

## PPIAF Assistance in the Republic of Chad

The 2010 United Nations Development Program's Human Development Index ranked the Republic of Chad (Chad) 163 out of 169 countries in the world. Extreme poverty, high vulnerability to food insecurity, and unstable security situation caused by recurrent armed conflict are the biggest constraints to economic growth in Chad. While the political situation has significantly improved since 2010, socio-economic conditions of the majority of Chadians remain precarious. Various reports on human development have noted the low probability for Chad to reach the Millennium Development Goals by 2015 despite continued efforts of the donor community to support poverty reduction programs. In recent years, the government of Chad and its key development partners have identified priority actions that can foster growth in the country. An emphasis was put on the need to reinvigorate the water and energy sectors since these are considered as critical growth drivers that can make significant impacts on the living conditions of the poor.

To complement the World Bank and European Union's ongoing support to reform the water sector in Chad, PPIAF funded a comprehensive study to help identify the mechanisms for private sector participation in the *Société Tchadienne des Eaux* (STE), the Chadian water utility created in May 2010.

### Technical Assistance for Chad's Water Sector

Access to potable water for the population of Chad is insufficient, and the performance of the urban water supply sector is weak. Only 36% of the country's urban population and 32% of its rural population have access to reliable and potable water. In N'Djamena, the capital city, it is estimated that only 33% of households have direct access to safe water through a functional connection, and 30% through a water standpipe. This leaves more than a third of the population of the capital city without guaranteed access to safe drinking water. In contrast, on average, 80% of urban dwellers in Sub-Saharan Africa have access to an improved water source.

The urban water sector in Chad faces many challenges including: 1) an institutional framework not yet consolidated following the splitting of the multi-sector utility in 2010; 2) a recently created water utility facing major organizational challenges linked to its reconstruction, and under financial stress; 3) a low level of coverage of about 36%, relying massively on collective mode of distribution; 4) a high level of unaccounted for water and water wastage due in particular to the poor conditions of distribution networks, the lack of metering, and illegal the sale of standpipe water; 5) an inappropriate tariff structure and level; and 6) low level of qualification of utility staff.

In 2008 a mission of the International Monetary Fund (IMF)<sup>1</sup> recommended the restructuring of the *Société Tchadienne d'Eau et d'Electricité* (STEE), the national water and electricity company, as its operational performance had declined considerably over the past years. The IMF and World Bank teams also recommended splitting STEE into two autonomous water and electricity companies as a way to improve governance in these sectors and strengthening the financial situation of these companies. The recommendations were approved by the government of Chad, and as a consequence STE, the national public water utility, and the *Société Nationale d'Electricité* (SNE), a utility dedicated to power supply, were created in May 2010. This institutional overhaul entailed significant institutional, organization, and financial challenges for the STE, but also opportunities in terms of reforms, increased autonomy, and development for the water sector.

Subsequent to the creation of the STE, the Chadian government requested technical assistance from PPIAF to identify and prepare a private sector participation options study to determine the most suitable public-private partnership (PPP) model for Chad's water sector. The PPIAF activity included three key components: 1) a diagnostic of the water sector and of STE, with a focus on the legal and institutional framework surrounding the mandate and operations of the utility; 2) a detailed action plan for improving the performance of STE; and 3) the options for introducing private sector participation in STE.

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<sup>1</sup> Poverty Reduction Strategy Paper Joint Staff Advisory Note: <http://www.imf.org/external/pubs/ft/scr/2010/cr10231.pdf>

The following strengths and weaknesses were identified by the diagnostic of the water sector:

- *Strengths*: a thorough Water Code that allows private sector participation in the water and sanitation sector; strong commitment from the government of Chad to support the reforms of the water sector and to empower the STE; and good will from donors to keep supporting the development of the water sector
- *Weaknesses*: a lack of key entities such as the regulatory agency and national water fund; incomplete legal and regulatory frameworks; an obsolete and inadequate tariff system; a large number of staff with low capacity; and an absence of training programs

Consequently, an action plan was developed to solve these issues and to help increase the performance of the STE. The plan targets three areas: the legal and regulatory framework; investments; and operations (finances and accounting, human resources, technologies, etc.). Total priority investments, estimated at \$12 million, have not yet been mobilized. In the short run, the PPIAF-funded activity is expected to be used to leverage resources from other donors.

The study also reviewed various PPP options including affermage, management contract, service contract, concession, etc. After various consultations with actors of Chad's water sector, and taking into account the findings of the diagnostic review of the sector, a service contract was identified as the most suitable PPP option for STE. Consensus was reached on the selected PPP option after two consultation workshops held in N'Djamena on March 30 and April 28, 2011.

**As a result of the PPIAF activity, the government of Chad adopted the PPP strategy in April 2011, based on the recruitment of the private operator under a three-year Service Contract.** The World Bank's Board of Directors also approved in June 2011 \$27 million in additional financing to support the PPP strategy. The procurement process for recruitment of the private operator has been launched, and the relevant bidding documents are expected to be sent to the shortlisted operators by December 31, 2011.

#### Results of PPIAF's Activities in the Water Sector in Chad

Category	Outputs
<b>Enabling environment reform</b>	
<i>Analyses/assessments prepared</i>	<ul style="list-style-type: none"> <li>• Diagnostic of the water sector in Chad, April 2011</li> </ul>
<i>Plans/strategies prepared</i>	<ul style="list-style-type: none"> <li>• Strategy for private sector participation in the water sector in Chad, April 2011</li> <li>• Action plan to improve the performance of the Société Tchadienne des Eaux, April 2011</li> </ul>
<b>Capacity and awareness building</b>	
<i>Workshops/seminars</i>	<ul style="list-style-type: none"> <li>• Consultation workshop held in N'Djamena on March 30, 2011</li> <li>• Consensus building workshop held in N'Djamena on April 28, 2011</li> </ul>

Category	Outcomes
<b>Enabling environment reform</b>	
<i>Plans/strategies adopted</i>	<ul style="list-style-type: none"> <li>• A private sector participation strategy to introduce a three-year service contract in the water sector was adopted by the government of Chad, April 2011</li> </ul>

<b>Capacity and awareness building</b>	
<i>Consensus achieved</i>	<ul style="list-style-type: none"> <li>• Consensus was reached on the use of a service contract as the optimal PPP arrangement to increase performance of the STE, April 2011.</li> </ul>

### **Looking Ahead: PPIAF and the PPP Agenda in Chad**

During a recent mission to N'Djamena, Chad, the PPIAF team met with various stakeholders in key infrastructure sectors. These meetings confirmed that there is very little existing engagement with the private sector in the delivery of infrastructure and services. Consequently, PPIAF has an important role to play in term of capacity building on PPPs and the development of an enabling environment for private sector participation in infrastructure. At the Ministry of Water, PPIAF support was requested to prepare a rural water sanitation plan and contribute to the implementation of the rural water program (drilling, maintenance, and management of boreholes). Furthermore, STE expressed interest in technical assistance from PPIAF to develop its strategic business plan, which will detail (amongst other things) how STE might engage with a private operator through a three-year service contract. Other stakeholders in the transport and energy sectors spoke of the need to build capacity on negotiation skills and strategy for future negotiations with private sector contractors or operators.