

**STATEMENT BY HON IVAN COLLEDAVELLOO, GCSK, SC, DEPUTY PRIME MINISTER,
MINISTER OF ENERGY AND PUBLIC UTILITIES**

SITTING OF NATIONAL ASSEMBLY OF TUESDAY 4 JULY 2017

Madam Speaker,

In reply to the Parliamentary questions on the water reform project, I had stated that because of its great national interest, I would make a comprehensive statement in the House at the appropriate time.

Madam Speaker, I could not make the statement earlier, as my Ministry was awaiting confirmation of funding and additional component of information from the World Bank. These have now been obtained.

I will therefore, with your permission, Madam Speaker, make a statement to provide information on the project to members of the House.

Madam Speaker, the Central Water Authority has sole and exclusive statutory mandate for the supply and distribution of water to the population. Over the years, the operation and management of the Authority had deteriorated, resulting in –

- increasing water losses in the network, reaching about 60%, and being a major cause of irregular water supply;
- inaccuracies in metering and consequential loss of revenue.
- precarious financial situation with loans reaching Rs 2.65 billion in 2016. Since 2009, the CWA has not serviced Government loans amounting to Rs 1.3 Billion.
- inability to invest in the replacement and rehabilitation of old, leaking water pipes or upgrading of treatment plants and
- Lack of creditworthiness making it difficult for the CWA to raise loans to finance its projects. In 2014, the European Union cancelled the outstanding balance of loans of 14 Million Euros which was meant to implement water pipe rehabilitation.
- Governance issues with regard to procurement, cost overruns and delays in implementation of projects.
- Lack of commercial orientation and delayed response to complaints from customers.
- No customer care culture.

In a statement which I made in the House in 2016, I mentioned how successive governments had attempted to bring reform, including private participation, in the water sector. Since 1997, at least six such attempts have been made, namely –

- (i) In July 1997, the British Executive Services Overseas submitted a report on Operational Areas and Management Restructuring of the CWA;

- (ii) In August 1999, CWA entered into a two-phase strategic partnership with the Consortium Vivendi/Lyonnaise des Eaux (Vivendi later became Veolia) for a pilot Management Contract of six months ending 29 February 2000 and leading to a Concession agreement;
- (iii) In 2003, Government appointed the International Finance Corporation to advise on private sector participation in the water sector. In 2004, IFC recommended an Enhanced Affermage or Concession contract;
- (iv) In September 2004, the CWA signed a 3-year service contract with the Severn Trent Water International, UK to determine water loss in the system, with a large rehabilitation program financed by a loan of 20 Million Euros contracted from EIB;
- (v) In February 2007, the Ministry sought the assistance of the UNDP to secure the services of an Expert to advise on the appointment of a Private Sector Operator for a Management Contract for both CWA and the WMA;
- (vi) In 2010, an agreement was reached with the Singapore Cooperation Enterprise to advise on a water sector strategic plan and in 2013, a Project Management Services contract was entered between CWA and Singapore Cooperation Enterprise to reduce non-revenue water in the Upper Mare aux Vacoas region.

In 2015, we decided to address, *on a priority basis, the long standing problem of water supply in the country*".

On 18 December 2015, Government appointed the World Bank to conduct a study on the reform of the distribution and supply of water and provide strategic advice and support for the design and implementation of a Private and Public Partnership for the Central Water Authority and for potable water sector reform. I am tabling the detailed Terms of Reference.

A seven member team of the World Bank team carried out the study, which highlighted that Mauritius is classified as a water-stressed country (below 1,700 m³ per capita per year) and is expected to fall under the water-scarce category by 2020 (projected 974 m³ per year, below the 1,000 m³ threshold). The aquifers are over-exploited and rainfall is unpredictable due to climate change. It identified the main weaknesses which I have mentioned earlier.

The World Bank recommended a holistic solution to redress CWA's financial situation, plan future investments and attain the target of 24/7 water supply. CWA's priority should be to reduce water losses and keep more water in the system. The Bank has proposed the appointment of a Private Operator to operate and maintain the potable water distribution system of the CWA on a 15 year **affermage** contract .

An affermage contract is a public-private sector arrangement under which the private operator is responsible for operating and maintaining the utility but not for financing the investment. It does not own the infrastructure. It would also share capital planning functions with CWA to ensure consistency of capital expenditure with improved

performance targets. The operator would finance minor investments in technology, equipment.

The Private Operator will be paid a contract management fee and an Operator Fee to cover costs associated with operation and maintenance of the system, based on a percentage of revenue collected on potable water in 2015 and indexed annually with CPI. This fee is designed to incentivize efficiency on the part of the operator.

Any increase in revenue arising from tariff increase before or after the affermage contract will be to the benefit of the CWA and not to the private operator . Secondly the operator will be paid a fee based on **key performance targets** such as improved service quality and reduction of water losses. A penalty fee will be applied in the event that the operators does not achieve the agreed targets.

Any surplus from revenues collected after making these payments would be for CWA's account.

A periodic review mechanism will be built into the contract to ensure that changes in circumstances and assumptions affecting the parties are duly taken into account.

The Central Water Authority will remain a parastatal organization and continue to own all the water supply pipelines, the water treatment plants and service reservoirs. It will monitor the service provided by the Private sector operator. It will be responsible for business planning, capital expenditure and proposing customer tariffs. It will strengthen its team to ensure it is a strong public counterpart to the PPP and to fulfil its mandate.

The World Bank would provide legal advice on amendments to the current legislation governing CWA.

According to the Bank, there will be need for an additional 400 employees to achieve the service delivery improvements, bringing the total number of employees from 1400 to 1800. Employees will be offered the opportunity to join the private sector operator with additional incentives. There will be no compulsory termination of employment or redundancy. We will hold consultations with the employees with the assistance of the Ministry of Labour and Employment.

With this reform project, the World Bank forecast is that after 5 years, the Central Water Authority would achieve regular supply of water all year round and achieve financial equilibrium through the performance improvements and tariff reforms. Water losses in the distribution system would have reduced.

On 03 February 2017, Government agreed to the implementation of the recommendations of the World Bank and enlist the services of the World Bank for advisory services; and the International Financial Corporation as Transaction Adviser. This decision was subject the World Bank providing assistance to Government in securing grant funds to meet the cost of these services.

The World Bank has now confirmed that the Global Infrastructure Facility (GIF) will provide a total of US\$875,000 to support the preparation of the Project, of which US\$475,000 has been allocated for the advisory services to be provided by the World Bank and US\$400,000 to the International Financial Corporation. The Government will contribution will be US\$ 400,000, for which a provision of Rs 14 Million has been made in the 2017/18 budget.

The private sector operator would be recruited through open transparent procurement procedures under the guidance of the World Bank. IFC is expected to start its assignment in July 2017 and to be ready with the bid documents by December 2017.

Concurrently, the World Bank will provide advisory services to support CWA to become strong counterparty to PPP and with stronger focus on asset management and long term business planning, advise on organization structure, organigram and key positions, design capacity building program for CWA and support entities that will have oversight or approval responsibilities regarding PPP, including staffing needs and capacity building.