



## Urban Water Sector Reform in Senegal: Innovative Contract Design to Expand Services to the Poor

In the 1990s, Senegal undertook major reforms of its urban water supply and sanitation (WSS) sector. The World Bank, which has been providing support to the Senegalese water sector for many years, assisted this reform through an IDA credit. The Water Sector Project resulted in significantly better services and financial health for the sector. Approximately one million extra people got water supply services. Social connections, changed billing practices, and more stand posts ensured the poor benefited from service expansion. Existing customers got more water of better quality. In addition, the utility is better run, with lower water losses and higher bill recovery. Keys to success were strong leadership and political will combined with an innovative institutional structure.

- a 30 year concession contract signed between the ministry and assetholding company that authorized the latter to manage the sector;
- a sector development contract between the ministry and assetholding company that outlined the investment obligations of the latter;
- a 10-year affermage contract between all three actors, governing operation of the system;
- a 10-year performance contract between the asset-holding company and the private operator. This annex to the affermage contract outlined specific responsibilities.

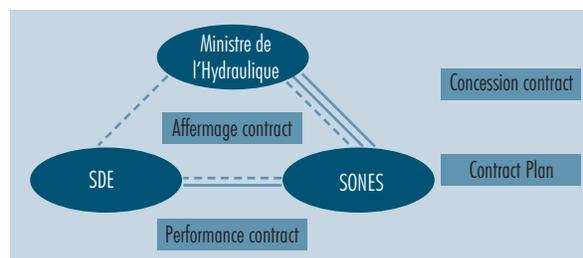
### THE PROCESS TO DECIDE ON REFORMS

In 1994, the Senegalese government embarked on a year-long process to design sector reforms that would allow for extension of the WSS services. A series of workshops formed an integral part of the planning process. A World Bank team played a pivotal role in these workshops, and also supported the government to study reforms in other countries. The workshops helped to gradually build understanding and consensus on the issues and the options of sector reform.

The planning process proposed an arrangement of institutions and contracts that would balance the powers within the local circumstances. The core of the reform plans was the establishment of three main sector institutions linked through a web of four contracts. The three main actors were the Ministère de l'Hydraulique, a state asset-holding company, and a private operator. Four contracts would identify the responsibilities of each of the actors (see graph):

### THE WATER SECTOR PROJECT

In 1995, the World Bank provided a US\$100 million IDA credit to the government of Senegal to implement its reform plans. The objective of the Water Sector Project was the creation of an enabling government framework to attract a private operator, increase efficiency, and improve service delivery. The majority of the loan would finance network rehabilitation and expansion. The project had a capacity building component targeting key institutions and institutional restructuring.



#### SENEGAL AT A GLANCE

Population: 10.5 million — urban 49%, rural 51%;  
 2.1% annual growth rate.  
 Surface area: 196,700 km<sup>2</sup>  
 Life expectancy: 52.3 years  
 GNI per capita: US\$ 670  
 Human Development Index ranking:  
 157 out of 177 countries

% below the basic needs poverty line: 33.4%  
 % with improved water access: 66%  
 % with improved sanitation access: 52%

#### MORE INFORMATION

Implementation Completion Report, Senegal Water Sector Project, World Bank, 21 December 2004.  
 Project Appraisal Document, Senegal Long Term Water Sector Project, World Bank, 7 February, 2001.

Innovative Contracts, Sound Relationships: Urban Water Sector Reform in Senegal, Clarissa Brackelhurst and Jan G. Janssens, Water Supply and Sanitation Sector Board Discussion Paper Series, Paper No. 1, January 2004.

## PROCESS

The law implementing the institutional reform was passed by the National Assembly in March 1995. The law authorized the creation of a new assetholding company, the Société Nationale des Eaux du Sénégal (SONES). SONES was set up as a small, professionally competent outfit with clear financial targets. It was institutionally autonomous, governed by a 1990 law pertaining to parapublic sector enterprises.

The government adopted a two-stage bidding process. A private company called Sénégalaise des Eaux (SDE) was selected as the winning bidder. SDE signed the affermage contract and the performance contract in April 1996. The operator's remuneration was based on the amount of water produced and sold, creating an incentive to serve as many customers as possible while reducing water losses. The operator was required to finance some investments related to the renewal of the network.

All three sector institutions maintained a good working relationship. This made the reforms more sustainable and robust. SONES concentrated on the overall sector development and contract enforcement. As for the day-to-day operation of the system, it was entirely left to SDE. All parties complied with most of their contractual obligations. In 1998, SONES and SDE successfully renegotiated the unattainable targets in the contract without resorting to arbitration or litigation. Specific actions to strengthen the partnership included capacity building activities and reinforcement of the partners' common understanding of the new institutional arrangement. Good relationships were also helped by the fact that no major layoffs were necessary during the reforms, as the utility was not very overstaffed to begin with.

Long-term financial viability was achieved through increased efficiency and effectiveness. Revenues became sufficient to fully finance all operations including debt service. This was achieved through gradual annual tariff increases that matched the improvements in the quality of service. Tariff increases were accompanied by public awareness campaigns.

The design of the affermage contract recognized the need to allocate sufficient, specific

resources to finance increased access to piped water supply for the poor. As a result, a national fund was created to allow the private operator to subsidize Social Connections. It aimed at providing improved services to the poor for a lower price. Social connections were free, while a connection fee was charged for ordinary connections aimed at wealthier households. SDE and SONES worked through a large NGO to identify the need for social connections.

In addition, the private operator set up a decentralized and computerized network of payment booths. This made payments by domestic clients easier, and improved customer services.

## RESULTS

The Water Sector Project extended access to water supply services to approximately one million people. At the end of the project a total of 81,000 water social connections, 400 water standpipes and 13,000 new sewerage connections had been executed.

Water production increased 19%. Unaccounted for water fell from 31.5% in 1996 to 20% in 2003, which is one of the lowest rates in Africa. Water quality improved.

The private operator developed its local human resources through an extensive training program. The total of 61,000 hours of training translates to an average of more than 50 hours per staff member.

A follow-up project, the Long-Term Water Sector Project, became effective in June 2001. This project is addressing the continuing need for an increase in production capacity, financing muchneeded investments in sanitation, and supporting further institutional reforms. This includes negotiations for the extension of the lease contract until 2011 and the planning for a second generation of reforms.

### RELEVANT PROJECTS

Water Sector Project  
Senegal

Project ID P002346

Long Term Water Sector  
Project

Project ID P041528



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