Small Drinking Water Supply Networks and Original Public–Private Partnership in Burkina Faso: Economic Model for a Financial Sustainability of Water Service Supply

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We are the specialists in finding energy solutions (wind and sun) and supplying water in remote areas.

- For more than 30 years, VERGNET HYDRO has been known as a major stakeholder of rural water supply in Africa.
- Since 1978: 100,000 hand-pumps and foot-pumps have been installed, serving 50 millions of users.
- Since 2004: 200 water supply systems for small towns have been built.
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Countries where VERGNET HYDRO - PHOTALIA has subsidiaries
Countries where VERGNET HYDRO - PHOTALIA has representatives
OUR EXPERIENCE IN BURKINA FASO

The leasing (aftermage) zone

- FASO HYDRO (VERGNET HYDRO’s subsidiary has signed leases with 7 districts of North-East Burkina Faso for providing water to the population (Public Service Delegation)

- 44 000 inhabitants
- 37 standpipes
- 14 000 m of pipes
- 32 hand-pumps (for the most part, out of order)

Network operations started May 1st 2009.

1 US$ = 490 FCFA (09/2013)

Situation of the 7 water supply systems (150 km around Dori)
Some figures after 3 years of operation

- The population has appropriated the network thanks to the quality of the service and the shorter periods without water (<3.5% in days), which has been confirmed by an increase in consumption.
## The operating accounts after 3 years of operation

<table>
<thead>
<tr>
<th></th>
<th>2009*</th>
<th>2010</th>
<th>2011</th>
<th>2012**</th>
<th>...2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated turnover</td>
<td>20 799 085</td>
<td>44 971 200</td>
<td>52 122 845</td>
<td>13 984 250</td>
<td>85 000 000</td>
</tr>
<tr>
<td>Current expenses</td>
<td>17 987 082</td>
<td>38 158 751</td>
<td>37 213 273</td>
<td>11 847 115</td>
<td>61 000 000</td>
</tr>
<tr>
<td>Provision for future costs</td>
<td>5 528 687</td>
<td>12 205 573</td>
<td>9 345 269</td>
<td>327 712</td>
<td>10 300 000</td>
</tr>
<tr>
<td>Results (in FCFA)</td>
<td>(2 716 684)</td>
<td>(5 393 124)</td>
<td>5 564 303</td>
<td>1 809 423</td>
<td>13 700 000</td>
</tr>
</tbody>
</table>

*2009 : May to December  **2012 : January to March

- A fragile balance sheet but in increasing and promising progress...

  ....leading to sustainability of such an economic model
KEY FACTORS FOR A SUCCESSFUL FINANCIAL MODEL

- Setting the foundations for an affordable, legal and institutional environment (water code, tax system, context of decentralization)

1- Involving the private operator in the different stages of the project to evaluate its experience and to minimize its technical risk-taking. Sharing the risks in a real PPP/DBO contract

2- Giving a multi-year contract term. Allowing the private company to recoup its investment. Duration of our contract is seven years. We hope more!

3- Enabling the private company to make money and decreasing the financial risk-taking for the private operator: Optimizing leasing perimeter size (population and water volume sold) and mutualizing the operating accounts!
KEY FACTORS FOR A SUCCESSFUL FINANCIAL MODEL

Implementing on the field a strong and efficient organization in order to reach a transparent management and a real sustainable water service supply

One day without water sales = one day of financial losses

1- Minimizing the recurring expenditures: people involving in water sales are paid for task completion according to the water sales volumes.

2- Securing money transfers at each level: standpipe keeper, centre manager, rural bank agency: money in exchange of a signature.

3- Everyday, supervising all quantities of water produced and sold: monitoring performance indicators.

4- Responding quickly when a problem occurs: Available communication network. Efficient after sales services with professional subcontractors.
MANAGEMENT ORGANIZATION CHOSEN BY VERGNET HYDRO

A 4 level structure based on the responsibility of the contributors and the transfer of knowhow from VERGNET HYDRO to FASO HYDRO. VERGNET HYDRO has a control on FASO HYDRO (agreement between both parties).
Who earns what?

1. **Population**: a continuous water service delivery.
2. **District**: no technical agent needed and a sustainable water supply.
3. **Hand-pump manager**: any financial resources when he has sold 750 litres per pump per day.
4. **Standpipe keeper**: he earns 40 FCFA per litre of sold water.
5. **Centre manager**: he earns 10% of the turnover.
6. **Works manager**: he earns a fixed wages and fees according his defined objectives with FH and VHY.
7. **FASO HYDRO**: profit (or losses) on water schemes operating.
8. **VERGNET HYDRO**: profit (or losses) on building the water piped network, training and interest on a loan required by FASO HYDRO if needed.
Points of the ‘affermage’ contract to be improved

negative points: leading to many questions, probably some future discussions between the contract partners.

1– We have general rules but we do not know how to apply them.
For instance, no rule defines the number of depreciation years for the “small’ equipment (generator, inverter...). Each operator can do what it wants!

2– No model of operating account and no rules to fill it.
How to evaluate overheads? How to estimate prepaid expenses? In such conditions, it is impossible for a state water department in a Ministry to compare 2 water companies in financial terms. At worse, how to estimate the real water cost price?

3– Taxes: are provisions for equipment renewal considered as a part of a profit or prepaid expenses? For us, provisions for renewal are expenses but for tax assessors, they must be included in the profit... We has to pay additional taxes. Water cost price increases.

4– Provision for renewal balance at the end of the contract. Do they belong to the equipment owner or to the private company?

5– Performance indicators: we have transmitted reports to the District. We did not receive any reply from the equipment’s owner. So, good job, bad job, we do not know.

6– In case of fault or disputes, time to take a decision is too long. Water is not a common commodity. So the contract must be adapted to emergency situations.
CONCLUSION AND RECOMMENDATIONS

- In Burkina Faso, technical, policy and institutional options chosen by the public authorities to ensure sustainable water distribution in rural areas is successful: the service of water distribution is carried out continuously.

- However the public authorities must continue their efforts to encourage operators to invest in the sector by improving the tax regulation and the contents of a water service delegation contract.

- Sustainable development of water distribution will only be possible if there is a long-term commitment of all stakeholders.

- The more private operators will have long-term visibility, the more they are inclined to invest a part of their capital equity in the water supply sector.
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