East Asia and Pacific - OBA

Water Week
March 2, 2005
Cambodia: A Challenging Environment...

- Annual per capita income of $321; approximately 41% of the population live below the poverty line (2002)

- After decades of war and social disruption, less than one-third of Cambodia’s population has access to improved water services; access to sanitation facilities is worse

- One of the highest infant mortality and morbidity rates caused by water contamination in the world

- To achieve the MDGs in Cambodia’s water and sanitation sector:
  - investments should total at least $600 million by 2010;
  - However, current investments - funded entirely by donors - averages less than $20 million per year (representing a XXX gap)
Cambodia: Current trends

- Community “self-provisioning” of water supplies more common, including increased reliance on unregulated and unlicensed water vendors, including those providing piped water supplies.

- Government trying to license and formalize PSP (1997).

- A PPIAF-funded study demonstrates that consumers served by licensed privately-run utilities are happier than public utility customers (Garn, Isham, Kahkonen, 2000) because of:
  - Better availability
  - Superior quality
  - Fewer service interruptions

- But weak regulation, non-transparent and uncompetitive procurement, high tariffs and most especially high one-off connection fees still limit access of the poor.
Cambodia: Provincial and Peri-urban Water Supply and Sanitation Project

The *Provincial and Peri-urban Water Supply and Sanitation Project* provides poorer people with water services by building and rehabilitating infrastructure services in peri-urban and rural areas and by encouraging greater private sector participation in water services.

Project provides water facilities in about 23 towns through different contractual arrangements.

- 19 towns under Design Build Lease (DBL) arrangements receive non-targeted subsidies for capital expenditures from proceeds of a large IDA credit.
- 4 towns operated under OBA arrangements through design, build and operate (DBO) contracts receive targeted subsidies, financed by an IDA grant, where operators receive a payment for each poor household connected (ex post).

Both types of arrangements are 15-year contracts involving relatively large investments, but under DBL, operators pay the Government lease fees (linked to Government debt servicing).
Cambodia : OBA Project Design and Bidding

- Under OBA, a $3.1 million grant was provided to connect poor households.

- Towns were selected along a vibrant route between Phnom Penh and Ho Chi Minh City to build a critical mass of growing middle and high income cities.

- 8 firms were pre-selected through ICB for the OBA first batch. Two firms submitted offers – a Cambodian company, and a joint venture between Cambodian and Singaporean companies (SINCAM).

- Structure of the bid: Lowest cost per connection. End-users continue paying agreed water tariff (approximately 2,000 Real per cubic meter, equivalent to US$0.50 pcm, or US$ 0.0005 per liter)

- SINCAM was awarded the contracts in March 2004. SINCAM bid for the contracts 22-28% less than the public sector comparator of US$500\(^1\)/equivalent per connection.

1/Total capex per hh incurred by Govt for similar donor funded water projects in past
# Cambodia: OBA Coverage and Contract Price

<table>
<thead>
<tr>
<th>Service Area</th>
<th>Total No of HH (Town)</th>
<th>Poor HH eligible for subsidy</th>
<th>Subsidy per connx (approx)*</th>
<th>Contract Price (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suong</td>
<td>4408</td>
<td>990</td>
<td>US$ 356</td>
<td>$356,994</td>
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<tr>
<td>Skun</td>
<td>2578</td>
<td>1004</td>
<td>US$ 356</td>
<td>$362,042</td>
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<tr>
<td>Chrey Vien</td>
<td>2682</td>
<td>354</td>
<td>US$ 385</td>
<td>$133,170</td>
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<tr>
<td>Peam Chi Kang</td>
<td>3456</td>
<td>660</td>
<td>US$ 385</td>
<td>$254,760</td>
</tr>
<tr>
<td></td>
<td>3,008</td>
<td></td>
<td></td>
<td>$1,100,254</td>
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</tbody>
</table>

*22-28% lower than $500 public sector comparator
Cambodia: PPWSP Features

Operator receives most of the payment upon invoice (within 4 weeks). Remainder of payment delivered after independent consultant submits report verifying connections and services.

Under OBA, provider is paid the agreed bid amount regardless of the ex post connection costs, creating an incentive for efficiency.

Service providers operating under both DBL and OBA contracts must connect any household within their service areas that requests a connection. OBA providers use the subsidies to connect the targeted poor, but charge a connection fee to all other customers. Under DBL, providers only charge connection fees to those outside the WTP¹ list. Connection costs for those on the WTP list are covered by the IDA credit.

A new regulatory body was created, the Contract Administration Unit (CAU), to monitor the quality of connections and other services. The Bank is working with Government to develop a new water sector law that will make regulations more transparent.

¹ The WTP was developed during community consultations throughout during preparation.
Cambodia: OBA versus DBL

- **Risks**: Too early to determine all advantages and disadvantages, but providers face generally less risk under DBL arrangements because of:
  - More information at bidding
  - Regular disbursements from IDA credit (OBA provides only 10% +10% initially, remaining 80% after verification of connection)

- OBA subsidies possibly more efficient, depending on target cost
- OBA schemes target the poorest better; implicit subsidies in DBL arrangements are passed to everyone
Cambodia: Targeting Households for OBA Subsidies

- Methodology for targeting households with connection subsidies was community-driven.

- Results of community developed household surveys, and poverty criteria developed by village representatives and commune council members, were used to identify targets for connection subsidies.

- Household classification of “poor” were randomly verified by a consultant (monitoring).

- Women were heavily involved in this process.

- Community mobilization and consultations continue on tariff and connection levels, capacity building, dispute management, and other aspects of working with providers.
Cambodia: OBA First Batch Progress to Date

The OBA process took a long time to develop and is in its early stages of implementation. Thus far, the Government is pleased with the scheme, especially its community-driven approach. Community ownership has been important, as water issues are both political and emotional.

The project is on track to meet its objectives; rehabilitating/constructing water and sanitation infrastructure, reaching the poorest segments of the population, and incorporating private sector financing and technical and managerial expertise.

The bidding and selection of local companies is encouraging, especially given OBA’s increased up-front risks to providers. The provider has identified and tested potential water sources, and undertaken an environmental impact assessment. Construction is underway, and connections should be made in 2005. Bidding for the second batch of four towns are in the PQ stage.

\(^1\) To help mitigate risk and attract small, local players, training on Bank bidding and procurement and other relevant topics was given to participants
Cambodia: GPOBA’s Involvement & Moving Forward

- GPOBA is funding a review of the first four pilot towns, community capacity building, and TA to prepare further OBA schemes and establish dispute resolution procedures.

- The project’s success, enthusiastic governmental support, and widespread donor involvement has prompted a second phase (batch) of work.

- Seven firms applied for prequalification for the OBA second batch and prequalification should be concluded by March 2005.

- Of nine firms prequalified for the DBL second batch, seven have collected bid documents, and Proposals should be submitted by April 1, 2005.
Philippines: La Union OBA - Features

- Project towns and municipalities were selected based on political leadership and reputation (the Governor was legally challenged in court five times during the PQ and Bid process), and to build a critical mass of 52,000 improved HH connections in strategic areas.

- Structure of the bid: Lowest cost per connection. End-users continue paying agreed water tariff (approximately 15 pesos pcm, equivalent to US$ 0.30 pcm - **US$ 0.0003 per liter**).

- Contracts are for 15-years and involve relatively large investments, but the operator pays the Government of La Union a lease fee linked to Local Government debt servicing.

- Provider is paid the bid-specified connection amount independent of actual costs, creating an incentive for efficiency.
Methodology for targeting households with connection subsidies was community-driven.

Results of household surveys developed within communities, but national parameters for poverty criteria were used to identify targets for the connection subsidies.

Household classifications of “poor” were randomly verified by a consultant, resulting in list of 8,000 poor HHs.

Women were heavily involved in the process.

Two firms, both Filipino, pre-selected through ICB for OBA and contract award expected in May 2005.
Thank You

Questions ?