

Public, not private, money needed to plug Africa's water and sanitation gaps

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In Africa, those consuming water from stand posts often pay the highest price. Shutterstock

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African stakeholders have called for water supply and sanitation to be a priority at the next meeting of the United Nations Framework Convention on Climate Change. They want the November meeting of COP22 to integrate issues related to water supply and sanitation with the climate change agenda.

Some progress has been made on water and sanitation in the past 20 years. Under the Millennium Development Goals, rates of access in sub-Saharan Africa increased by 20% for drinking water and 6% for sanitation between 1990 and 2015.

But far more needs to be done. Population growth means that the number of people without access to drinking water increased from 265m in 1990 to 316m in 2015 and those without safe sanitation from 388m to 692m.

The sector is in dire need of extensive investment. Estimates vary slightly but, to achieve the Millennium Development Goal targets, Africa would have to spend about \$15bn annually while current spending is around \$3.6bn.

To close the gap, there is support for greater private investment in water in developing countries. But the reality is that the financing gap in Africa can only be addressed viably and equitably with a major

increase in public investment.

Privatisation, not the answer

Water privatisation in sub-Saharan Africa goes back to 1960 and became a core policy in the 1990s but it has proven to be extremely challenging. Private firms have contributed next to nothing in terms of financing the sector in the African region.

According to World Bank research, the private sector has contributed just 0.1 % of water supply and sanitation annual financial flows in sub-Saharan Africa. Funding has mostly come from government sources and overseas aid.

The low levels of private investment are predominantly due to high perceived risks. Investing in this sector requires extensive up front investment in pipes and pumps that takes many years to be recovered. Such investment is at higher risk where end users have low incomes and state capacity is weak. Given the essential nature of water, provision can be politically charged which may affect pricing and increase the investment risk still further.

This has resulted in high rates of cancellation of private contracts for water supply in Africa. About 29% of contracts have been prematurely terminated. This is a huge problem given the time and money taken up with the tendering process which then sometimes fail to result in a contract being awarded or completed. In Nigeria, for example, privatisation has been on the policy agenda since the late 1990s but still no contract has been signed.

When contracts do come through, there is little compelling evidence that the private sector is more efficient than public providers in water and sanitation. In cases where the private sector appears to be more productive, it is often as a result of cutting employment or because donor funding was conditional on privatisation.

As the limitations of water privatisation have become clear, there have been calls for innovation in private financing mechanisms. One example is the use of public resources to stimulate private sector investment through “blended finance”. This is where the government provides subsidies and/or guarantees to encourage commercial financiers to invest in water.

But a number of concerns have been raised with this approach. Private capital is not a substitute for public capital and is volatile and expensive. To date there seems to be little justification for diverting limited public resources toward trying to attract investors into the sector rather than investing government funds in water directly.

Financial sustainability

The focus on addressing the financing gap for water has also drawn attention to the issue of financial sustainability. Throughout the global water sector, there has been a push for full cost recovery pricing in water. This is where the service provider receives sufficient revenue from customers to cover operating and investment costs. It is seen as a prerequisite for privatisation.

In sub-Saharan Africa it is argued that since only the wealthy have connections to the piped network, a subsidised water tariff – implicit in any price that is below full cost recovery pricing - benefits the better off. Research by the World Bank has advocated an increase in water tariffs in Africa, arguing that this is affordable, particularly if consumption is lowered.

But full cost recovery raises a number of concerns in practice, again making a case for public financing:

- It is not clear what cost should be recovered. How, for example, should historical costs or leakage costs be accounted for?
- When taken to its logical conclusion, those that cost more to serve will be the poorest households. In Senegal, for example, poor households pay more for water from a standpipe than those that have access to a private connection.
- Water distribution systems are complex. There is not a simple divide between wealthy households that consume utility water via a piped connection and poorer households that use other sources. For example, in Dar es Salaam, water produced by the public utility is re-sold by private tankers across the city. Sometimes this water changes hands several times before reaching end users. These are often individuals in low-income areas, buying by the jerry can.
- Tariff increases may lead to a reduction in consumption and therefore have an adverse impact on overall revenue.
- Water tariffs are already high in many African countries. Relative to incomes, these are often much higher than water prices in organisation for Economic Co-operation and Development countries, even for the income of the richest quintile.

Little attention to public sector solutions

Public sector solutions are notably absent from current policy debates even though they have been the mainstay of infrastructure development across the world.

In developed countries, universal coverage was largely achieved with government spending raised by taxation and government loans. European and US water and sewerage networks were developed with public funding mechanisms. There is also evidence that that public investment crowds in private investment.

An alternative approach to closing the financing gap is needed, focusing on increasing public revenue rather than pushing for private. There are indications that considerable potential exists to increase revenue mobilisation in the region. For example by, reducing tax breaks. These are provided to attract investment but evidence suggests they are ineffective. The continent can also focus on curbing capital flight to increase public revenue.

