLING SYSTEM INADEQUATE**

GOT COMPLAINTS

- **CWS INVESTED \$4 mn; GOAL WAS \$5.5**
- **CWS NOT COMPLIANT WITH CONTRACT:**
- **FAILS TO PAY LEASE & OTHER FEES**
- **FAILS TO MEET QUALITY, QUANTITY & EXPANSION GOALS**
- **BY 2005, CWS OWES GOT \$ 4.2 MN US**

WHY? CWS CLAIMED:

- IT WAS MISLED RE CONDITION OF FIRM, ASSETS & PAST COLLECTION RATES**
- LABOR COSTS > THAN THEY WERE TOLD; DROUGHT REDUCED WATER SUPPLY**
- GOT NOT PAYING ITS WATER BILLS**
- ERGO; PROBLEMS NOT CWS'S FAULT; CONTRACT REVISION NEEDED**

2004 —DISPUTE DEEPENS

- **GOT LEVIES PENALTIES FOR NON-COMPLIANCE; CWS DOES NOT PAY**
- **CWS SAYS PROBLEMS NOT ITS FAULT**
- **DEMANDS: ↑ TARIFFS, ↓ FEES, LONGER LEASE, FIN. ASSISTANCE, EASIER PERFORMANCE TARGETS**
- **I.E., WANTS A NEW & DIFFERENT CONTRACT**

CRISIS: MAY, 2005

- **COMPROMISES PROPOSED ON COLL. RATE & LEASE LENGTH (2 KEY ISSUES)**
- **CWS SAYS: CAN'T MEET PROPOSED COLLECTION TARGETS; GOT SAYS: CAN'T LENGTHEN LEASE PERIOD**
- **5.25.05: CONTRACT CANCELLED BY GOT; 3 CWS EXPAT. MNGRS. ARRESTED & DEPORTED (A GOT MISTAKE)**
- **CWS SUES IN LONDON TRIBUNAL & ICSID FOR BREACH OF CONTRACT, EXPROPRIATION**

SINCE THEN.....

- **GOT WINS IN LONDON TRIBUNAL (2007); ICSID RULES (2008) THAT GOT WAS WRONG — BUT AWARDS NO MONETARY DAMAGES TO CWS**
- **BUT TANZANIA'S REPUTATION WITH INTERNATIONAL INVESTORS SINKS LOWER**
- **HUGE BLOW TO LOCAL PRIVATE INVESTORS**
- **DOMESTIC & FOR. OPPONENTS OF PPI/PPP STRENGTHENED**

IMPACT

- **PUBLIC FIRM REINSTATED (DAWASCO)**
- **SERVICE QUAN. & QUAL. SLOWLY & SLIGHTLY IMPROVE AS**
- **INVESTMT./REHAB. FUNDED BY DONORS CONTINUES *BUT...***
- **COLLECTIONS STILL TOO LOW**
- **UFW STILL TOO HIGH**
- **COSTS NOT BEING COVERED**
- **GOT SUBSIDIZING OPERATION**
- **POOR STILL PAYING HIGHEST COSTS**

COULD THIS MESS HAVE BEEN AVOIDED?

- **DESPITE LONG PREP., BIDDER CHOICE QUESTIONABLE**
- **SINGLE REMAINING BIDDER?**
- **COMMITTS TO KEEP ALL LABOR?**
- **BIDS AT LOWEST ALLOWED TARIFF?**
- **EXPAT MNGRS.: NO AFRICAN OR EVEN BI-WATER EXPERIENCE?**

LESSONS (continued)

- **SOME SAW WARNING SIGNS OF 'PLANNED RENEGOTIATION'; BUT WB REVIEW OK'ED**
- **FINANCIAL SITUATION PRESSING**
- **ALL KEEN TO GET TO ACTION**
- **POOR OR ABSENT OP. & FIN. DATA GREATLY COMPLICATED PROCESS**

SHOULD HAVES.....?

- MORE PREP OF THE FIRM FOR PPP?
- BETTER D D BY & ON THE BIDDER?
- DELAYED CONTRACT FINALIZATION UNTIL OPERATOR IN PLACE FOR SOME TIME?
- STARTED WITH AN M C, NOT LEASE?
- STUDIED THE ADMIN. CULTURE: LEASE/CONCESSIONS IN WATER WORK BETTER IN FRANCOPHONE COUNTRIES?

PLENTY OF BLAME TO GO AROUND

- **GOT: LONG & COSTLY IN ATTENTION TO VITAL SECTOR—DID NOT KNOW WHAT IT WAS SELLING**
- **DONORS: TOO AMBITIOUS & TOO IMPATIENT**
- **PRIVATE OPERATORS: DID NOT KNOW WHAT THEY WERE BUYING — TREATED THE TRANSACTION AS ENTRY POINT, NOT A FIRM CONTRACT**