

Public-Private Partnership Stories

Benin: Piped Water Supply Systems in Rural and Small Towns



In 2010, the performance of privately-run piped water systems in rural and small towns in Benin was assessed by the World Bank's Water and Sanitation Program (WSP), which uncovered several shortcomings in the sector. In 2012, IFC was retained by the Government of Benin to help address these challenges, as part of the World Bank's larger project to help improve water supply and distribution services in rural and small towns. The project also complemented the on-going sector support being provided by WSP in Benin. Ten pilot sites, covering 41,000 people, were selected in three different municipalities (the "Communes"). The pilot sites were grouped into four clusters, each of which was tendered as a separate transaction by the respective Communes. Private operators bid for the 8-year concession agreements for the design, partial financing, rehabilitation, extension and operation of the ten rural water systems. The bidding process led to the selection of three winning local bidders for the four clusters (two consortia and one firm).

The four concession agreements were signed in August and September 2014.

This series provides an overview of public-private partnership stories in various infrastructure sectors where IFC was the lead advisor.

The project was implemented with the financial support of DevCo, a multi-donor facility affiliated with the Private Infrastructure Development Group. DevCo provides critical financial support for important infrastructure transactions in the poorest countries, helping boost economic growth and combat poverty. DevCo was co-founded by IFC and the UK's Department for International Development (DFID), and is funded by DFID, the Austrian Development Agency, the Dutch Ministry of Foreign Affairs, and the Swedish International Development Agency.

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BACKGROUND

In Benin, rural water systems had historically been operated by local communities, with varying degree of success. In 2006, the Government of Benin began to transfer the management of these water systems to private operators, under a lease/affermage arrangement. In 2010, the World Bank Water and Sanitation Program (WSP) commissioned an assessment of the performance of the privately-run water systems which uncovered a number of shortcomings including the lack of capacity on the part of the local private operators, weak and short-term contracting arrangements, and challenges for all parties in fulfilling their contractual obligations. To address these problems and strengthen the contractual framework, the Government of Benin solicited the assistance of the World Bank Group and the Dutch Cooperation (Netherlands Embassy in Benin) allocated up to \$1 Million in grant funding to the project.

IFC'S ROLE

The Government of Benin hired IFC as its lead transaction advisor to structure, tender, and implement a public-private partnership (PPP) for ten pilot sites. IFC's unique experience with PPPs added to the strategic partnership with the Water and Sanitation Program (WSP), which played a pivotal role in fulfilling the government's objective of leveraging the private sector's capacity to improve the quality and sustainability of water supply in rural areas. IFC's mandate included helping to select private operators for the selected piped water supply schemes through a transparent and competitive bidding process. Together with WSP, IFC provided strategic recommendations on an appropriate institutional framework, the range of activities to be transferred to the private sector, and a tender and regulatory framework.

TRANSACTION STRUCTURE

IFC proposed a transaction structure based on an 8-year concession agreement for the design, partial financing, rehabilitation, extension and operation of four clusters comprising of two to three rural water systems each.

The project design required the private operators to design, engineer, rehabilitate, operate and maintain systems, without increasing the price of water. This included rehabilitating equipment, extending the network, installing private water connections, and partially financing these activities. The concession arrangements provided a robust contractual framework and a better risk allocation among the parties. For the first time in Benin, local commercial banks have committed to support the sector by providing debt, equity, and various financing instruments to the concessionaires. The financial

burden on the public finances will be reduced, as historically the State has fully financed capital investment.

BIDDING

The bidding process led to the selection of three winning bidders (two consortia and one firm) for the four clusters. The project is expected to mobilize approximately \$1 million in capital expenditures, of which \$277,000 will be financed by the private operators. The balance will be provided by the public budget through a grant from the Dutch Cooperation.

In addition to the advisory support provided to the Government, potential bidders were consulted and trained to ensure a clear understanding of the proposed structure, and a sustainable risk allocation.

The project was implemented as a pilot for broader sector reform. Scaling-up of this approach is envisaged as a next step to include more rural water supply schemes across the country and to enable a larger number of people to benefit from improved access to water. The population currently supplied through piped water systems is estimated at 1.7 million people in Benin. Through this pilot project, the local commercial banks are more familiar with the risk profile of rural water supply and are committed to support the private operators. In addition, the WBG and other development partners (especially the Netherlands) are committed to support the replication effort.

EXPECTED POST-TENDER RESULTS

- \$277,000 of the project total cost will be mobilized through private operator's debt and equity financing.
- \$760,000 FCFA public subsidies provided by the Dutch Cooperation.
- Rehabilitation of 10 existing piped water systems which will improve the water service delivery.
- Approximately 32 km of additional water network pipes to install.
- 1,071 new household water private connections to install.
- Overall, approximately 48,500 people are expected to have access to improved water services within two years of the commencement of the concessions.