

# GRID LINES

Sharing knowledge, experiences, and innovations in public-private partnerships in infrastructure

## Corporatizing a water utility

### A successful case using a performance-based service contract for ONEA in Burkina Faso

*Philippe Marin, Matar Fall, and Harouna Ouibiga*

**T**hanks to a corporatization process spanning two decades, Burkina Faso's national water and sanitation utility ranks among the few well-managed public water utilities in Sub-Saharan Africa. Key to its success has been the government's unceasing commitment to reform, which included the successful implementation of an innovative performance-based service contract with an international operator from 2001 to 2006. The experience shows that it is possible to establish a well-performing public water utility in a poor developing country—as long as the governance framework ensures the autonomy and accountability of the service provider and the government supports the sector's long-term financial viability through an appropriate tariff and investment policy.

In Burkina Faso, as in many other West African countries, the provision of urban water supply services is the responsibility of a state-owned utility, Office national de l'Eau et de l'Assainissement (ONEA).<sup>1</sup> Historically, until two decades after independence, water services had been provided by a private operator, which focused on a few rich neighborhoods of the capital, Ouagadougou. The contract was terminated in 1977, and responsibility for water services was transferred to municipalities until 1985, when ONEA was established as the new national water utility. Its early performance was typical of inefficient public enterprises, and by the early 1990s the sector had made little progress. More than a third of the urban population had no access to piped water, and household connection coverage stood at only 24 percent in urban areas. Service quality was poor, and ONEA was unable to cope with the growing demand that came with urban expansion.

### Corporatization in the 1990s

In 1994 ONEA was transformed from a quasi-public agency with little autonomy into a limited liability company, 100 percent owned by the government and essentially governed by private law. An arm's-length relationship was established between ONEA's management and the government, supported by three-year performance contracts (*contrats plans*) with explicit operational targets. The board of directors is responsible for the supervision of ONEA's performance and for all strategic decisions. It has the authority to appoint (and fire) the general manager and determine employees' pay scales. The general manager makes day-to-day operational decisions. Most important, the utility is allowed to cut off service for nonpayment of water bills, and its workers are subject to private sector (not civil service) rules.

The first decade of corporatization was quite successful. By 2001 ONEA's operational performance was good by regional standards. Water losses, measured by the percentage of nonrevenue water, stood at a low 16 percent. Water rationing was limited, with service averaging 21 hours a day nationwide. Thanks to a high average tariff (close to €1 per cubic meter), ONEA enjoyed a healthy financial situation. With yearly revenues of more than €25 million, it was cash positive and reported an accounting profit every year.

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Philippe Marin is a senior water and sanitation specialist in the World Bank's Middle East and North Africa Region. Matar Fall is a lead water and sanitation specialist in the World Bank's Africa Region. Harouna Ouibiga is managing director of ONEA.

## New challenges in the 2000s

Despite these achievements, ONEA remained a small utility, essentially devoted to serving the richest part of the urban population. Urban water coverage through household connections stood at a mere 32 percent. ONEA had only about 73,000 active water connections (half of them in Ouagadougou), which served less than 700,000 people nationwide—with 1,600 standpipes serving another half a million people. Rather than financing further expansion of access, the high tariffs were actually compensating for significant operational inefficiencies: only 85 percent of residential water bills were collected, and with about 8 staff per thousand connections, labor productivity was mediocre.

At the same time, water resources in Ouagadougou were becoming severely stretched, to the point that service interruptions and rationing had become the norm during the dry season. The lack of water also prevented further expansion of the network to the many still without access. Solving the production constraint required the construction of a major dam together with a treatment plant with a capacity of 65,000 cubic meters a day and a 50-kilometer transmission line. This would be a very costly investment, and given the already high tariffs, financing it through additional tariff hikes was out of the question. To make the project financially viable without major tariff increases, ONEA had no choice but to make significant gains in operational efficiency (especially in labor productivity and bill collection) while doubling its customer base over six years.

### A performance-based service contract

Donors were willing to finance the investment program, but how to achieve such efficiency gains was a question. Commercial management was clearly a weak point, one where sizable improvements could be achieved rapidly. Problems in the billing chain (cadastre, meter reading, bill collection) were numerous. Customer service left much to be desired, with poor processes and antiquated facilities. While the government was unwilling to delegate management of the utility to a foreign private operator, it recognized that there was a gap in know-how and that it could benefit from outside professional help.

The traditional technical assistance approach, involving a service contract or twinning, was rejected because of the many disappointing past experiences in the region. In most cases such arrangements had had little impact on operation, because the contracted firm had had little

at stake. Even when professional operators were contracted, they tended to send consultants who were not part of their operation and often had limited operational experience. Instead, with the assistance of the World Bank, an innovative approach was designed based on the concept of a performance-based service contract.

A professional operator would be contracted to manage ONEA's commercial and finance departments while at the same time completing a series of preidentified tasks (including setting up new accounting and customer management systems). The operator would be paid a fixed monthly fee for management services along with a bonus or penalty based on its achievement of contractual targets, plus a fixed price for each specified output. Progress against contractual targets was regularly monitored by an independent consultant so as to calculate the variable remuneration, set at a maximum of 5 percent of revenues corrected by yearly bill collection target ratios. This created a strong incentive for the professional operator to improve performance. Another feature of the contract was an operating investment fund (about \$3 million) to provide the private operator with the flexibility to rapidly acquire equipment and meters.

### Significant gains by 2006

Following an international tender involving three bidders, a private consortium led by the French private operator Veolia was contracted. During the five years of the contract (from 2001 to 2006) ONEA continued to operate as a publicly managed utility. The private consortium sent two permanent staff members, initially to serve as directors of the commercial and finance departments. But the parties soon agreed that because of sensitivities, the expatriates should instead act as deputies to local managers. Many other foreign staff were sent on short-term missions as advisers. Thus the international operator had mostly an advisory role. Yet because of the performance-based nature of the contract, it also had a clear financial stake in the success of the technical assistance provided.

The staff sent by the international operator proved to be seasoned professionals with many years of hands-on operational experience. Under their guidance, ONEA's commercial performance improved markedly, in line with the contract's objectives (table 1). Bill collection for residential customers increased substantially, although this took some time. Progress started to appear only in year three, and the collection ratio continued to improve afterward, reaching 93 percent in year four and 95 percent in year five. The international

**ONEA had no choice but to make big gains in operational efficiency and double its customer base**

TABLE 1

Coverage and operational performance of ONEA during the contract period (2001–06) and in 2008

Indicator	2001	2002	2003	2004	2005	2006	2008
Household connections	72,500	78,500	84,000	90,000	100,000	125,500	168,000
Connection coverage (%)	32	33	33	34	36	43	50
Improved coverage (%)	53	54	54	54	56	63	73
Estimated population served (millions)	1.2	1.3	1.4	1.5	1.6	1.8	2.4
Nonrevenue water (%)	16	14	15	17	18	18	17
Collection ratio (%)	85	83	78	88	93	95	95.4
Labor productivity (staff per 1,000 connections)	7.9	7.2	7.1	7.2	6.4	5.0	4.5

Source: ONEA.

Note: Connection coverage is the share of the urban population with access to water through a household connection.

Improved coverage is the share of the urban population with access to water through a household connection or a standpipe.

Two years after the end of the service contract, the performance of ONEA remained good

operator also coached ONEA staff in updating the customer cadastre and identifying illegal customers, put in place new working practices to improve meter reading, established a meter repair workshop, and advised on improving customer service. It also helped reorganize work practices to increase labor productivity (which improved to 5 staff per thousand connections by 2006).

The performance-based service contract was supported by an investment program of about €200 million financed by a pool of donors (including the European Investment Bank, Agence Française de Développement, KfW, and the African Development Bank). The increase in water production capacity in Ouagadougou made it possible to start expanding the distribution network in the capital. The total length of the network almost doubled between 2001 and 2006, from 2,460 kilometers to 4,740. The number of household connections also almost doubled—increasing by an average of about 12 percent a year to reach more than 125,000 by 2006—and some 280 additional standpipes were installed in poor neighborhoods. Overall, more than 600,000 people gained access to piped water over five years, and water rationing was almost ended in Ouagadougou during the dry season. Thanks to improvements in the customer cadastre and meter reading, nonrevenue water remained broadly stable as a percentage of total water distributed despite the increase in average pressure resulting from the new production facility—and even declined when calculated as losses per connection per day.

The financial situation of ONEA improved markedly. Revenues increased by 50 percent. Efficiency gains, especially in bill collection and labor

productivity, were passed on to customers through a gradual decrease in average tariffs in real terms of about 8 percent. The total cost of the service contract proved reasonable: €3.9 million over five years. The cost for management services of the private consortium was just €2.6 million, equivalent to less than 3 percent of average yearly revenues during the contract.

### The gains apparently sustainable

In 2008, two years after the end of the service contract, the performance of ONEA remained good, suggesting that the efficiency gains achieved with the international operator are sustainable. The bill collection ratio was still above 95 percent, and the level of nonrevenue water was only 17 percent. And further gains had been made in labor productivity. The government confirmed its commitment to transparency and accountability by starting to rely on external independent consultants for monitoring ONEA's performance under its *contrat plan*. Continued support from donors allowed ONEA to continue expanding the network and to scale up the subsidized connection program, providing access to another 600,000 people in just two years. Piped water coverage in urban areas stood at 73 percent by 2008.

### Lessons learned

The success of the urban water reform in Burkina Faso stems largely from a combination of competent public management at ONEA, sustained commitment from the government, strong financial support from donors, and an innovative partnership with the private sector. All partners played

their roles and worked together. The case highlights some important lessons.

- *Public water utilities can perform well, even in a poor country like Burkina Faso. The recipe for success is neither complex nor original. The government refrained from interfering in ONEA's operations, kept its management accountable, and ensured that tariffs were high enough to recover costs. The utility's management focused on efficiency and adopted sound commercial practices—much as a private operator would have done. This shows that what matters for successful reform is not whether the operator is public or private, but whether the government has the capacity and willingness to put in place the critical conditions and incentives for the service provider to deliver.*
- *The private sector can contribute more effectively when its intervention is tailored to local conditions, expectations are realistic, and the public sector partner is equally committed. The performance-based contract was well designed, with realistic contractual targets and an incentive bonus based on a simple and objective criterion. The requirement for the operator to send experienced operational staff was well specified, and independent auditors were recruited to monitor progress toward contractual targets. The contract was custom-designed to suit the specific objectives of the government, resulting in an innovative approach that did not simply replicate a contract tried elsewhere. Finally, the managerial prerogatives of ONEA staff were respected, as the expatriate staff were not in direct management positions. All this contributed to a strong sense of ownership by ONEA staff.*
- *The quality of human resources is key. One essential reason that ONEA has been so successful is that the government of Burkina Faso consistently made good choices in appointing compe-*

tent and dedicated professionals—rather than relying on the usual political patronage practices. ONEA staff receive a higher average salary than typical civil servants, and over time a solid work ethic developed in the utility, making it a respected company to which employees are proud to belong. In addition, ONEA management proved confident enough to be open to testing an innovative approach for private sector involvement, and proved responsive in acting on the advice provided by the expatriates.

- *Urban water reform needs to be supported by significant investments. Water distribution is infrastructure intensive. Even with a competent operator in place, significant improvements in efficiency, service quality, and financial performance can rarely be achieved without major investments in rehabilitation and expansion. This was the case in Burkina Faso, where both the major expansion of production capacity in Ouagadougou and associated investment in network expansion were needed. Establishing credibility with donors was essential: they were ready to support the large investment required and finance an innovative contractual approach because of the positive results ONEA had already achieved in its first decade of corporatization.*

#### Note

1. ONEA is also responsible for providing sanitation services, a role that includes operating a small sewerage network in Ouagadougou and handling septic tanks for on-site sanitation.

#### References

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