The Dar Es Salaam Water and Sewerage Authority (DAWASA), Dar es Salaam, Tanzania

Full Description

Project Summary:

Background

Dar es Salaam is Tanzania's former capital and largest city. Before this project, Dar es Salaam's water and sewerage infrastructure, built in the 1970s, was in poor condition, even posing significant potential health hazards. In 1997, the government established the Dar es Salaam Water and Sewerage Authority (DAWASA) to develop and operate the city's water infrastructure. However, it failed to provide much improvement to the city's water and sewerage system. Leakage and illegal connections contributed to around 50 percent loss of the water produced. Equipment was outdated and the billing and collection system was extremely inefficient. Filters and sewage pumping stations were out of operation, resulting in partial treatment of water and significant pollution of the coastline. Revamping the entire system would require a considerable amount of money.

In 2002, International Monetary Fund (IMF) and the World Bank offered debt relief assistance to Tanzania under the condition that the Government of Tanzania privatizes its SOEs, including DAWASA. The Government of Tanzania agreed.

Project Structure

Following a recommendation by the IMF, the government invested around USD 145 million to upgrade DAWASA before selling the company. Multilateral donors provided loans to the Tanzanian government to finance the project. The African Development Bank (AfDB) provided a loan of about USD 47 million, while the World Bank, the European Investment Bank, and Agence Française de Développement (AFD) provided a total of USD 98 million in financing. The World Bank also contributed another USD 61.5 million for restructuring DAWASA.

The project underwent six years of negotiations with private companies and several bidding processes. Initially, there were four private companies interested in the project, namely Northumbrian Water Group, Saur Internationale, Vivendi Environment (also known as Veolia Environment), and Biwater Gauff Tanzania Limited (BGT). However, three of the four companies left due to concern over the high level of risk transferred to the operator. BGT (a joint venture between United Kingdom-based Biwater International and a German engineering firm, HP Gauff Ingenieure) then became the sole bidder, though it never fully satisfied the qualification criteria. As a result, BGT won the bid, with no-objection from the World Bank as the transaction advisor.

Following the award, BGT created an operating company called City Water Services Limited (CWS) in partnership with a local investor, Super Doll Trailer Manufacture Company Limited (STM). BGT owned 51 percent (the minimum required by the winning bidder) of the shares in CWS and Water Supply and Sanitation STM owned 49 percent. Subsequently, CWS operated under a lease contract with DAWASA to provide water supply and sewerage services in Dar es Salaam for ten years. DAWASA was also responsible for funding and implementing capital investments. The project was primarily financed through external loans, with CWS providing USD 8.5 million in equity.

Under the contract, CWS was responsible for: (i) increasing revenue (double monthly collections within 12 months), (ii) identifying and regularizing unregistered connections, (iii) introducing a new billing system,

(iv) renovating the city's water and sewerage infrastructure, and (v) reducing water loses from an estimated 70 percent to 44 percent in the first three years.

After it assumed operations in August 2003 however, CWS faced numerous challenges. These challenges include failures by CWS shareholders to provide their agreed equity contributions, below forecast average monthly collections in 2004/05 (only 52 percent, less than that achieved by DAWASA in 2002/03), very low installation of new water meters (only 2,500 out of the required 170,000 water meters), and launch of an inadequate billing software system. CWS also inherited many disputed and unverifiable connections, including the army camps' water connection. CWS had to disconnect the army camps' water supply due to an unpaid bill of over 200 million shillings (USD 172,000), leading to a backlash from the Tanzanian soldiers. CWS also inherited as many as 1,400 DAWASA employees with limited tools and incentives to change the culture or improve their performance.

These challenges crippled CWS' finances. It failed to pay a rental fee to DAWASA regularly and deposit First Time Connection Tariffs into the account of that program. CWS also withheld lessor tariff collections periodically to cover its operating costs. By March 2005, its accumulated losses were nearing USD 12.3 million. Subsequently, CWS renegotiated the contract with the government with the involvement of a mediator, but the parties failed to reach a consensus. The government objected to extending the lease contract for five more years unless CWS improved its collection performance. Meanwhile, CWS insisted on the extension without the requirement of committing to the higher collection target. In May 2005, DAWASA delivered a notice of termination of the contract, which was opposed by CWS. This stalemate, coupled with the declining public support for privatization and an upcoming election, prompted the Minister of Water to intervene. Within the first 18 months of the contract period, the Tanzanian government deported the expatriate managers of CWS, leading to the dissolution of the contract.

Lessons Learned

In August 2005, CWS brought the case to two different international arbitration tribunals in parallel, namely the ICSID Tribunal and UNCITRAL Tribunal. The former found that the Government of Tanzania did violate some treaty obligations, but the breaches did not cause CWS any losses. Therefore, CWS was not awarded any damages from the Government of Tanzania. The UNCITRAL Tribunal rejected CWS' claims and instead awarded around USD 3.8 million in damages to DAWASA.

In June 2005, a public corporation called Dar es Salaam Water and Sewerage Company (DAWASCO) took over CWS management. DAWASCO also faced the same challenges as CWS but, over five years, the operational performance improved. In 2018, DAWASA was merged with DAWASCO to provide better services to the citizens of Dar es Salaam.

The failure of this project can be tied to a number of factors, namely:

- The non-competitive bidding process. BGT was selected as the winning bidder despite not meeting the prequalification criteria after it became the sole bidder as a result of the other bidders withdrawing from the procurement process.

- Inadequate risk allocation. Most of the risks were transferred to the private operator, although the sole bidder never fully met the qualification criteria. The private operator assumed significant risks without sufficient qualification or knowledge of the situation on the ground and proved unable to manage the situation on taking control over operations.

- Lack of due diligence. The private operator relied solely on the information contained in the tender documents regarding the status of the water infrastructure to be inherited from DAWASA, without independently confirming the data. In reality, many of the water connections identified in the bid documents proved to be unverifiable.

- Lack of a sound legal and regulatory framework. There were insufficient legal mechanisms to curtail illegitimate water connections or to seek redress when customers refused to pay water bills.

- Poor communication. It was evident that there was poor communication and a general unwillingness to compromise on the part of both DAWASA and CWS, ultimately leading to cancelation of the contract by the Tanzanian government.

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