From Private Sector Participation to Full Public Ownership: Why the Urban Water Management Contract in Ghana was Discontinued

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<th>Description</th>
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<tbody>
<tr>
<td>AVRL</td>
<td>Aqua Vitens Rand Limited</td>
</tr>
<tr>
<td>BECE</td>
<td>Basic Education Certificate Examination</td>
</tr>
<tr>
<td>CONIWAS</td>
<td>Coalition of NGOs in Water and Sanitation</td>
</tr>
<tr>
<td>CWSA</td>
<td>Community Water and Sanitation Agency</td>
</tr>
<tr>
<td>DFID</td>
<td>Department of Foreign and International Development</td>
</tr>
<tr>
<td>DIC</td>
<td>Divestiture Implementation Committee</td>
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<tr>
<td>ERPs</td>
<td>Economic Recovery Programmes</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GoG</td>
<td>Government of Ghana</td>
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<tr>
<td>GWCL</td>
<td>Ghana Water Company Limited</td>
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<tr>
<td>GWSC</td>
<td>Ghana Water and Sewage Corporation</td>
</tr>
<tr>
<td>IFFM</td>
<td>International Fact Finding Mission</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>ISS</td>
<td>Institute of Social Studies</td>
</tr>
<tr>
<td>ISODEC</td>
<td>Integrated Social Development Center</td>
</tr>
<tr>
<td>LDCs</td>
<td>Least Developed Countries</td>
</tr>
<tr>
<td>MWRWH</td>
<td>Ministry of Water Resources Works and Housing</td>
</tr>
<tr>
<td>NCAP</td>
<td>National Coalition Against Privatisation of Water</td>
</tr>
<tr>
<td>NDC</td>
<td>National Democratic Congress</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>PMU</td>
<td>Project Management Unit</td>
</tr>
<tr>
<td>PNDC</td>
<td>Provisional National Defence Council</td>
</tr>
<tr>
<td>PSP</td>
<td>Private Sector Participation</td>
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<tr>
<td>PURC</td>
<td>Public Utilities Regulatory Commission</td>
</tr>
<tr>
<td>PUWU</td>
<td>Public Utilities Workers Union</td>
</tr>
<tr>
<td>SOEs</td>
<td>State Owned Enterprises</td>
</tr>
<tr>
<td>VEI</td>
<td>Vitens Evides International</td>
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<tr>
<td>WSRS</td>
<td>Water Sector Restructuring Secretariat</td>
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</table>
Abstract

Until 2006 urban water supply in Ghana was a task for the public sector. However, at that time there was also consensus amongst key decision makers in the Government of Ghana as well as in the World Bank that the performance of the Ghana Water Company Limited was below standard. In line with the then dominant thinking in the World Bank, a form of privatization was viewed as the best way forward, eventually a management contract form of privatisation was adopted. Surprisingly, the Ghana Water Company Limited – seen in this paper as the main ‘principal’ was elevated to the status of a supervisor of the contract, whilst Aqua Vitens Rand Limited became the implementing contractor or “the agent”. In spite of high expectations, the management contract was discontinued in 2011 as the expected results were not achieved. Applying the interactive policy process perspective as well as that of privatization and related concepts, this paper examines why poor results were achieved with the management contract for urban water supply, implemented between 2006 and 2011 and why there was a reversion back to public management. It also pays attention to a policy process that, right from the formulation stage, placed more emphasis on ‘right’ policies and ‘institutions’, but entailed less attention to complexities as regards relations within and between organisations and the stakeholders involved.

Relevance to Development Studies

The importance of the theme and methods of this paper relates to the fact that private sector participation in general, as well as its involvement in urban water supply in particular is an urgent policy issue, with critical dimensions on the role of incentives for the delivery of public goods and services. This paper looks at how the case of private sector engagement in urban water supply in Ghana denies or affirms theoretical perspectives on the effectiveness and efficiency of private sector participation in service delivery for the public. By assessing the role of the World Bank and other agencies, it also considers how development assistance, within a particular policy framework and coloured by
specific ideas, may contribute to poor outcomes of some state owned organisations in developing countries.

**Keywords**

Privatisation, Management Contract, Incentives, interactive policy process
Chapter 1: Introduction

Urban water supply in Ghana has been in a distressing situation since the late 1970s (Whitfield 2006). The situation has been accounted for as a result of different mediating factors; among which factors were; the effect of rising population, the effect of the African economic crisis of the late 1970s and early 80s as well as institutional capacity issues of the public utility entity in Ghana (Ibid). To these, a number of reform measures had been proposed by key stakeholders, with the World Bank being an influential sector-stakeholder. Though there had been consensus on the need for changes in the sector, there had been major contestations about suitable solutions and the appropriate means of improving access to water for the country. The intensity of the differences regarding solutions for improving the fortunes of the water sector and access for the general population, meant that three decades down the lane the differences are as fresh as they were at the beginning of the reform process.

Reviewing the history of the reforms, shows that, public management of urban water has achieved little, whilst an experiment with privatization through a private sector participation policy is also reported to had been a failure not only by critiques of private sector participation in urban water, but also by the Ghana Water Company Limited (GWCL) (GWCL. 2012), reason for its nonrenewal upon expiration in June 2011. The foremost critic of the PSP policy was the National Coalition Against Privatization of Water (NCAP).

Public water provision in Ghana began in the immediate period before World War I in Accra in the then Gold Coast under British colonial rule (Ibid). Access to water, in the 1920s, was also extended to some few colonial district capitals (Ibid).

The turning point in access, for the general urban population came with the 1957 granting of independence by the colonial administration. The Nkrumah administration that took up the reins of power established a Water Supply Division under the Ministry of Works and Housing with a focus on urban and rural populations (Ibid). The period after Ghana’s independence and the es-
establishment of the Ghana Water and Sewage Corporation (GWSC) witnessed significant infrastructural additions to the water sector. (Ibid). By 1979 the thirty-seven number of pipe water systems in Ghana at 1957, had jumped to one hundred and ninety-four pipe water systems (Ibid). Same is reported about significant institutional changes that resulted in the establishment of the GWSC in 1965. However, by the late 1980s and early 1990s, 33% of the water systems were reported to have “deteriorated greatly or completely broken down due to inadequate funding to carry out maintenance and rehabilitation” (Ibid).

The impact of further reforms such as the establishment of the Ghana Water Company Limited in 1999 and out-sourcing of urban water management in 2006 to Aqua Vitens Rand Limited are of special importance to this paper. Since the view that public sector management of urban water was not effective, necessitated the urban water management contract that ensued, which was also considered to have failed by civil society groups that formed the NCAP.

The GWCL on the 22nd of November 2005 signed a management contract with Vitens Rand Water Services BV, a consortium of Vitens International BV of the Netherlands and Rand Water Services of South Africa (GWCL 2012). The contract was operated on behalf of the consortium by Aqua Vitens Rand Limited (AVRL), a subsidiary of the two (Ibid). The contract lasted for 5 years and was not continued since “all the performance indicators showed that private involvement in the operations of GWCL did not bring about the expected positive improvement in urban water supply in Ghana” (Ibid).

However beyond the contract bench marks, there were wider issues which explain the non-attainment of the benchmarks and the nonrenewal of the contract. This paper aims at bringing such issues to the fore.

1.1 Problem Statement

Before the contract, the Government of Ghana (GoG), the World Bank and a section of the Ghanaian public were convinced that private sector participation in urban water management would end the over three decades of unsuccessful water sector reforms. However, implementation of the Private Sector Participation (PSP) policy in the sector did not live up to the high expectations. The
reasons for this contrary outcome is the motivation of this study. In trying to explain this outcome, this paper tried to answer the following major and sub-questions.

1.2 Main Question

Why was the five-year urban water management contract awarded to Aqua Vitens Rand Limited between 2006 and 2011 in Ghana seen to have failed, contrary to high efficiency expectations of such a public private partnership?

Sub Questions

a) What were the circumstances that influenced the objectives of the management contract?

b) What were the objectives of the contract?

c) What was the nature of the management contract?

d) Was the management contract implemented as envisaged by proponents of the reform?

e) Why did the Government of Ghana decide not to continue with the contract in 2011 when it had been a strong proponent of the management contract in 2006?

1.3 Methodology/Data

A combination of text reviews and interviews were used in this paper. Review of relevant primary written documents were conducted as much as possible to objectively lay out a critical picture of trends. Relevant concepts which help explain the trends were identified and discussed and were later applied for a detailed analysis and reflections in chapter seven for an understanding about why the reform was said to had been a failure beyond the contract benchmarks. The text reviews were supported by semi-structured interviews.

1.3.1 Text Reviews

Two different categories of secondary sources in relation to text were mainly relied upon for the claims in this paper. First, were the primary written data which formed the basis of a factual narrative of the urban water reform pro-
cesses from the late 1980’s to 2011. Web based news monitoring was also conducted.

The second category of texts for the paper, were academic books and articles which offered relevant conceptual and theoretical perspectives for a critical interpretation and analysis of the primary written data.

Data acquisition followed a systematic path of depending substantially on sEURch and Google Scholar for acquiring academic literature. The two were however not as useful in assembling primary written data. The author previously worked with an organization – the Integrated Social Development Centre (ISODEC) which was opposed to the PSP processes in urban water. This background provided both an advantage and a likely disadvantage for the paper. Previous relationships established during the author’s work with the organization helped in providing access to important primary written data such as the Management Contract and the 2010 Technical Audit Report.

The element of bias that could have reflected in the paper based on the authors background was sought to be controlled, as much as possible, with the adoption of a systematic approach to data acquisition. Upon a request to Dr. Sunil Tankha of the ISS – an expert on privatization, for a reading list to guide the author on the subject, five important books which have been very useful to the paper in terms of providing clear conceptual perspectives were received. Three of these which were relied on included Privatisation by Savas (2000), an author who seems to favour privatization of state enterprises and functions; Bureaucrats in Business (1996) by the World Bank which was of the opinion that, the more privatization the better; the third; was Adjusting Privatisation—case Studies from LDCs by Adam et al which expressed doubt about the gains of privatization to economic growth. These augmented scholarly web-based articles whose access were also made possible by the general facilitated access for members of the Erasmus University Community. The search was facilitated by typing into the search engines of either sEURch or Google Scholar. Google scholar was most reliable in this respect. For very isolated situations, where mainly some primary written data were not found in either sEURch or Google Scholar, the general
Google search engine was relied upon or the particular organisation’s websites were visited. These mostly applied to information which could be acquired from websites of particular organizations.

Dr. Joop de Wit, the author’s supervisor, was very particular about evidence of both the observed and unobserved practices in the policy process and implementation. A way of achieving this therefore required for a detailed monitoring of media articles in line with the time-frame focus of the paper. This was done by systematically restricting search period within each single year from 2005 to 2011 in Google. The initial years showed less articles than the subsequent years. Search-words such as (water, privatization, Ghana, AVRL, management contract) were used for each year of search for news articles. Out of the number that were produced from the search, links to the relevant news articles were then selected and copied in a word file chronologically. Appendix B shows the relevant news articles that were selected, out of which some were used purposely to corroborate particular information from primary written data.

1.3.2 Interviews

The purpose of the planned interviews for this paper was to fill in gaps of the primary written data and also allow some of the main actors the opportunity to reflect back on their previous positions as regards the PSP process. Out of the five interviews indicated in the research design four had been done as at the time of completing this paper for submission. Purposive sampling method was used in identifying and selecting interviewees. Two criteria of experience and knowledge about the PSP process and the management contract in Ghana were used for selection. Three interviews were undertaken through Skype while the interview with Vitens Evides International (VEI) was conducted at their headquarters in Utrecht. Appendix A captures details of the interviewees as well as transcription of the interviews. The interview plan and guide is found in Appendix C.
1.3.3 Analytical Framework

To understand why the management contract was discontinued, this paper employed use of various concepts and perspectives. At the general level, the interactive policy process perspective is used to explain the excessive policy and institutional reform focused of the urban water PSP framework with the aim of also highlighting the link between the policy formulation stage and the implementation stage which is mostly ignored.

Privatization was the main policy proposal, and eventually in the process, a management contract form of privatization was adopted. Perspectives are drawn from general literature to understand the two concepts. Similarly also, effort is made to identify the type of good that water constitutes, between individual and collective goods. This distinction is essential as it is linked to the question of how and who could effectively supply the resource.

The principal-agency perspective is then applied in the paper to understand the importance of the relationship between principals and agents to outcomes of both public and private enterprises. The concept of incentive is also then applied as an essential tool for explaining outcomes of the relationship particularly for the principal.

1.4 Scope and Limitations

The author was unable to be physically present in Ghana to conduct the interviews. This feared limitation made very little difference since the respondents were stationed around the globe.

Using an indirect data collection method such as reviewing existing data has a limitation of data not likely responding directly to research questions, as such data exists independently of the researcher’s curiosity (O’Leary 2010). However, review of existing data adds strength to a research process by removing likely relationships between the researcher and the researched that might taint data (Ibid). Despite this trade off, it was still important to fill in gaps where assembled data were not adequately responding to the research questions; here, the combination of the text and interviews were useful. In this paper, interview
was employed to fill in such gaps. A downside of interviews, such as the limited memory of interviewees to remember all details is also acknowledged.

However, in dealing with the above challenge some of the initial questions in the research design also had to be changed.

The study relied mostly on the 2010 technical audit report of the management contract. Though this was an important and significant report, very little was assembled that also explains the issues from the perspective of the management contract. This limitation was resolved with an interview with the management contractor.

1.5 Organisation of Paper

This paper has seven chapters. Chapter one aimed at providing a brief background to urban water sector reforms in Ghana and the research problem that this paper seeks to tackle as well as methods used. Key concepts and perspectives for analysing key issues raised in the paper are found in chapter two. Chapter three provides briefly, the governance and economic context of Ghana. Chapter four walks the reader through the pre-management contract PSP policy process. In chapter five, the key features of the management contract are discussed whilst chapter six looks at the implementation and results. Chapter seven then tries to bring all the issues together and apply the key concepts and perspectives of this paper to explain the problem and to answer the main research question of the paper. Chapter eight draws the curtains, rehashing the paper’s main argument with suggestions of an issue for possible future research and two main recommendations.
Chapter 2: Conceptual Perspectives and Analytical Framework

2.1 The Interactive Policy Process

A key mistake that happens in most policy processes at the initial stage is a separation of the formulation stage from implementation (Grindle and Thomas 1991). Therefore policy makers fall into the trap of conception of the idea that once time and resources have been spent to arrive at the ‘best’ decision, successful implementation will be a natural result (Ibid). More so, this approach to policy making sees the formulation stage as infallible through two basic features. First, it ignores implementers or managers during decision making, and second if there is a fault with implementation then that has to be a result of weak implementation and of institutions and little about a sloppy process. (Ibid). This has led to a situation where there is much focus and investments by Governments and donors into getting the best rational policy, on the assumption that, with such policies in place, success is guaranteed (Ibid). And with the implication that, with the attainment of rational policies, the remaining problems are then weak institutions without capacity. Institutional strengthening and capacity building then becomes a key focus and solution for policy makers. The process described is basically the linear perspective of the policy process that the interactive model critiques, since in practice policy formulation and implementation are linked. Lindblom has gone to great lengths to show why chasing the best rational policy could be akin to a wild goose chase due to the limitations of the human mind and the impracticability of achieving complete knowledge about a problem, particularly complex problems (Lindblom 1959).

Compared with the linear model of policy reform, the interactive model holds that change in the policy process is possible at any given time or at any given step of the process (Grindle and Thomas 1991). The interactive model assumes that around a given existing policy, a state of equilibrium exists which is held together by both those who like or dislike the policy. The second assump-
tion is that an introduction of a reform to the policy then disturbs this equilibrium and causes a reaction. Third, this reaction can occur at any stage of the policy process. Lastly, as to whether the reform will be implemented or maintained, is also influenced by the location and intensity of the reactions. (Ibid).

From the above, reform policy is therefore perceived as a continuing and an interactive process entailing both policy formulation and policy implementation. The two are not distinct, but together they are strategic, due to their location within both the policy and institutional contexts for the successful implementation of a reform (ibid). The significance of this model is therefore that, policy change is seen as a function of where individuals – who we may refer to as policy stakeholders are strategically placed, where reactions to policy change are emerging, whether they are emerging from strategic locations within the formulation and implementation institutions as well as the intensity of such reactions (Ibid). Whether the opposition will take place either within the bureaucracy or in public are also further determined by factors such as the cost-benefit distribution of the policy, period of impact, participation, required resources for policy administration and how easy it is to comprehend the policy without technical complexities (Ibid).

Within this context and the cocksure approach of the linear model, the urban water reforms in Ghana placed emphasis on policy correctness and institutional strengthening without regards to implementation challenges. A policy of privatization was adopted as the ‘only’ way out. Institutional realignments were also carried out to welcome a management contract, on the assumption that these were enough to ensure success in the sector; forgetting the equal importance of the dynamics and relationships within and between institutions and how their continual and combined effects affect policy outcomes. Especially one regarding the supply of a ‘public good’.

2.2 Individual and Collective Goods

The reason for the establishment of government was to provide citizens with goods and services whose provision were intrinsically collective, however over the years it appears this is no longer a key task of governments (Savas and Sa-
This is so because with time governments have had to review the ownership and control structures for the delivery of some goods and services which were traditionally tasks of government. The ownership and control structures for the delivery of a good or a service is determined by two key characteristics of the good or service, namely the consumption and exclusionary characteristics of the goods or services in question (Savas and Savas 2000: 41).

Goods and services are regarded as possessing the character of exclusion if it is possible to exclude a user of that good or service from enjoying the service (ibid.). For example, it is easier to exclude a traveler from enjoying hotel services in a town than it would be to exclude that same traveler from use of streets in the town. In this case, hotel services will be regarded as possessing the characteristic of exclusion and street services not having this characteristic.

The second characteristic that differentiates goods and services is the characteristic of consumption. There are goods and service whose consumption do not affect their quantity and quality, no matter how much of it is consumed, however there are others whose quality and quantity is affected by the number of consumers they are subjected to (ibid.). For example, if a bed in the hotel is offered to a customer that bed will no longer be available for use by another customer so the quantity consumed affects the number available to others. In the same vein, the quality of the bed meant for a person might be compromised if offered to more than one person at a time.

Savas (2000) argues that the combination of these two characteristics in a good determines the nature of that good. He identified four main types of goods and services with varying combinations of the characteristics described above. Goods and services for which exclusion is possible but which cannot be jointly consumed without an effect on quantity or quality were described as individual goods. Conversely, goods and services for which exclusion is not possible and can be enjoyed by all without an effect on quantity and quality were described as collective goods (ibid.). In between these two extreme points are toll goods and common pools goods. Toll goods and services are those that joint con-
sumption is possible but for which exclusion is also possible; whereas common pool goods are goods that are consumed individually and for which exclusion is not possible (ibid.).

As to whether consumers will want to pay for particular goods and services or a supplier provide them, it was argued by Savas (2000), is determined by these conditions. Water, he argues, underground or in rivers, are common pool goods but becomes a toll good when put into distribution systems. Water belongs to a class of toll goods whose cost of production reduces with an increase in the number of users, the preference is therefore to have a single supplier which then brings about a monopoly with its attendant vulnerabilities for both citizens and service providers (Savas and Savas 2000: 50). In this case, collective or state action through coercion is required to avoid free-riding and also regulation of the supplier to protect the interest of citizens (ibid.). Savas (2000) somehow concludes that, in addition to individual goods, private ownership structures can best supply toll goods by virtue of its excludability quality.

It is seen in his arguments that these qualities are not static, a position which he admits (Savas and Savas 2000: 47). Indeed the nature of some individual and toll goods have changed with time by virtue of either negative externalities that they generate for all, or through state policy. Savas (2000) illustrated these with examples of fire and parks which used to be individual and toll goods respectively.

2.3 Privatisation

Savas (2000) defines privatization generally as “relying more on the private institutions of society and less on government to satisfy people’s needs” (Savas and Savas 2000: 3). For him the key indicators to watch out for in privatization include the declining role of the state, increasing roles of other actors besides the state in the delivery of goods and services as well as ownership of property (Ibid). For him this is privatization, but a less disagreeable term is public-private partnership or private sector participation (Ibid).
To explain this view about privatization, three distinctions are made in service delivery (Savas and Savas 2000: 65). Distinction between the provider or arranger, the producer and the consumer. For privatization to take place either both or one of the provider and producer functions needed to be transferred to the private sector. There is no privatization if the state retains both the provider and producer functions, but there is privatization if either of them is transferred (Ibid). The critical issue, however, is that a decision regarding the two has cost implications, as would soon be seen in the urban water PSP processes in Ghana. Retaining both functions can increase bureaucratic cost for the state. Separating the two also could lead to huge transactional costs, such as the state ensuring that the transferred function is being run optimally (Ibid). The diagram below illustrates this idea. Adam et al. (1992: 6) also uses a similar model.

**Table 1: Different Institutional Forms for Delivering Services**

<table>
<thead>
<tr>
<th>Producer</th>
<th>Arranger</th>
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<tr>
<td></td>
<td>Public</td>
</tr>
<tr>
<td>Public</td>
<td>Government Service</td>
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<tr>
<td></td>
<td>Intergovernmental Agreements</td>
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<td>Private</td>
<td>Contracts</td>
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<td></td>
<td>Franchise</td>
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<td></td>
<td>Grants</td>
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</table>

Source: (Savas and Savas 2000: 66)

Adam, Cavendish et al. with a more specific definition, defines privatisation as the “transfer from the public to the private sector of ownership and/or control of productive assets, their allocation, pricing, and entitlement to the residual profit flows generated by them” (Adam et al. 1992: 6). Adams et al., rightly, being suspicious of definitions which limit themselves to just an increase in the share of private sector organisations, consciously wanted to capture privatization as a process and not an end. Three types of privatization outcomes are discerned from the definition. Total or partial sale of state assets, lease arrangements and management contracts (Loc. Cit.).
Savas (2000) went on further and deeper, with techniques of achieving privatization (Savas and Savas 2000: 25). The three major types he described are divestiture which involves sale or free transfer of a public enterprise to private actors. Second, privatization could also take the form of displacement which also entails the liquidation of state enterprises or deregulation of a sector. The third form of privatization is delegating; this takes the form of franchise and contracts among others. Contracts could also take the form of a lease, concession or management contract (Savas and Savas 2000: 26).

A number of reasons are assigned as to why privatization is necessary for individual as well as for toll goods, however, three of such reasons run across those offered by Savas (2000) and Adam et al. (1992). Policy objectives of privatization have included; need to reduce public debts by governments, reducing public expenditure particularly those spent on SOEs as well as increasing revenues of state (Adam et al. 1992: 8, Savas and Savas 2000: 119).

Beyond the above three, the chief distinguishing objective of privatization is the profitability objective since it is claimed that it creates an incentivized environment for performance (Adam et al. 1992: 13). It is argued that this is so for privatisation and not for public sector management, because for privatization, rights over assets and the benefits that they produce are concentrated whilst such rights are dispersed under public ownership structures. With this view, public sector ownership and control are cast in a deterministic frame of failure. Concentration of failing public assets and the internalization of benefits that are to accrue from such assets to a few other than the dispersed public is prescribed as the solution for public sector inefficiency. Here the few principals who could directly trace their efforts to their benefits are motivated to seek information on the managerial inputs of agents to control their activities. If this fails, the tradability of their equity which could get their agents out of jobs is another motivation. Both Adam et al. (1992) and Laffont (1991) describe and deny the above which are often used to explain differences between public and private ownership structures and for which preference is given to private ownership. For Adams, these oversimplifications could be escaped and the com-
plexities they contain brought out through a careful assessment of the principal-agent relationship (Adam et al. 1992: 13).

In looking at privatization it is also important to mention that shifts in the meaning of governance, from its traditional association with government where political leaders exercises power, to a much more broader meaning of government from the 1980s to include civil society and market sections of society also influenced the reform processes carried out in most developing countries (Kjaer 2004: 1-6). The new definitions which emerged went beyond state actors (Kjaer 2004: 3). The privatization drive and inclusion of the market in managing state resources in that period were also outcomes of this shift in meaning. The consequence of this definition also meant a widening of stakeholders and interests in the process of public policy making and therefore further complicating it. Further, the process gets murkier since the power differentials among stakeholders also means there will be winners and losers and therefore actors employ fair and foul means to prevent losses (ODA 1995).

2.4 Principal-Agent Relationship

The principal-agent relationship perspective is appreciated because it does not focus on the ownership structures, but in any ownership structure it focuses on the relationship between the principal and the agent in the structure, who are considered independent from each other, and how the performance of an agent changes with changes in the objectives of a principal (Adam et al. 1992: 13, Awortwi 2004: 215).

The principal under this approach is seen as limited in capacity to fully monitor and control the activities of an agent due to the incompleteness of market information and due to the advantage that agents have in this regard over principals (Adam et al. 1992: 14). The fact that both have different objectives leaves the principal at the mercy of the agent because without the necessary restraints the agent will always pursue his own interest. The principal, therefore, according to Adam et al. (1992) has an obligation to device an incentive system which would ensure that the agent pursues the principal’s interest. Similarly, Awortwi
(2004: 215) is also of the view that, at times, there could be latent incentives and opportunities in contracts which could lead them to fail. Besides, he is of a similar position that agents are not to be taken for their word (Loc. cit.). So, whether a service is being provided through private or public means, effective monitoring and reporting then becomes a means of checking the agent. This then in turn also incentivizes the agent to perform (Loc. cit). However this could be costly.

From this view therefore, performance or efficiency is not seen as intrinsic to ownership structures but dependent on institutional arrangements and incentives available (Adam et al. 1992: 14, Laffont 1991: 85). Performance or efficiency is therefore viewed as a question of what type of principal-agent relationship exist and not about ownership structures. So the failure-determinist framing of public sector ownership and control is made questionable. Well-performing SOEs in Singapore show that this is not always the case (ibid.).

Laffont (1991), responds to similar problems which are usually associated with public ownership and control with the view that those same problems exist in private firms. The usually complex agency chain cited about the public sector; where you have electorates, legislature, executive and the bureaucracy in the chain also exists in private sector governance where there exist multiple principals or dispersed shareholders. Similarly, in dealing with this problem both employ the use of board of directors to represent the interest of the multiple and dispersed shareholders (Laffont 1991: 87). Like in the public sector, the board of directors have access to little information just as in the private sector. Collusion between board of directors and managers is also seen under private sector governance (Loc. cit.). Again, it is not only in the private sector that takeovers take place with the help of functional stock markets, this also happens in the public sector when changes in government occur (Loc. cit.).

Despite the above, Adams (1992) seems to suggest that the many agency links in the public, weak input and output relationship and absence of performance related pay in the public sector are major problems in the public than in the private sector (Adam et al. 1992: 15). However, as they had established, it is
also more about the rules guiding the principal and agent’s relationship and less about which ownership structure the two exist in, particularly if such rules are enforced.

2.5 Management Contracts

Laffont provides three general ownership structures that exist with varying degrees of state-private combination or none. Here, the degree of control that the collective or the state have in ownership structures is the defining reference point (Laffont 1991: 86). So, the ownership and control of a firm is determined by whether it is externally or internally controlled, or not controlled at all by the collective. The external applies to regulated private firms whilst the internal refers to public firms. The last refers to unregulated firms but which are subject to general laws like any other legal entity (Loc. Cit.).

Adam et al. (1992) on the other hand, looks at the differences in the forms of ownership by focusing on changes that occur in the supply of a good or a service from the public to the private sector regardless of the source of financing (Adam et al. 1992: 6).

A management contract is therefore a form of privatization where there is a shift of the supply of a good or a service from the public to the private sector but an arrangement which the public or government remains the financier, provider or arranger. In the categorization also provided by Laffont (1991), a management contract falls within the domain of regulated firms. The downside of Laffont’s (1991) categorization which is made up for by that of Adam et al. (1992) and Savas (2000) is that, it does not distinguish between regulated firms, who owns their own assets and are self-financing, from those who do not. The categorization provided by Adam et al. (1992) and Savas (2000) captures the World Bank’s definition of a management contract; an “agreement between the government and a private party to operate the firm for a fee, usually success fees, but sometimes for a fixed fee as well” (World Bank 1996: 134). Savas (2000), also presents a similar definition; management by private persons on behalf of government and in which the private persons do not own the assets (Savas and Savas 2000: 71).
For a management contract to be successful it requires five key conditions (World Bank 1996: 140, Savas and Savas 2000: 75). First, the work required by the principal of the agent needs to be clearly spelt out (Savas and Savas 2000). Second, use of competition needs to be employed to offset an agent’s information advantage or in the case of monopolies; advantages of competitive bidding processes should be exploited to the benefit of the principal (World Bank 1996: 140, Savas and Savas 2000: 75). Third, rewards and penalties for the agent should be linked to the agent’s performance such that a direct linkage is established between performance and contract fees (World Bank 1996: 140) whilst such terms also needed to be included in the contract and enforced (Savas and Savas 2000: 75). Fourth, the principal should have the ability to monitor the activities of the agent (Loc. cit.) in relation to the principal’s objectives. Last, the contract should contain a provision that could entice strong commitment out of the agent either in the form of a long contract duration or an opportunity for renewal (World Bank 1996: 140). The World, Bank however, admits that management contracts are not used often because of the high cost of information gathering to monitor and control the activities of an agent (World Bank 1996: 134).

Again, the Bank admits and shows that successful contracts had often employed the use of success-fees whilst failed management contracts had used fixed fees. With success fees, use of money and power – as in the autonomy of firms, are used as rewards whilst reduction in these are used as penalties (World Bank 1996: 140). Against this approach, a fixed fee then becomes a disincentive (ibid.).

### 2.6 Incentives

Finding a means of establishing a clear link between inputs, efforts and outputs and obtaining optimal performance out of an agent is a desirable but complex activity (Adam et al. 1992: 13). An incentive system built around fees which could achieve this is suggested by Shavell (1979). Fees of an agent should be calculated by subtracting the principals share which should always be a constant from the outcome of the agent (Shavell 1979: 56).
Fees = Outcome – Principal’s Share (constant)

Shavell (1979) employs use of the principal-agent relationship in finding a way of dealing with the problem of incentives and risk sharing associated with businesses. Where the principal enjoys the outcomes of the activities of an agent, and for which outcome, the principal should pay the agent a fee. This is on the assumption that only one party directly influences outcomes of the firm. With the formula provided by Shavell (1979), similar to the effectiveness of the success-fees approach admitted by the World Bank; the agent is provided with an incentive to perform, as with the constant share of the principal there is the opportunity of either gaining all or losing all.

This approach is most appropriate in situations where the agent is risk neutral, in which case such an approach provides an incentive to maintain such neutrality and keeps the agent from developing an aversion for risks (ibid.). The downside to this is, the agent could then be vulnerable to risks as a result of a system that pushes him in that direction. There could therefore arise a tendency to insure the agent against such risks; however, here again such an insurance could constitute a disincentive (ibid.). If an agent’s fee is based on the outcome of the firm then the agent should be able to procure that outcome for his fees. On the other hand, in situations where the agent is risk averse then the level of effort expended by the agent, when gathered and assessed, could become an incentive tool. However this could only be useful in cases where the principals have the ability to gather accurate information on the agent’s activities (ibid).
Chapter 3: Country Context - Ghana

3.1 Governance and Politics

The governance system of Ghana blends the American presidential system with the Westminster parliamentary system; a situation which like the American system has not been favourable to small political parties (Ninsin 2006: 6). Of the three arms of Government the executive appears to be the strongest and the legislature the weakest. Lack of resources and low capacity of the legislature are at the root of this problem (Lindberg and Zhou 2008). This situation could therefore compromise parliamentarians’ mandate to represent, prioritize and protect the interests of their constituents.

The executive’s control of appointment of majority of its ministers from parliament gives it control over the legislature (Ninsin 2006: 6). Whoever controls the presidency or can influence it can by extension also influence affairs in the legislature.

The influence of donors in this imbalance of relations between the executive and the legislature could also be appreciated with a similar imbalance of relations between donors and governments of aid-receiving countries. An imbalance which due to a dependence of developing countries on foreign aid causes countries like Ghana to lose its policy space to foreign donors and their objectives (Oya 2006: 4); a situation which neutralizes the expected control a people are to have over their governments to prioritize their needs.

Ghana has since 1992 been governed under a constitution and between then and 2008 has had five successful elections including two change of governments (Whitfield 2009: 621). The political scene under the 1992 constitution has been dominated by the National Democratic Congress (NDC) founded by J.J. Rawlings and the New Patriotic Party (NPP). Whilst the NPP identify itself as a conservative party the NDC does introduce itself as a social democratic party. The successful elections that the country has had, had the NDC winning
the elections of 1992 and 1996. The NPP won in 2000 and 2004 until the NDC’s return again in 2008 (Whitfield 2009: 622). The NDC also won the elections organized in 2012. In the immediate period before 1992 the country was under a military government – the Provisional National Defense Council (PNDC), under the leadership of J.J. Rawlings who had taken power from a civilian Government in 1981 (Loc. cit.). The coup and those before it had been enabled by deploring social and economic conditions.

3.2 Economy

3.2.1 Structure
The economy of Ghana had been dominated by agriculture with cocoa being the main export crop, with services and industrial activities following in that order. In 2010, the Ghana Shared Growth and Development Strategy predicted that the situation will change in the medium term (by the end of 2013) with services taking the dominant position in the structure spurred on by activities in the then to-commence oil industry (International Monetary Fund 2010: xiii). The prediction by the paper was realized before 2013 as by the end of 2012 the services industry had taken the lead-position with a share of about 49.9% (Ministry of Finance and Economic Planning 2012: 24). Industry moved to the second spot with agriculture falling from first to last.

3.2.2 Private Sector Promotion
From the conservative NPP to the NDC of the social democratic tradition, the market philosophy which seems to underpin management of the economy has not changed that much. The current president serves as the chairperson of the Private Sector Advisory Council which is to “engage with the private sector at the highest levels” (Ministry of Finance and Economic Planning 2012: 9). This is somewhat interesting, as it appears to be a private sector lobby platform created by the Government and chaired by the president.

3.2.3 Structural Adjustments
Like in most African countries, the present circumstances of the Ghanaian economy cannot be separated from the effects of structural adjustment policies the country had had to implement. Unlike the industrialization focus of the
period after independence relying on state intervention in critical sectors under Kwame Nkrumah and to some extent under Acheampong in the 70s, the economic policies from the eighties onwards seem to have targeted and achieved growth and stability; which it achieves and sustains but only for a short while (Aryeetey et al. 2000: 1). Often motivated and urged on to pursue and achieve internationally dictated growth and development objectives even if they were at variance with the socio-political conditions of the country (Aryeetey et al. 2000: 5). The suggestion by Aryeetey et al. (2000: 5), that the country seems to be pursuing “objectives in vogue” at each point in time in relation to “prevailing development orthodoxies” “through use of fairly standard economic policy tools” sounds very agreeable.

According to Aryeetey et al. (2000: 7) “inappropriate macroeconomic and institutional development policies” in addition to “various external shocks, had led to a severe deterioration of economic performance”. The effects of the external shocks were however seen in large fiscal deficits, inflation and an overvalued currency (Loc. cit.), effects which were seen to have arose from declining prices of exports and increasing prices of imports at the time; particularly cocoa and crude oil prices. This marked the beginning of the Economic Recovery Programme (ERP) with emphasis on “a flexible exchange rate policy and the gradual liberalization of exchange and trade system in order to improve the allocation of resources and the external payment positions” (Aryeetey et al. 2000: 7). The contributory effect of economic policies such as these on the capacities of state owned enterprises including the then GWSC cannot be downplayed.
Chapter 4: Before the Management Contract

4.1 Stakeholders in the Water Sector PSP Reforms

The major stakeholders in the water sector during the reforms could be classified into Government, donors, consultants, civil society, unions and water users. Review of some of the primary written data and interviews show a complex web of stakeholder composition and relations which the general classification misses out on. For instance, with the Government category there was the sector Ministry and the GWCL, with the Ministry being the policy formulation body and the water company the implementing agency. Parallel to the water company was also another implementing organ named the Project Management Unit (PMU) which was responsible for coordinating the overall urban water project and basically administering the World Bank Project funds for the PSP. Obviously not all were in agreement with the reforms as admitted later on by Gerhard Van den Top, CEO of Vitens Evides (Barendregt and Nisse 2011: 7).

Not much differences were seen in the review regarding donor interests, except for the observation that the World Bank was more active in the reform process than the other partners.

Consultants were also an important group of stakeholders to the reform process. There were consulting firms such as the Adams Smith Institute, Luis Berger, WS Atkins and Halcrow. Whereas, there was a lot of focus on international consultants, Alhassan Adams observed the presence and influence of some local consultants:

“...local consultants, Mine-Consult, led by Sarpong Manu these were the groups who were very key in the early proposals and who were champions of the proposal for PSP.”

(Adam 2013, personal skype interview)
The foremost and most vocal in the resistance to the PSP was NCAP, which consisted of the Trades Union Congress of Ghana, community groups known as the local action committees, faith based organisations and NGOs. This was a key civil society group that kicked against the PSP. Its creation followed the initial consultation processes which left out local civil society but included, according to Apoya;

“I remember World Vision was there, Water Aid was there, plus one or two other international organizations besides ISODEC that was already part of the process from the start”

However Apoya also added that even ISODEC’s participation was post Halcrow and from the fringes;

“…civil society mobilization was basically post-Halcrow; and that actually brought local civil society input into the process.”

(Apoya 2013, personal skype interview)

Within civil society, there was also the Coalition of NGOs in Water and Sanitation (CONIWAS) which was perceived as cooperative and more ‘civil’ than NCAP in their engagements. Despite this perception, NCAP played the role of a natural leader on the issues within civil society though they were mostly ignored by officialdom in favour of CONIWAS. (IFF Mission 2002). Given the strong position of NCAP it was interesting how in the interviews with both the World Bank and Vitens Evides none mentioned the role of NCAP as a stakeholder. Vitens Evides however had fond memories of CONIWAS;

“…so probably over the five years relations with the various stakeholders changed, the NGOs were very much involved, I remember CONIWAS who was representing all the NGOs and, from my own experience from the last year when we were involved, the relationship was remarkably good, with all of them, so there was even a lot of talk on whether we should continue as to a sort of a next phase to extend the management contract and I remember at that time, we said oh well we will still go forward with the same formula but instead of AVRL, we erect a new entity called the Ghana Urban Water
Company Limited, which is essentially exactly the same as AVRL, only that no longer Rand and Evides are involved, you still have this division between operations and estate management.”

(Schouten 2013, personal interview)

4.2 Reform Before the Management Contract and Objectives

Continuing in the path of the ERPs, privatisation of SOEs had between 1987 and 1999 yielded to the Government of Ghana revenues of about 14% of GDP (Appiah-Kubi 2001: 197). This outturn was significant for both Government and donors because the privatised institutions had before then been dependent on state subventions (Loc. cit.) and with the decline in state revenues at the time it might had been a relief to end such subventions; not only ending the subventions but selling them out to other persons other than the state to worry about how to effectively finance and keep such entities operational. An additional incentive in all of these was also that the state got revenues for shifting such responsibilities.

Through the Divestiture Implementation Committee (DIC) that was established by the PNDC in 1987, the privatisation of SOEs began. Between 1991 and 1998 the DIC had been able to successfully divest 212 SOEs (Appiah-Kubi 2001: 208) from a total of about 324 in 1987 (Appiah-Kubi 2001: 201).

Many reasons have been given as to why the privatization programme was perceived to be necessary. Privatization in the late 80’s was claimed as necessary because past efforts in the early and mid-80’s to reform most SOEs proved difficult; measures such as signing of performance contracts between the government and SOEs did not yield the expected results (Nellis 1986: 42, Kikeri et al. 1994: 247). SOEs had come to represent “a depressing picture of inefficiency, losses, budgetary burdens, poor products and services, and minimal accomplishment of the non-commercial objectives.” (Nellis 1986: 42). Nellis (1986) used the metaphor “hemorrhage” to describe a problem which requires “drastic attack” (Loc. cit.).
Privatisation also became very attractive to the Ghanaian government due to the importance given it by the World Bank and how this importance reflected in the Bank’s lending practices (Appiah-Kubi 2001: 198) which Lindsay (2006: 425) referred to as a ‘policy-based lending approach’. In order to survive the crises of those times, what this meant for even a left-leaning radical regime such as the PNDC, was to acquiesce to the wishes of the Bank.

Privatisation, also, appeared to have been used by Governments as an instrument of patronage for mobilization of support particularly given a situation of increasing democratization on the continent (Appiah-Kubi 2001: 198). In the particular case of Ghana, that was within a period of stern resistance against the military government at that time by opponents amidst calls for a return to democratic rule.

Privatization therefore appears to have been seen by some African regimes as a major tool for securing political support and as an alternative means of rent allocation which the excess intake of resources by SOEs limits (ibid.). With privatization, some Governments at the time also found an opportunity to reward ‘existing or potential’ political clienteles to sustain their regimes (ibid.).

Beside the apparent motives of the Ghanaian government at the time which made privatization acceptable, the World Bank, a promoter of the reform also had an objective, which does not come out as forcefully as the altruistic objectives assigned, as underlying the need for fundamental reforms. “Many African PEs had proven incapable of servicing the debts they have generated” (Nellis 1986: 33). This must have been of equal concern for the bank, as were the objectives of efficient management of SOEs and macroeconomic stability sought.
4.3 Policy Formulation – Commencement of Restructuring of the Water Sector

Against the above general background of reforms, restructuring to improve outcomes for the water sector began in 1990, this led to both changes in some existing institutions and creation of new institutions in the water sector. The sector, due to challenges, had found it extremely difficult to provide reliable and satisfactory services to citizens. The situation happens to have been the case just when the economy of the country was experiencing the decline in the late 70s and early 80s (Whitfield 2006: 429). This, consequently, occasioned a significant reduction in investments to the water sector as well as deprivation of the GWSC (Loc. cit.). Following this situation, and as also was observed by Nellis (1986), the deprivation, also experienced by other SOEs, caused such organisations to loose quality manpower to the private sector due to a prolonged public sector wage freeze. Operational efficiency was to suffer because of these developments; one third of water systems became inoperable as a result (Loc. cit.).

Additionally, there had also been a worsening of water systems owing to capital works left undone due to currency devaluations (Whitfield 2006: 429) implemented as part of the reforms. This could be appreciated from the point of view that the government was subsidizing about half of GWSC’s expenditure on operations and had placed a ceiling on tariffs to be collected from citizens (Loc. cit.) the devaluation in the Cedi meant that the GWSC lost part of the money value in the amounts it received. From 1986 however, Government withdrew subsidies to the GWSC and was replaced with a fivefold increase in existing tariffs as well as annual increments of about 20% (The World Bank 1994: 8).

With assistance from the World Bank to the sector, efforts were made to get the sector to deliver reliably and satisfactorily, however all were not successful. Such support in the 1980s and 1990s came in the form of rehabilitation and expansion works of water systems mainly in Accra (Whitfield 2006: 430). There was also an aspect on institutional development which took two forms; secondment of expatriates and use of public administration consultancy firms
(Loc. cit.). These measures also included retrenchment of one thousand and five hundred staff (The World Bank 1994: 13). Though there remained challenges, GWSC had been able to raise enough revenue to cover its operating costs with such interventions but were not enough to cover other costs such as depreciation and loan repayments (World Bank 1994: 17). But from these also, it appeared the GWSC was able to use surpluses from urban centers to support needs in rural areas. However, the World Bank was of the view that “GWSC should not be required to divert revenues generated from its urban operations to finance the rural sector” (World Bank: 8).

Against these ‘difficulties’ the sector Ministry in 1994 commissioned the Halcrow Group, a consultancy firm based in the UK, to study the situation and recommend a way forward (Whitfield 2006: 430). The Halcrow report recommended a lease arrangement for the sector.

4.3.1 The Halcrow Report
Halcrow was described in 1997 as a specialist in private sector infrastructure which research on the activities of the World Bank had indicated it was playing a major role in aid-funded water privatization for the Bank (Corporate Watch. n.d.). It was found that it had received funds from the Bank, DFID and some multilateral banks to privatize water resources in Ghana, Pradesh in India, Guyana and South Africa. The Halcrow Group in 1995 recommended leasing of urban water assets and operations to the private sector as the best among the options they had been presented with to assist the country to decide (IFF Mission 2002: 78).

4.4 Policy Formulation – The PSP Framework

The framework to guide the execution of the PSP approach was marked by three distinguishing features. These included, first, a reconfiguration of institutions within the water sector which made the institutional arrangements and alignments different than it was in the past. Second, adoption of a full cost recovery policy for the operations of the utility, and third, separation of responsibilities of government and the private sector under a PSP arrangement (IFF Mission 2002: 32). In the first instance, a new structure – the Community Wa-
ter and Sanitation Agency (CWSA) was created to have responsibility over rural water supply. However this was after rural water had been taken out of the portfolio of GWSC and assets of rural water transferred to the District Assembly local government structures. Sewage services delivery and management was also seen as an expensive venture but with very little market to attract the private sector. Expansion works in urban water supply systems, similarly, was also expensive and also not attractive because tariffs to be received by the lessee would not be enough to cover both operating and expansion costs. Not much eventually was expected of the private sector in terms of investment to expand services to un-served populations. That responsibility was retained for the Government (ibid.).

4.4.1 Priorities

The PSP gave less weight to health needs considerations of the population than it did for economic and service considerations for the assessment and evaluation of the performance of the eventual private sector actor. The Water Sector Restructuring Secretariat estimated that in all, an amount of $1.25billion would be required if water systems were to be rehabilitated and water extended to un-served parts of urban areas. But of this figure the donor community in the water sector could only afford to put in $400million. This therefore meant that choices had to be made on how and where to invest this amount. W.S. Atkins, a consultancy firm, advised in his report that, selection of districts to be considered for such investments should be based on their economic viability, which was to be weighted 67%; and level of service in the district weighted 33% (IFF Mission 2002: 28). The Atkins report over-ruled a recommendation by the Restructuring Advisory Committee, which included the unions, that health considerations should be given equal weight as the economic criteria. The health criterion later ended up with a weight of 10% and economic and service criteria put together, 90%. Needs of communities were not enough with these criteria (ibid.).

4.4.2 Lack of transparency

The process towards inviting bids for the lease form of privatization for the sector was seen by the International Fact Finding Mission to had been fraught
with lack of transparency. To this, they pointed out two issues that the Water Sector Restructuring Secretariat (WSRS) could have improved on. The WSRS did not share the lease framework or request for bid documents with the claim that the documents were yet to be completed and refusal to also share the documents with members of the mission with the explanation that the documents were yet to be made public (IFF Mission 2002: 31). Rather strangely the document that could not be shared with civil society to allow them the opportunity for inputs were reported to have been shared with potential bidders at structured bidders conferences (ibid.).

4.4.3 Investments and Risks

In return for their services, the lessee was to be compensated for services rendered including a percentage of returns on funds spent by the lessee on services. This amount was to be adjusted to reflect changes in the economy periodically as well as reflect the extent to which the lessee is able to minimize nonrevenue water as well as other performance targets. A performance bond was also to be posted by the eventual lessee which it was to forfeit in the event that some of the targets were not achieved. The arrangement was viewed as having nullified the risk incentive seen as a key factor for the success of entrepreneurship (IFF Mission 2002: 35).

4.5 Regulation

A proposed regulatory structure in a final business framework prepared by a consultancy firm, Louis Berger, was to be used to regulate the sector when the planned privatization takes effect (IFF Mission 2002). In this document a Public Utility Regulatory Commission was given the task of establishing a tariff structure, to set and regulate tariffs, monitor costs, provide consumer education and protect as well as monitor the performance targets of the utility (IFF Mission 2002: 46). In the regulatory arrangement also, the Ghana Water Company was to establish and monitor performance targets whilst the Environmental Protection Agency does that for quality. Then there was the Auditor General who was to have oversight over financial related issues. However, the
PURC was to draw its financing from a tariff account held by the utility (IFF Mission 2002: 38).

4.6 Financing

Financing expected from potential bidders had at the minimum $70 million per contract. The entire urban water infrastructure of about 74 water systems (IFF Mission 2002: 6) had been divided into two units. Unit A covered the Accra Metropolitan area which had about 129,000 connections and Unit B covering water systems of major urban centers of other regions had about 87,000 connections (IFF Mission 2002: 33). Even though, the expected amount was far from the estimated amount of $1.25 billion to revive the sector, the World Bank office in Accra explained that there had been the need to balance the funds from the private sector with multilateral and bilateral credit facilities as any expectation to expect all the funding from the private sector source will be costly for GoG, because of the rate of return charged on capital by the private sector (IFF Mission 2002: 56). So, this was a responsibility that the government had to shoulder. The lessee was protected from this (IFF Mission 2002). The end result of which will be, government providing subsidies to the private sector and water users.

4.7 Policy Formulation – Jump from Lease Concession to a Management Contract

The responses below are from key interviewees for this paper, they provide an idea about how the PSP process, which was originally targeting a lease concession, suddenly changed into a management contract.

Mr. Alhassan Adam, Former Southern Sector Coordinator of NCAP

“the management contract was an afterthought when it was difficult for the PSP to be implemented in terms of lease options where the whole idea of giving the water systems to private especially foreign multinational companies was not something the Government will want to do based on the backlash it had from domestic politics, so basically domestic politics forced the Government and the World Bank to retreat, and the face saving thing was the management contract option”

(Adam 2013, skype interview)
Mr. Ventura Bengoechea, Lead Water and Sanitation Specialist for Africa, The World Bank

I even had my doubts about the management contract at the time. It was a decision of the Government. The World Bank did not force the Government.

(Bengoechea 2013, personal skype interview)

Further, Mr. Bengoechea said in an email to clarify the issue that;

“I was told that the GoG could not find interest in the market at that time for affermage or concession initiatives, but they were able to find it for a MC so they settled for the latter.”

(Bengoechea 2013, personal skye interview)

Mr. Alhassan Adam, Former Southern Sector Coordinator of NCAP

“...the private sector too at that time were not stupid, they realized that it was becoming politically difficult for the Government and the World Bank to push the PSP lease options, so they were worried that probably they could end up with a contract like Bolivia’s contract and which they might lose their investments, so what the private sector sought to do was to insulate themselves against future damages.”

(Adam 2013, skype interview)

Mr. Patrick Apoya – Former Chairman, CONIWAS

“For me I will look at it as, it was a last resort or the face saver for the World Bank, because first and foremost besides Ghana’s privatization drive that plunge, a lot of other privatization drives in other parts of especially Latin America, that the World Bank was promoting at the same time also run into problems, and the credibility of the World Bank in leading such privatization moves was seriously damaged, and they have to find a way of getting something work, and so they had to make a lot of tradeoffs to arrive at the management contract.”

(Apoya 2013, personal skype interview)

Initially the response from Mr. Bengoechea about the Bank not forcing the Government to choose a management contract was hard to swallow but some consistency could be seen between his response and that of the activist Mr.
Alhassan Adam that the Government had a counter domestic pressure placed on it by civil society that could not be ignored due to possible dire political implications. NCAP was the major civil society organisation that took the lead in this direction with campaigns. The lease concession was therefore abandoned for the management contract.
Chapter 5: Change of Policy Direction – Management Contract

A purposeful discussion of the period of implementation of the urban water management contract between the Ghana Water Company Limited, Vitens Rand Water Services BV (established in the Netherlands) and Aqua Vitens Rand Limited (established in Accra) cannot be achieved without a linkage to the processes preceding the implementation of the contract. When it became clear that the lease concession was not possible, the processes already set in motion influenced the management contract. This chapter shows important trends for an understanding of the nature or key features of the contract.

5.1 Objectives of the Contract

The broader objectives of the Government of Ghana for the urban water sector as contained in the management contract included the following;

1) Expansion and reliable supply of safe water in the urban areas;
2) Ensure low income consumers had access to potable water at affordable prices.
3) Ensure sustainability of the sector through cost recovery;
4) Ensure an adequate and steady flow of investment funds, with an emphasis on low cost and concession financing; and
5) Support introduction of the private sector into management and operation of the sector under a Management Contract.

The above objectives were to be pursued through a World Bank supported Urban Water Project. As is seen above, the management contract was an output of objective five and through which also some of the other objectives were sought to be achieved. To achieve these objectives the Bank had agreed to support GoG to implement an Urban Water Project. The project had four parts which are shown in the opening pages of the management contract. (GWCL/AVARL 2005).
5.2 **Specific Objectives of the Contract**

a) Improve Water Quality and Pressure  
b) Design and Implement Plan for Optimal Chemical Usage  
c) Improve Efficiency of Treatment Plant Operations  
d) Reduction in Non-Revenue Water  
e) Reduction in Power Consumption  
f) Ensure Efficient Public Sector Consumption  
g) Develop and Implement a Customer Response Plan  

The above are objectives that the author refers to as the stated and explicit objectives of GoG for Urban water. Chapter four has already provided some details about the PSP process and the extent to which these objectives as they appear above became the objectives of GoG. However these objectives also need to be measured against duties and activities set out for the different parties to the management contract to establish the logical relations between the stated objectives and the duties to be performed.

5.3 **The Management Contract**

A review of the contract document shows linkages and continuities with the PSP framework as was drawn for a lease-concession type of privatization and therefore also influenced by some of the objectives and considerations that favored the choice of the PSP framework that was designed. A more startling aspect in the review of the contract was a confirmation of fears expressed by the IFFM about the PSP process, about inviting inputs from prospective companies into the bid document when Civil Society was not allowed such a privilege. A review of the document clearly shows a lopsided allocation and definition of duties and liabilities mostly in favour of the successful bidder and his employed operator. The following explains in detail how these seem to be the situation in the contract document.

### 5.3.1 Rights and Obligations of the Operator

Section 3 of the contract provides for AVRL to enter into contracts with customers. It also entitled AVRL to supply water to customers, send out bills for
supplied water and to disconnect defaulting customers. It is however interesting how the parties to the contract defined the above actions as entitlements of the operator and not strictly as obligations.

Meanwhile, AVRL was absolved from any investment of its working capital to improve or replace facilities transferred to it. Instead there was an arrangement under section three of the contract for AVRL to take an inventory of facilities as at the time of taking over and present a repairs, replacement and rehabilitation list for funding from the urban water project fund made available by the World Bank.

The liabilities of the successful bidder and the operator were not spelt out with same detail as their rights or as the contract put it elsewhere; entitlement. The main point of any substance under section 3.8 where it appeared, referred to; joint liability of the successful bidder and the operator for obligations and liabilities under the contract. A kind of an argument in circles. (GWCL/AVARL 2005: 9)

5.3.2 Rights and Obligations of Grantor

In contrast with the above, the Grantor’s obligations needed no further clarity or specificity. Starting from the very detail of ensuring access to land within the service areas, the contract ensured that this was granted “free of charge to the Operator” (GWCL/AVARL 2005: 12) as well as to their agents. Payments due to the operator that were to be paid by the GWCL were not left out. Under this section also the Grantor was also obliged to facilitate relationships between the operator and state agencies for ease in the acquisition of authorizations that will be required from time to time in their work including for purposes of tax exemptions. (Loc. cit.).

What is again seen in the spelling out of the role of GWCL’s supervision, were again mostly generalities with little details. Hence, the provisions that appeared under the aspect of supervision came in the form of; “The Grantor shall supervise the Operator in the performance of its obligations” (Loc. cit.), “The Grantor shall review and approve or comment upon all reports” (Loc. cit.) and
“The Grantor shall be given reasonable access during normal working hours to premises, works and sites of the Operator for the purposes of inspection and certification” (GWCL/AVARL 2005: 13).

5.3.3 Performance
Under Section five which deals with AVRL’s performance, same trend of provision of details which curb responsibilities of the operator under the contract and contrasting general provisions of the grantor is seen. Under this section, the contract provided only two general provisions and conditions under which the operator shall be held liable for adverse performance. Contrastingly again, and painstakingly, seven detailed scenarios were provided that if were the case, absolve the operator of any liability. (Loc. cit.)

5.3.4 Financing
The total amount allocated to finance the project was one hundred and twenty million dollars. Remuneration under the contract for the operator entailed payment of a base fee which was to be adjusted periodically based on the application of penalties and rewards schemes. (GWCL/AVARL 2005: 14)
Payment of the base fees was to be made in the dollar currency. The contract provided that base fee payment to the operator shall not be less than 85% of the fee, however there was nothing in the contract that also allowed the Grantor to base remuneration on performance, rather, it ensured “In any event, the monthly amount of the Base Fee shall not be less than 85% of the Average Base Fee” (GWCL/AVARL 2005: 15).

For the duration of the management contract, the operator was allowed by the grantor to have total care and control over the revenue collection account which was irrevocable.

The operator was to pay all operating expenses from this account including portions of the base fees and incentive compensations that were not covered by the project funds and debt servicing of the Grantor’s existing loans.

The operator’s working capital was to be paid back to the operator when the contract was completed or terminated. This was regardless of whether funds in
the revenue collection account were sufficient or not. The Grantor was made liable to cover such a cost. (GWCL/AVARL 2005: 14-18)

5.3.5 Liabilities

The contract provided limited risks for the successful bidder and operator and exposed the Grantor to possible liabilities that were to result from implementation of the contract. This appears to be so even when the Grantor had extended full rights over management of operating expenses as well as control over the revenue collection account to the operator. Under section 6.4.2 of the contract, liabilities in relation to facilities and services arising before or after the signing of the management contract were to be covered by the Grantor. Section 6.4.3 states this provision more explicitly without doubt;

“The Grantor shall fully indemnify the Operator against all lawful costs, claims, demands and liabilities made by any third party to the Operator in respect of any of the credits or the debts, liabilities and obligations referred to above, unless such credits or the debts, liabilities and obligations are caused by the gross negligence of the Operator.” (GWCL/AVARL 2005: 17)

Meanwhile, liability of the operator was arranged in the contract not to exceed 20% of the aggregate base fee (GWCL/AVARL 2005: 19), meaning regardless of the amount of liability that the operator incurs, there was an insulation in the contract that pushes liabilities in excess of the 20% base fee on the state.

Now that an overview has been provided about the management contract, the next chapter considers issues of implementation and performance.
Chapter 6: Performance and Implementation

6.1 Performance on Contract Objectives

To implement the contract, the successful bidder incorporated an operator, AVRL, under Ghanaian law. The company assumed responsibility for the supply and management of urban water as shown elsewhere above. In discussing the performance of AVRL, use is be made of the October 2010 Technical Audit Report commissioned by the World Bank and the Grantor as well as interviews conducted. The report was financed from the World Bank Urban Water Project Funds. The audit looked at the chronology of events in the implementation and outcomes for the service standards set in the management contract, namely; water quality and pressure, chemical Usage, treatment plant operations, and reduction in non-revenue water. Others were power consumption, public sector consumption and customer response plan.

6.1.1 Water Quality and Pressure

For raw water, the auditors found that testing was not done frequently. Incomplete records made it difficult for the auditors to conclude whether raw water quality compared with previous years had improved or deteriorated. For treated water, persisting difficulties were found with manpower and analytical equipment leading to non-satisfactory performance in the parameters. The seriousness of the situation was such that for turbidity and residual chlorine, seven regions out of the ten regions of Ghana did not comply with benchmarks of the Ghana Standards Board. Though the management contract provided penalties against the operator on these, when they occur for two consecutive days, failure on the part by the operator to supply additional information about date and time made any sanctions against them by the Grantor difficult. (Fichtner 2010: 2.1).

Extreme cases of unwholesome water flowing in parts of Accra were reported by the Ghana News Agency on 17th September, 2008 (GNA. 2008).
6.1.2 Chemical Usage
Assessment of the 2009/2010 logs for the sampled plants showed a significant increase in the usage of some of the chemicals compared with 2008/2009 observations. There was a difference of 38%, 32% and 13% for lime, chlorine gas and aluminum sulphate respectively. Information on other chemicals in use had not been furnished by the operator. (Fichtner 2010: 3.1)

6.1.3 Treatment Plant Operation
No judgment could be made about this service standard because the definition of some of the parameters necessary for an overall assessment to ascertain compliance had not been concluded even by the end of the fourth year of the contract. Of the four parameters only three were known. These were baseline values for water production, plant capacities and periodic measurements of water produced. The fourth, water demand, had however not been defined. Installation of bulk meters to aid measurement had also not been executed as at the fourth year audit, plants were therefore producing water based on estimated figures and historical data. Regarding maintenance and operations performance, the audit team describe a situation of “an ongoing and accelerated deterioration of equipment” particularly in the smaller systems (Fichtner 2010: 4.4.1).

6.1.4 Reduction of Non-Revenue Water
Reviewing the work of the auditors brings out a lot of complexities surrounding this service criteria. Non-revenue water refers to “the difference between system input volumes and billed authorized consumption” (Fichtner 2010: 5.2). The operator was to reduce non-revenue water systematically and progressively by 5% annually and a cumulative reduction of 25% by the end of the five years period of the contract. After presentation of the plan by the operator in 2007, it took another year, 2008 for conclusions on time frame and calibration of baselines. By 2010 bulk meters had not been commissioned due to which agreements on penalties were also undecided. The overall rate of non-revenue water for the 2009/2010 period was 50%. (Fichtner 2010: 5.1).
6.1.5 Power Consumption

Baseline for this service standard was submitted to the grantor in December 2008. Baseline and incentive compensation had not yet been agreed upon as at the 2009/2010 period (Fichtner 2010: 6.2). Electricity consumption in some plants from June 2009 to May 2010 were reported as lost or not reported (ibid.). The situation was the same for information sought on boosters. Though the report did not impute any motive of fraud, very serious inconsistencies were found with this benchmark. An inconsistency was noticed between the aggregate of the monthly consumption figures and that of the annual provided by the operator. Water production figures for Odaso/Obuasi supplied by the operator as baseline figures for calculation of power consumption was seen to have been underestimated as this contradicted those supplied in the water production baseline (Fichtner 2010: 6.2). (Fichtner 2010: 6.1).

6.1.6 Public Sector Consumption

Though the management contract required the operator to, within six months, present the grantor with a plan for reducing public sector consumption, the operator was unable to do this until 2009. The operator followed the plan with an identification of 227 Government institutions for installation of the bulk meters. Of this number, 122 were reported to had been installed. The report however found that some had actually not been installed, and in others that had been installed, they were not read and estimated billing continued (Fichtner 2010: 7.2).

6.1.7 Customer Response Plan

The situation was not different under this service standard, e.g. further verification of submitted baselines showed they were only based on enquiries the head office had received without those of the other regions (Fichtner 2010: 8.2.2). Significantly and similar to the previous year, 52% of complaints that were received from a total of twenty-five complaint categories related to ‘no flow’, ‘pipe bust’ and pipe leakage (Fichtner 2010: 8.2.1).

In sum, the incompleteness of key monitoring requirements and information during the implementation of the management contract frustrated any attempt
at a thorough assessment of the performance of the operator, thereby limiting the control of the grantor.

6.2 Implementation and Context

On what happened during the implementation the respondents of VEI and the World Bank expressed the following views;

Mr. Marco Schouten of VEI;

“...I think that the resistance was a bit of a shock to them for VEI, and secondly in the operations we did relatively good. The only thing where we have big trouble is non-revenue water, and we have much trouble with, we didn’t have much to say about the personnel, so all these 3000 members of staff were seconded to AVRL but at the same time AVRL did not have the power to fire people or to give people higher salary or to demote people, or to promote people, it was all still with the original mother company, so it means you have very small power to influence the operations of the company”

(Schouten 2013, personal interview)

Mr. Ventura of the World Bank;

“I mean the management contract had some objectives which were not met, I don’t want to say that the operator wasn’t responsible at all, but I mean in most cases the failure, true outcome, to the objectives about getting the performance parameters were caused by the interaction with the Ghana Water Company not being able to do that”

(Bengoechea 2013, personal skype interview)

6.2.1 Bulk Meters and Baselines

Two important issues discernible from the auditor’s report which were related to almost all the service standards were the issues of non-installment of bulk meters and also absence of baselines in prescribed time to measure the performance of the management contract. The respondent of Vitens Evides provided some responses to these implementation challenges;
**Bulk Meters**

Mr. Marco Schouten on Bulk Meters;

> “...there was a special project management unit, and that unit was involved in doing all the procurement for the World Bank Fund and apparently the bulk meters were part of the project investments which ought to be done by the World Bank and these procedures were very tedious, so it took years apparently before the tendering of these ... was done and before they were installed, and I think only to the end of the contract that these bulk meters were installed, I think probably year four or year five, it must be somewhere around that period.”

(Schouten 2013, personal interview)

**Baseline**

Mr. Marco Schouten on Baseline;

> “Sorry I don’t know, but what I imagined, I was a bit surprised, Fitchner they make every year these audits but they don’t make baseline audits in the beginning, you would imagine that this independent auditor would also undertake some baseline, which is strange...”

(Schouten 2013, personal interview)

**6.2.2 Political Interference**

Six months to the commencement of the contract, the Ghana Institute of Engineers, most probably speaking for their colleagues at the GWCL in an interview with the Ghana News Agency, stated that the problem of the company was political interference and not management. This, they said, reflected in the absence of the required independence and resources to provide services as required (GNA. 2005).

Also, the grantor and the operator relations became much more complex after a change of Government in 2008. The new government having capitalized on the water situation and criticized the management contract arrangement whilst in opposition (IRIN. 2008), took a different tone from that of the previous government. Sector Minister Abongo, in November 2009 made known that
the “government was not pleased with the performance of the expatriate management operator, AVRL, which was contracted by the previous government to improve management practices at GWCL” (Accra Daily Mail. 2009).

For Patrick Apoya of CONIWAS the issue of political interference was more about;

“staffing, is normally about the arbitrary removal of directors, it is usually about core decisions regarding the company outside what usually is agreed on, in the management contract, those who were at the core of the management contract did not have any power over that…”

(Apoya 2013, personal skype interview)

However, beyond the specific indications by Apoya, both the World Bank and the NCAP interviewees believed politics even influenced major changes seen in the sector;

Mr. Bengoechea of the World Bank said;

“…I was told and again this is speculation, that the new administration (NDC in 2008) that came during the end of the management contract had like an agreement with some groups to cancel the management contract.“

(Bengoechea 2013, skype interview)

Mr. Alhassan Adam also reported of documents presented in Daker in 1999;

“where the World Bank basically was saying that they had spoken to the then Government while they were in opposition and made a deal that when they come into power they will continue with privatization…”

(Adam 2013, personal skype interview)

In expanding on role of politics and the changes that had occurred, Alhassan thinks that;

“…for instance the Government that refused to renew the contract was not the Government that signed the contract in the first place. So there was no strong ideological support for the contract within the NDC and it would have been difficult if it were under NPP. Because NPP would have tried to protect the company because a defeat of the company would mean a defeat of their policy.”
According to him;

"it was easier for the NDC to refuse to renew the contract because they did not sign the contract in the first place. So they would want the public to see that the NPP did not sign a good contract and the NPP should be blamed for the state losing money and resources and time”

It could largely be inferred from some of the above responses that the management contract’s implementation and results did not meet the anticipation of the PSP proponents.
Chapter 7: Analysis

7.1  Policy Objectives and Priorities

Chapters three and four touched on some of the background issues that compounded the issues of urban water supply in Ghana as well as the different objectives of the GoG and the World Bank which were not the same as the stated objectives of the sector reforms. It was clear the World Bank wanted to rationalize the debt problem of the country and dealing with the SOEs that contributed to the debt was a key strategy towards that objective. The subservient cash-strapped Government also then found the policy of privatization as prescribed by the World Bank a convenient tool for political patronage and regime sustenance through the divestiture programme. Within this context, so long as these unstated objectives were served it did not matter whether the policy process and prescribed policies were in tandem with the actual problems at hand of under-funding or not. Clearly too, there were major problems with the policy process and the privatization solution prescribed to deal with the challenges of the supply of the ‘contested collective good’.

7.2  Implications of Water as a Toll Good

Shifts in the meaning and exercise of governance in the 1980s to include civil society and market provided room also for structural adjustments, liberalisation and privatisation that became global reference templates for developing countries.

Within this context, the structural adjustment reforms were marked by a review of the ownership structures and control of state institutions which delivered different types of goods and services to include private provision.

In the classifications of Savas (2000), piped water was categorised as a toll good. The basis of this was that the consumption of this resource when in the distribution network by one citizen depletes the quantity and makes less available to others. Also that, the more citizens you have connected to the limited distribution network, quality of service is affected. Second, and the most signif-
icant aspect of placing water in this category, was that it is possible to exclude citizens from enjoying the resource with technology. If exclusion is possible then free riding by those who could not pay is avoidable. And if exclusion was desirable then it was important to put in charge an ownership and control structure with the sole objective of ensuring just that, and avoid the multiple and uncertain objectives of a collective ownership or control structure. Yet still, profit and access were objectives of the management contract.

Essentially, this was a major argument that influenced the structural adjustment reforms of SOEs that began in the early 1980s. However, from Savas’ (2000) own explanation of the classifications, it could be deduced that these attributes ascribed to the various goods and services were not natural ascriptions. They could have their basis in policy actions of governments and or based on the negative externalities that they generate. Therefore these characteristics could be society-assigned which also do not make them conclusive because changes could arise in their status based on who has the upper hand in the policy process. For example, fire-fighting and parks used to be individual and toll goods respectively, however these have changed over time and are seen as currently collective goods, mainly.

In the policy debates during the 80s, Ghana was under military rule with no parliament or active civil society to channel the views of ordinary people. The interest of the Government of the day was regime survival, the interest of the IMF and the World Bank was fiscal discipline and debt rationalisation. The World Bank had the resources that could assure comfort for the regime but at a price. Finally, in 1986, the process actualising water as a toll good in Ghana began with the cost recovery process. Government subsidies were withdrawn and prices were increased by up to five folds (The World Bank 1994: 8).

7.3 Privatisation – Distractions of Black and White Debates

The implication of the definition of privatization by Adam et al. (1992) meant more than just the transfer of ownership or control which limits the process of privatization to a mere transfer of responsibilities, fully or partly. Which then becomes problematic. The challenge is that, in such a case, privatization is
treated as an end instead of as a means of improving services and lives. In which case, again, policy makers will also not be interested in whether the means were appropriate for the sought ends and adapt with changes where necessary.

It however appeared that, in tune with the privatization fashion at the time, the main goal was to privatise with little consideration for results. It was in this spirit that the divestiture programme in Ghana was acclaimed to have been a success based on reduced net budgetary transfers to SOEs that it caused, but without consideration of the service outcomes of the divested entities. An interesting observation in this work was; both sides to the debate think the other’s actions were influenced by ideological stance and not practicality; Mr. Bengoechea of the World Bank believes;

“…there are ideologies that are pro private sector, against private sector etc. etc. and the only ideology that we should talk about it is the ideology of governing and efficient service”

(Bengoechea 2013, personal skype interview)

Whilst Alhassan Adam of NCAP also suspects the influence of ideological considerations in the PSP process;

“There were a couple of ideological stance because there was a change of Government and the first thing the new Government wanted to do was to encourage privatization because they said private sector is the engine of Growth”

(Adam 2013, personal skype interview)

In this spirit also, the privatization debates were based on a black and white differentiation and distinctions between public and private ownership. So the popular views of the state as a bad entrepreneur, the lack of comparative advantage of the state, high deficits of SOEs and multiple objectives of the state were taken to mean the direct opposite of the state would be perfect. Thus, before even the submission of the Halcrow report, the World Bank had already
began the process towards privatization with the cancelling of subsidies and decoupling of rural water from urban water.

Again, the inner relationships within the ownership and control structure were overlooked. As Laffont (1991) pointed out, some of the problems usually associated with public control could also be found within some private control domains. So it happened that the management contract did not do away with the problem of multiple objectives and neither did it avoid the problem of complex agency chains. Given these reasons, in addition to a focus on the ownership structures, the principal-agency relationships they entail are equally important.

7.4 Principal-Agent Relationship – Agent Information Capture

The principal-agent relationship approach helps in moving beyond the structure-focused orientation to also understanding the relationships between owners and their managers and how this influences outcomes for a firm (Adam et al. 1992). In which case what matters most is the relationship type regardless of the structure in which they are built.

This approach assumes that the principal has limited capacity whether in private or public ownership and control structures, to effectively monitor the activities of his agent, as well as having different objectives. Given this situation and the advantage the agent has over the principal with regards to information, the principal is left in a very vulnerable state in the relationship. The principal is therefore not left with any option than to design and effect a relationship framework that incentivizes and induces the agent to pursue the interests of the principal in the management of the firm.

Because of the structure focused debates about the restructuring not much attention was paid to these. The IFFM for example had pointed out that GWCL did not have the capacity to monitor the activities of an agent when brought in. This observation could at least have influenced the drafting of the management contract that resulted. This was however not seen in the review of the management contract. Rather, a clearer and specified statements of the rights of the
agent, general statement of the rights of the principal; and general statement of
the obligations of the agent and specific statement of those of the principal.
This further deepened the vulnerability of the principal.

Consequences of this vulnerability of the principal came to the fore when the
principal was placed in a limbo on how to treat issues of incomplete, inaccurate
and inconsistent information presented by the agent and in some cases with-
holding information needed for assessment; because the contract had not pro-
vided remedies for the principal in such events.

7.5 Management Contract and Guaranteed Returns

The World Bank was convinced that the more privatization that occurs, the
better the chances of success for a firm. It is in this light that for example the
Bank prefers management contracts to performance contract; and yet still
regulated contracts to management contracts (World Bank 1996). The same
trap of structure-focus is again seen here with the belief that the more private
the better.

The Bank in 1996 was categorical that the examples of successful management
contracts that had been implemented showed the use of success fees instead of
fixed fees. However in 2006 they found themselves supporting a management
contract built on fixed fees. The management contract guaranteed that in any
event base fees paid to the agent could not be less than 85% of agreed fees re-
gardless of penalties charged. Whilst in any event again, liabilities of the agent
could not be more that 20% of aggregate base fees.

Clearly also, the state of inertia that the principal found itself in, with inco-
plete and inconsistent information provided by the agent confirmed the fear of
the IFFM that GWCL did not have the capacity to monitor the would-be
agent.

Competition is another criteria pointed out by the bank as necessary for the
success of a management contract. The bidding processes as shown by the
IFFM could be said to be anything but competitive or transparent. In the in-
terview with VEI it emerged that only two companies placed bids for the man-
agement contract. Local civil society was not allowed space to scrutinize the process and documents.

7.6 The Disincentive of some Incentives

The incentive concept operates on the assumption that the principal enjoys particular benefits from the agent and must rightly pay for those benefits. The implication being that any remuneration to the agent is built on the premise that the principal had enjoyed the expected benefits, meaning also that no remuneration will go to the agent if the principal had not enjoyed the expected benefits. Shavell (1979) proposes that the fees to be paid an agent should be the outcome of the agents work minus a constant share of the principal. The rest then goes to the agent. This was a proposed solution for the vulnerabilities of a principal which could induce the agent to serve the interest of the principal whilst serving his own interest. To further incentivize the agent to perform, he needs also not to be insured against risks he would be exposed to with this approach, as this in turn would become a disincentive Shavell (1979).

The review of the various documents on the management contract for this paper showed an incentive approach which was a far cry from this expectation. The documents in a way tend to confirm the position of the IFFM that private companies could have influenced the bid framework through the special conferences held for them for their ‘help’ in reviewing the bid documents. A privilege that was not extended to civil society.

The substance of the incentive design framework that resulted from the process was therefore more on attracting the private sector than inducing optimal performance from the would-be agent. To achieve this, the management contract for example made the following provisions. The agent was entitled to a base fee that was to be adjusted periodically to reflect economic conditions in the country, payments would be in the dollar currency, and in any event base fees should not be less than 85% of base fees, and in any event liabilities of the agent should not be more than 20% of aggregate base fees. Included was also tax exemptions.
7.7 Interactive Policy Process and the PSP in Ghana

Over all, there was not much thought given to the interactivity between the policy formulation and implementation stages of the PSP processes as described above. First, the linear attitude of it’s-all-about-institutional-failures and not the policy process is seen in how the PSP policy sought to, and changed the institutional structures within the water sector. On the assumption that, with a good PSP policy and institutional changes such as detaching the drain of rural water and bringing on board motivated and efficient management contractors, good results were assured. This paper exposes this linear worldview.

First, by failing to consider and anticipate the implementation aspect of the policy process as important for policy decisions, their sustainability within the immediate and future periods and success, the PSP policy ignored what actions or inactions of strategically placed individuals within the implementing bureaucracy of the Ghana Water Company could have for outcomes as well as the sustainability of the policy. Forcing a group of people to declare themselves as incompetent could be a bitter pill. But when a step is taken further to put key decisions for the success of the ‘competents’ in the hands of the strategically placed incompetents then the ‘competents’ are likely to suffer reprisals. GWCL was strategically placed as manager. Interestingly, very little was heard from them when the World Bank and the Ministry declared them as incompetent for which reason the management contract came into force. GWCL now styled as the grantor of the contract, was to supervise the management contractors. To quote Gerhard den Top, CEO of Vitens Evides, “yes, there was hardship and there were misunderstandings too, as there are in any evolving relationship, particularly one that was not entirely based on mutual consent” (Barendregt and Nisse 2011: 7). The policy formulation could be alert to this. Significantly, as could be seen from the various interviews from both the World Bank and civil society, relationship between AVRL and GWCL was very bad and there were wrangling over little issues such as sign boards to big procurement issues.

The ‘right-policy’ and ‘institutional strengthening’ focus of the urban water reforms were reminiscent of the major trap of the linear policy model approach. All attention was placed on policy and institutional change and less on having a
coherent and comprehensive policy which looks beyond the decision stage, and considers and is alert to reactions that can emerge at any step of the policy cycle that may alter the policy and its outcomes. The interactive approach forces one to check these issues more clearly, more so given the complex agency relations between the policy formulation and implementing actors in the urban water sector. The principal-agency relation that is found in the particular case of the Ghana urban water reforms was not the simple type. With the coming into force of the management contract, there came to exist an ‘ultimate-principal’ being the Ministry, a ‘second-principal’ being GWCL which was a former agent, and a new agent AVRL. In terms of the cost-benefit distribution of the policy among the three, GWCL bore the concentrated cost in terms of having lost part of its former control and influence. The benefits at the initial stages were also concentrated in the Ministry which was relieved of a responsibility as well as hoping for better outcomes that would increase its political support. AVRL had also landed a new job with guaranteed fixed standard returns. Within the public arena also, initially, despite opposition by civil society, the policy was seen as having defused benefits due to past difficulties with GWCL, partly a reason why the NGOs were not entirely successful in their resistance. The concentrated cost was on the workers, those who were soon retrenched at the beginning of the management contract. Since there was limited active public opposition, GWCL had no option than to acquiesce.

Now, it was important for the ‘second-principal’ (GWCL) to have designed an effective incentive scheme to have gotten the most out of the agent (AVRL). But given the above scenario, equally important it would have been, for the ‘ultimate-principal’ (MWRWH) to have also drawn up an incentive scheme for the second-principal, especially one that the policy cost-benefit distribution did not favour, and therefore with low motivation. Seen in this light, the privatization-focused reform policy was a distraction from the main problem. Beyond this, the challenges associated with privatization in public institutions further deepened the woes of the sector. These issues however do not explain away the laxity of performance of AVRL as captured by the technical audit. GWCL’s reaction could have been a response to the poor performance.
Chapter 8: Conclusion

This paper has examined reasons why unexpectedly, the 2006 management contract was discontinued. A major underlying cause of the unsuccessful management contract could be situated within the wider context of the linear policy thinking influences of donors in developing countries; whether this is to serve their own objectives or the interest of the recipient-countries. For example, the World Bank’s influence in the particular case of the urban water sector reforms in Ghana stopped at introducing the ‘right’ policy and putting up the ‘right’ institutions. A similar process and thinking has consequently underpinned huge investments of development aid by donors into policy analysis and institutional reforms in developing countries (Grindle and Thomas 1991: 124). The fact that such reforms in developing countries have often yielded little speaks volumes about the efficacy of such approaches. The policy of privatization or PSP in the urban water sector of Ghana was one such approach – get policy and institutions right, and all will be well. Certainly all did not become well.

Therefore in June 2011 the management contract that had been heralded in 2006 as holding much promise for urban water supply in Ghana was discontinued. The results of the technical audit have shown that key performance targets set for contract were woefully underachieved. Though why the management contract was discontinued, might be obvious from the audits, the fundamental question of why the operator failed in achieving almost all of the service standards and therefore the discontinuation is much deeper and is becoming clearer now.

Within the above described policy context, five key reasons explain why the urban water management contract failed to achieve the service standards expected of it and ultimately why it was discontinued. First, was an ex-ante mis-packaging and application of an incentive system, which ostensibly, was more to attract and less about inducing optimal performance from the would-be management contractor. An incentive package, which subsequently turned out as a disincentive.
Second, a key principal-agent relationship problem of information capture and advantage by agents manifested in the implementation of the contract. This is hardly a problem that the linear model can confront, because it will go back to tinker with policy and institutions. Incompleteness of information required from the management contractor was a key constraint to the measurement of performance and the calculation of rewards and penalties to be awarded. The problem of incomplete information as could be seen in chapter five, runs through almost all the seven service standards and impeded any meaningful assessment and control of the operator’s work by the principal.

Third, the problem or consequences of incomplete contracts is also seen in the inability of the principal to adequately respond to the challenge of limited information since such a situation had not been catered for by the contract; therefore remedies that were to be exercised when an agent is unable to provide a principal with enough information about his activities did not exist. The effect being that the monitoring and supervisory role of the principal were nullified during the contract period. Obviously, these issues could have added up to issues of the Grantor’s loss of influence over operations to the new agent and would have soured up relationship between the two as was observed from the interviews.

Fourth, the end objective of the policy of privatization of water; which was to have the market deliver water due to the consideration given it as a toll good and the ease with which exclusion could be enforced conflicted with the government’s policy of extending water to all including poor areas. The effect of this policy contradiction is seen in an often pull-and-push tussle between the regulator (Government) and the operator for review in water tariffs (Klutse. 2009). This situation was the case even after the introduction of an automatic tariff adjustment formula. Changes in Government and water as a political issue did not ease this challenge.

Lastly, the effect of civil society mobilization and pressure against the PSP though could not explain why the contract failed, does partly explain why the
contract was dis-continued. Much focus in the future could also be placed on
how the double-principal relations or the double-agent relations based on how
one looks at it, and its dynamics in the contract might also have contributed to
the outcome.

8.1 Recommendations

Included among four recommendations offered here, two were offered by the
World Bank and the VEI interviewees representing, partly, the policy formulation
and implementation arms of the urban water PSP respectively. It is the
position of this paper that, these recommendations, though not a key objective
of this paper, would improve the principal’s (Sector Ministry) control and in-
centivize the current agent (GWCL) to achieve results.

1) Ghana is currently following the Ugandan model, which is publicly
managed according to the World Bank interviewee. However the
Ugandan model had a Champion which is lacking in Ghana. Similarly
there is the need for champion-agents who are unfettered by the poli-
tics of the principal and who are incentivized to justly reward or penal-
ized performance in operations.

2) To achieve the above, a means of strengthening the hand of the cham-
pion-agent will be to use a suggestion from VEI interviewee, to dece-
ntralize operations of the utility to the regions to create competition
amongst them with enforced incentives.

3) Again, given the incorrigible nature of politics, civil society as partners
in governance must seek to form an alliance with the champion-agent
to beat back the ever present interferences during implementation to
strengthen the hand of the champion.

4) Lastly, it is understood from this paper that; which ownership structure
delivers water, is not the main issue but rather the lack of effective con-
trol by the principal over the agent. If this is the case, then private
ownership or control has no advantage over that of public. However,
given the contested-collective nature of water, public ownership and
control structures become more suitable and should be preferred, since
in principle they are accountable to the collective.
References


Oya, C. (2006) 'The Political Economy of Development Aid as Main Source of Foreign Finance for Poor African Countries: Loss of Policy Space and Possible Alternatives from East Asia'.


Appendices

Appendix A - Transcripts of Interviews

Details of Interviewees

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Designation</th>
<th>Date and Time of Interview</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Mr. Alhassan Adam</td>
<td>Former Southern Sector Coordinator of the National Campaign against Privatisation of Water (NCAP), Currently the Health and Education Campaign Manager of Oxfam GB, UK.</td>
<td>29th August 2013/ 22:28pm</td>
</tr>
<tr>
<td>2.</td>
<td>Mr. Patrick Apoya</td>
<td>Former Chairman of the Coalition of NGOs in Water and Sanitation, Currently a Consultant in the Water and Sanitation Sector in Ghana.</td>
<td>10th September, 2013/ 21:05pm</td>
</tr>
<tr>
<td>3.</td>
<td>Mr. Ventura Bengoechea</td>
<td>Lead Water and Sanitation Specialist, The World Bank, Africa Urban and Water (AFTUW), USA</td>
<td>9th October 2013/16:49pm</td>
</tr>
<tr>
<td>4.</td>
<td>Mr. Marco Schouten</td>
<td>Regional Director, Western and Southern Africa, Vitens Evides International, The Netherlands</td>
<td>22nd October 2013/ 15:00pm</td>
</tr>
</tbody>
</table>

Audio Transcriptions

Appendix A1 – World Bank Interviewee

Mr. Ventura Bengoechea

What were the objectives of the water sector PSP in Ghana?

“The objectives included ensuring financial sustainability and generally improving services and these objectives to some extent are being achieved.”

What about the unsuccessful management contract recommended by the Bank?

“I even had my doubts about the management contract at the time. It was a decision of the Government. The World Bank did not force the Government.”

Why did the Bank not intervene when around 1995 the Bank knew management contracts were not that successful?

“It is not entirely correct that management contracts are not successful, there are instances where they have achieved results. In Ghana also though the results were not entirely favourable there were some improvement in services, in customer relation and”

Do you have an example of a successful management contract in the Africa Region where you preside?

“well.. em.. I am not the person for that .... But I have worked in these countries ... but there was the... the Johannesburg case apparently was a management contract to put the system together for Johannesburg and em em em ... I have a bad memory for names and whatever ... but that there are like a couple of contracts that are mentioned always in the records”.

“So again, um, I mean . um.. Africa, let’s put it this way, most of the water utilities, unfortunately are not very well performing, but, there are good examples in Africa, from most sort of things, so this goes back again to the ideological, I mean there are ideologies that are pro private sector, pro erh against private sector etc. etc. and the only ideology that we should talk about it is the ideology of governing and efficient service”,
“and in this regard I will like to highlight the well-known of Uganda, Uganda as a public utility was able to really perform with a system of, erm strong system of incentives, where people got paid but also people who do not perform were removed from their duties, they were not fired”.

“This is a model that now Ghana wants to follow, just in case you do not know, but for this system to succeed you need a public champion, what happened in this case is; you need someone who changes the behavior of the people, because in the water utilities you will consider people lack training etc., but usually they have very bad behaviors, in a sense we are not only talking about corruption or fraud but maybe not working as hard as you should, so again with a champion, it’s been proven that this champion could come from a public utility in the case of Uganda, it can come from a private entity like in the case of Senegal”

“The elements that you see in all these cases, number one, you see the commitment of the Government, their signing on a Champion and these champions having the support, because this is tough job, when you are trying to remove people who are not performing, and specifically I will say in Ghana because you are from Ghana and I deal with Ghana, people are very nice and when things go difficult you say hey, you are my brother you dare not do that to me, and this thing doesn’t work, the only thing to work is to say, brother I love you but I am not firing you from the company but you are not the best to be in charge of the commercial department or you will not be in charge of the distribution system etc. So this is not easy, so again this is my hope that whatever is the model, I mean the model can be built all the same but at the end it comes that a company has to basically become efficient, and when it becomes efficient, it suddenly even to get more revenue, then revenues can get into expand the services, you expand the services and then you get more revenues, so this has happened occasionally with support from private to a management contract, but often times has also been the result of some weak water manager”

“The fight with these ideological groups is always about the instrument, the instrument is not important, what is important is, that it works”

“Also the water sector unfortunately, because of this social concern etc. is totally disturbed, and I remember previous cases in Ghana such as many places, Dr. Nyarko..., he has proven that the subsidies are going to the wrong people and in the meantime people without services are not getting the services from the water company” Again there was an attempt with the management contract, they did something, but it didn’t succeed, let’s hope that this newer point with the resource it could But still don’t see the champion that is going to move the things() and this is my concern.

Why little was mention of the contract in the Additional Project Fund Document?

“ I am curious that nothing came up there, if I recall there was a reallocation of funds and I will not think there was some reference because I would have think it wasn’t regarding the management contract. but out of the top of my mind I don’t know but again this is a case, this particular financing, in some case, and I was involved in this particular financing, and it was painful because you see most of the money was not gonna go into additional services, just a small amount, most of the money was for cost overruns somehow for the increase of the cost of some of the things but I will say that part of this cost overruns were for probably not being very efficient”

What will be your assessment of the management contract?

“I mean the management contract had some objectives which were not met, I don’t want to say that the operator wasn’t responsible at all, but I mean in most cases the failure true outcome to the objectives about getting the performance parameters were caused by the interaction with the Ghana Water Company not being able to do that”

“on the other hand there were other good works that are softer but still important like training of staff, like all these development of information technology, have all the facilities connected with capacity to send data, the internet etc. So there was a lot of effort but again, these doesn’t give you any drop of water but puts you in a better shape...”

Success and fixed fees?

“Basically success fess work to a point some of the things as I indicated were related to investments to be done by the company, so unfortunately, I could say these were incentives but at the end of the day the operator could not benefit from the incentives... erm this is where all these dilemma, whether public or private or whatever, management contract is a hybrid because the responsibility for investments are usually kept with the asset hold-er”
“And we have this examples where based upon something that required successful collaboration between the asset holder and the management contractor and unfortunately, erm not specific reason that the management of the two companies did not get along very well, obvious there were a number of things, there was inefficiency, but in some cases not collaborating as much as they should”

Influence of Politics

“I believe that at certain time, there was, I was told and again this is speculation, that the new administration that came during the end of the management contract had like an agreement with some groups to cancel the management contract. So, but again”

Way forward

“From the institutional frame work, it is not bad, the way it separated wit between the urban and the err non-urban calling them small towns and whatever. I mean there are things that could be improved. "But Ghana Water Company is the key thing, with Ghana Water Company my assessment is that, right now with a little bit of effort it should be able to turn around very rapidly, the Government has decided to follow what I call the Ugandan model, they even have the person who used to be the general manager in the industry Mr. William … Is advising the Government, so I have talked with William and I said; well the recipe is easy, you just indicate how you did it and whatever be quick, but I mean the Champion is not there, so where is the William who was single to fight with anybody”

“Again putting it on paper is easy, the difficult thing is being able to; when they want to promote you and somebody says hey I am a friend of the president and now how can you remove me, so this was it, everybody is a friend of someone.”

Appendix A2 – NCAP Interviewee

Mr. Alhassan Adam

Stakeholders?

“Yes there was the Ghana Plumbers Association, the Tanker Operators Union, Public Utility Workers Union, World Vision and Water Aid, they were the key stakeholders as well as some local consultants, Mine-Consult, led by Sarpong Manu these were the groups who were very key in the early proposals and who were champions of the proposal for PSP.

Role of Consultants?

“basically their role was in preparation of the process, they were the ones organizing stakeholder meetings, as well as advising the Government what to do, they were the local counterparts in the whole process, and I think sometimes when analyzing stakeholders by academia, consultants are not seriously taking into consideration so you lose out the role that they play, especially local consultants, everybody was focusing on the external consultants like Adams Smith Institute, Halcrow and all those guys, although they were playing important roles but also there were local counterparts like mine consult who were part of it”

Key Consultants?

“Halcrow was key they produced most of the reports for the various options and Adams Smith institute did the economic analysis but Halcrow did the options which are available for the Government to look at, so there were really key in designing the PSP, Halcrow was an important contributor,

Donors?

“World Bank most active, the other ones who were a bit active at the initial stages were; DFID who had monies lined up for Kumasi water project because at that time the Government was looking at breaking out the water system into two units; Business Unit A and Business Unit B. Accra was in Business Unit A and Kumasi will be in Business Unit B. So DFID was looking at putting money into Business Unit B. So, DFID was an important player, the Canadians were not that important but I would say bit influential because they were pumping their money in the rural water provision, where because of the privatization rural water was not part of the big picture of privatization because they were hived off for local Government Management were you had petty private control as well, were you had smaller private sector participation”
Reasons for privatization?

“Our position was simple we just looked at what was happening globally, and globally there was a lot of evidence showing the private sector was not efficient, and what private sector was doing was that; the first few five years, what they will do is to retrench a lot of workers and that reduces their costs, and the few first years you also had a lot of investments also coming from the World Bank and others which will serve a buffer in terms of cost and investments, so all the evidence showed that the private sector is not really putting in their money, they’re going to use World Bank money which is public money operate and B) the efficiency is not technical efficiency is just the reduction in workers’ wages and salaries which increases their efficiency and they increase tariffs to jack-up the profits, so basically these are the things that the private sector do, we think that those are not good for value for money”

Why did Government persist despite these reasons?

“ Well you had a government at a point that the economy is not doing well, and the World Bank is saying that well if you bring private sector management we will give you money, so basically there is a lot of appetite from Government because they wanted to look at the monies that the World Bank will be giving them and B also there were a couple of ideological stance because there was a change of Government and the first thing the new Government wanted to do was to encourage privatization because they said private sector is the engine of Growth, that was the mantra of the Government and one of the document I have cited is a presentation in Dakar in 1999, where the World Bank basically was saying that they had spoken to the then Government while they were in opposition and made a deal that when they come into power they will continue with privatization, so there was a lot of interest and outside open negotiations, there were kind of backroom negotiations, like most of these cases which you would not find in the public institutions, you would not find public spaces”

How did we get to a Management Contract?

“Well basically management contract was a second thought, management contract wasn’t the big thing that was on the agenda, what was on the agenda was a PSP, and the PSP they were looking at was a lease, but the management contract was an afterthought when it was difficult for the PSP to be implemented in terms of lease options where the whole idea of giving the water systems to private especially foreign multinational companies was not something the Government will want to do based on the backlash it had from domestic politics, so basically domestic politics forced the Government and the World Bank to retreat, and the face saving thing was the management contract option, and the private sector too at that time were not stupid, they realized that it was becoming politically difficult for the Government and the World Bank to push the PSP lease options, so they were worried that probably they could end up with a contract like Bolivia’s contract and which they might lose their investments, so what the private sector sought to do was to insulate themselves against future damages. So what they needed was that they will not invest in the system, they will just come as managers and just take management fees, in that case that was the best deal for the private sector, because they don’t have any risk, they don’t have any financial risk, the financial risk is borne by the government and the world bank”

Was this not just a mistake by human institutions?

“I don’t’ this is a question of human mistakes, this is just a question of pressure being brought to bear on Government to sign contracts it wasn’t willing to do and didn’t strongly believe in, an if you look at most of the reforms in the country, not only on the PSP, there other reforms like the civil service reforms which Government just did those reforms because they wanted to please the donors and get some more cash from the donors. So, I mean, I will say some of the things, so for instance the Government that refused to renew the contract was not the Government that signed the contract in the first place. So there was no strong ideological support for the contract within the NDC and it would have been difficult if it were under NPP. Because NPP would have tried to protect the company because a defeat of the company would mean a defeat of their policy. So it was easier for the NDC to refuse to renew the contract because they did not sign the contract in the first place. So they would want the public to see that the NPP did not sign a good contract and the NPP should be blamed for the state losing money and resources and time. So you can look at it, in that kind of light; and also the pressure that the Unions and the NGOs brought to bear on NDC and if you listen to Mills’ Campaign debate at IEA, when he said he doesn’t believe in privatization, there was a couple of statements that put pressure on the Government to change its stand, basically not to renew the contract”

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Appendix A3 – CONIWAS Interviewee

Mr. Patrick Apoya
Stakeholders?

“The major stakeholders were, small section of the Ghana Water Company that was spearheading the project, the World Bank was a dominant player in the process, the so called Government representation was by the core senior management team of the Ghana Water and Sewage Corporation by then, they also gave room for civil society participation but the participants then were basically international NGOs. I remember World Vision was there, Water Aid was there, plus one or two other international organizations besides ISODEC that was already part of the process from the start, there was really no local civic participation in the process, if I can recall, if I can recall the list of participants that I reviewed for the workshop reports, a number of their workshops reports, constantly it was dominated by international players, the private consultants who came to do the various assessments, the World Bank, Ghana Water Company senior management, and a cross-section of civil society which was limited to only the international NGOs as the key players, the local civil society had to get into the process by force. You know, I think ISODEC that happened to have had capacity around that subject, and also had the intellectual capacity to do deep analysis of the process was the one that took the step to get local civil society involved and by breaking down the complex process into very simple forms and calling a meeting of local civil society organizations and presenting that with the World Bank and also with proponents of the reforms within the Ghana Water Company Limited, that was then the Water Sector Restructuring Secretariat, that was the group that in the ISODEC initiative we engaged to balance the debate between what the NGOs might see and what the reality of the restructuring was so that NGO on their own could make informed choices of what direction they wanted to go”

When was these consultations?

“During the Halcrow studies, that was the engagement I described, that the, what they called engagement, of course everybody would like to have the word engagement labeled in process to give it credibility, and so when Halcrow, actually Adam Smith did a report, Halcrow and Halcrow did a report, it was their recommendations that showcased the eight options for the reforms, what they called engagement is what I described earlier on that it was limited engagement to the group that was predominantly in favour of the kind of reform the World Bank was driving towards. So there was very little diverging views regarding what might be suitable for Ghana or what might not be suitable for Ghana. But post-Halcrow, is when civil society, it was post Halcrow, post-Halcrow report, it was one of the basic document that ISODEC analyzed and then looked at the options that they presented and did their own analysis and found that it might not necessarily be the right way for Ghana to go as far as that reform was concerned. So the civil society mobilization was basically post-Halcrow; and that actually brought local civil society input into the process.”

Position of Civil Society?

“ After a careful study of the report and all the analysis that were presented, first, I believed that there was the need to reform Ghana Water and Sewage Corporation in the form that it was, that one there was no question about it, but if I also look at the option that was selected it did not also solve the problems that the report raised, the kind of option that was selected was nowhere near solving that problem. So for instance, it did say that the company, Government did not have the financing to invest in the utility to the level that was required and therefore they were bringing the private sector to raise the funds and the amount of financing that was required even then was, $350million dollars and the private sector together was bringing in only 140million dollars and which left the bulk of money, would still be solicited by the Government and that did not appear to be a solution to the financing problem that they flagged. And if a private sector was still coming to depend on Government to raise money for them to operate, then where is the argument that Government doesn’t have money to invest in the system. So that for me didn’t make sense. The efficiency argument also didn’t make sense, because it was more of, a lot of the problems that they talked about was more related to bad infrastructure, the infrastructure of the water company was very bad, even like they couldn’t do metering, a lot of the things that they talked about required financing which was held back, an if you look at all the financing that they claimed to have gone into the sector, it was all a catalogue of one million, two million, hundred million, two hundred million, two hundred million. It was all less than what the utility has been requesting less than 40% of what the utility has been requesting to be a comprehensive financing of its operations, so the question of inefficiency was more about lack of financing rather than just mere inability to operate the system. And then the third one is the fact that they felt that one of the problems was Government interference and if you look at the arrangement that they put in place, there was nothing to show that even when a private person comes in there would be nothing like Government interference – they said Government interference was one of the biggest problems of the company and even with the private sector
engagement there was no mechanism to ensure that Government interference would not still take place – because they were not the people who were supposed to be controlling staff, they were not controlling employment. They were basically just like people who will take assets and operate and pay a certain something back to Government of Ghana. So the Government interference that they talked about there was no way they could deal with it and Government interference does not matter whether you are private or public unless the private has its own resources that it is operating on its own and not using Government assets”

Jump to Management contract?

“For me I will look at it as, it was a last resort or the face saver for the World Bank, because first and foremost besides Ghana’s privatization drive that plunge, a lot of other privatization drives in other parts of especially Latin America, that the World Bank was promoting at the same time also run into problems, and the credibility of the World Bank in leading such privatization moves was seriously damaged, and they have to find a way of getting something work, and so they had to make a lot of tradeoffs to arrive at the management contract. First and foremost the $120million loan that they were to use it to back the privatization process, they converted it into a grant, and then secondly, the issue of a lease that the assets were owned by Government and someone operates, at least that side too was taken off, and the management contract though was not to be tolerated, you could say in order for the process to go forward and in order for the people of Ghana not to be deprived of water at some point it was like the midpoint that civil society cold tolerate while the engagement was going on and then let them finish their test and see whether it actually solves the problem that they put on the table, and now we see the result of it. It has ended and I think that the World Bank itself now is very silent about discussing any further moves to do privatization”.

Political interference?

“To start with, the issue of interference is about, is normally about staffing, is normally about the arbitrary removal of directors, it is usually about core decisions regarding the company outside what usually is agreed on, and the management contract, those who were at the core of the management contract did not have any power over that; in terms of whether a director would be changed or not, the management contract did not have that authority, and in between if a company is to make a procurement, Government was able to intervene despite the procurement law which is now supposed to be regulating procurements in the country. So I wouldn’t say the management contract was able to stop or reduce Government interference”.

Relationship between GWCL and AVRL?

“it was very bad. For me the relationship was one of the factors that contributed to the failure of the management contract, if I should say it failed, first and foremost there was a clear struggle for visibility and turf because the operator projected itself as the face of water supply in the country whilst Ghana Water Company felt that was its position to show as the face of water supply in Ghana and so even the use of sign boards and acknowledgements was a big issue, there were also big issues regarding certain roles, even then that was not clear who was performing those roles, there were a lot of issues about procurement, for instance one group will go and negotiate for the procurement of let me just say an automated system for some of their operational processes, then Water Company would say that is not their job to procure that, it is our job to do that, they also go and negotiate for the same thing, so there were a lot of un-clarity regarding what role each was playing and there was also the struggle for the visibility”.

Appendix A4 – Vitens Evides Interviewee

Mr. Marco Schouten

When did AVRL get into the picture?

“So the contract which we have with AVRL that run between 2006 and 2011 for five years and how it was, it was tendered by the WB probably 2005 I guess and at that time there was an official tendering procedure and we were one of the participants who submitted a proposal which was granted in the end. I must admit for me it was far away because I was not part of Vitens Evides at that time so I have only hearsay about what happened at that time, what I understand was that there were very few bids, only two and AVRL’s proposal probably was better, cost effective wise than the other so they granted us the proposal.”

Are you aware whether Vitens had bided for the lease concession?
“Well Vitens Evides International which is the International Branch of Vitens, that started in 2003 so I don’t think that before 2003 they did anything abroad, so if they did anything I would be surprised even because I think they first started in Mozambique, it was the first activity of Vitens International, and I think they did not have a very wide scope at that time.”

Where objectives contradictory, did it affect your work?

“No I think in most projects you have these types of objectives, and of course you could understand that if you have more networks then you would also have higher cost but essentially the WB and the ministry they asked the operator to still find a solution for them and also I think bringing down the cost was something that was possible to do, for example, energy cost, these types of cost they could really go down, but e.g. to what extent is cost and to what extent is cash? That also makes a big difference e.g. if pay the energy bill is going towards down but if you don’t pay the energy bill for your cash position it doesn’t really matter. It also has to do with incentives for the water company, where do you stir and what does motivates them?”

Stakeholders?

“The World Bank was key, basically there are also the other contracting parties, and of course then there was Ghana water, then there is the PURC and the Ministry where involved and all these parties needed to make the two parallel process, one was the investment process and the other was the operations of Ghana water to make it successful, and you see there was a large dependency between the two, so if there was a delay in an investment programme, which there was a lot of delay, it has an immediate effect on the operation… so probably over the five years relations with the various stakeholders changed, the NGOs were very much involved, I remember CONIWAS who was representing all the NGOs and, from my own experience from the last year when we were involved, the relationship was remarkably good, with all of them, so there was even a lot of talk on whether we should continue as to a sort of a next phase to extend the management contract and I remember at that time, we said oh well we will still go forward with the same formula but instead of AVRL we erect a new entity called the Ghana Urban Water Company Limited, which is essentially exactly the same as AVRL, the only is that on longer Rand and Evides are involved, you still have this division between operations and estate management.”

Jump to Management Contract?

“Don’t know”

Nature of the MC?

“Ok the management contract essentially is contract in which for five years it is asked to take over the operations against a standard fees, it very much looks like interim management, you hire somebody for a certain period and if the task is finished then the company will discontinue. So it’s just the hiring of personnel to do a certain task, you could also hire somebody to repair your leakages, you could also hire somebody to manage your company. It has nothing to do with ownership and essentially it’s to hire and fire people to do a job.”

Assessment?

“Well, I think for Vitens Evides International this was probably the first contract that we did and of course we are profit oriented so we do this type of thing with the best of intention and I think they were a little bit shocked in the beginning because there was so much opposition this, and they were perceived as private sector and it was privatization and it was profit oriented which is totally not why Vitens Evides International exists. So I think that the resistance was a bit of a shock to them for VEI, and secondly in the operations we did relatively good. The only thing where we have big trouble is non-revenue water, and we have much trouble with, we didn’t have much to say about the personnel, so all these 3000 members of staff were seconded to AVRL but at the same time AVRL did not have the power to fire people or to give people higher salary or to demote people, or to promote people, it was all still with the original mother company, so it means you have very small power to influence the operations of the company”

Political Interference?

“In Ghana you’ve got very strong unions so that of course affected the way how the personnel were involved in the task, I don’t much recall, probably in the last year that I was involved I didn’t see much articles new paper clipping on opposition but I remember but I remember the people who were involved told me in the beginning it was relatively verbal opposition”
“Oh yeah of course every time there was an election was always political interference, water by itself is very political. So the minister is a very influential person. I think that the last election was about one year before and a new Minister was appointed. And this Minister he really was outside of the water sector, and what he was thinking about was how to deal with the water sector, so what he did was that he first made a three year transition period, something like that he talked about and in this transition period to think about how to organize the water sector in the future, so a different type of policy probably different than the one he had before him, but that is typical of the water sector,”

Bulk Meters?

“ Well the bulk meters were, they are of course part of the baseline normally, normally in the baseline you try to measure how much water goes into the system and it was organized such that there was a special project management unit, and that unit was involved in doing all the procurement for the World Bank Fund and apparently the bulk meters were part of the project investments which ought to be done by the World Bank and these procedures were very tedious, so it took years apparently before the tendering of these ... was done and before they were installed, and I think only to the end of the contract that these bulk meters were installed, I think probably year four or year five, it must be somewhere around that period.”

Baseline?

“Sorry I don’t know, but what I imagined, I was a bit surprised, Fitchner they make every year these audits but they don’t make baseline audits in the beginning, you would imagine that this independent auditor would also undertake some baseline, which is strange...”

Way forward?

“We are still involved with Ghana Water to support the laboratory part, the water quality monitoring, but you see now a days it’s going very bad for Ghana Water Company Limited, so now they have merged Ghana Urban Water with Ghana Water and turmoil in the all kind of the management layers, donors are very reluctant to invest now, so, I think probably the best model would be to break Ghana Water into parts, because now it is very difficult for such a huge company to make sure that the service on the grounds is good enough, so maybe make it regions, regional operators, I think with regional public operators then you can put some kind of level benchmark between them, some kind of delegated responsibilities and now too much happens in Accra and Kumasi and Tamale very far away, and also you see that in all the countries in the world, if you are in the capital it is also very political, it means the ministry becomes very much involved in all kind of operations, and if you are further away from the capital it makes it often much easier”

Appendix B – Table of Relevant News Articles

<table>
<thead>
<tr>
<th>No.</th>
<th>Period</th>
<th>Title, Date and Link of News Item</th>
</tr>
</thead>
</table>
| 2006 | Ghana: Coalition questions Water Privatization | www.afrika.no › Detailed/11205.html 6 Jan 2006 - The taking over of the Ghana Water Company Limited (GWCL) by Rand Water ... Southern Sector Coordinator of the Coalition Against Water Privatization, has said ... donors have started canceling the debt of GWCL, so that the
<table>
<thead>
<tr>
<th>Year</th>
<th>News Title</th>
<th>Website</th>
<th>Date</th>
<th>Reference</th>
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</thead>
<tbody>
<tr>
<td>2008</td>
<td>AVRL unveils Call Centre...and promises customer needs to be met...</td>
<td><a href="http://www.modernghana.com/.../avl-unveils-call-centre-and-promises-custom">www.modernghana.com/.../avl-unveils-call-centre-and-promises-custom</a>...</td>
<td>Oct 8, 2008</td>
<td>&quot;Managements of AVRL and Ghana Water Company Limited (GWCL), in collaboration with AVRL and Ghana Water Company Limited, GWCL, have announced that it is introducing new water meters in... <a href="http://www.modernghana.com/node/13675">http://www.modernghana.com/node/13675</a></td>
</tr>
<tr>
<td>2008</td>
<td>BBC NEWS</td>
<td>Business</td>
<td>Ghana’s daily struggle for water</td>
<td><a href="http://www.bbc.co.uk/2/hi/business/7761588.stm">www.bbc.co.uk/2/hi/business/7761588.stm</a></td>
</tr>
</tbody>
</table>
Ghana: AVRL MUST GO NOW! | Polaris Institute
www.polarisinstitute.org/ghana_avrl_must_go_now

Jun 8, 2009 - Ghana: AVRL MUST GO NOW! ... Water services delivered to the Ghanaian public must be among the worst in the world. Under Aqua Vitens Rand Limited ...

http://www.polarisinstitute.org/ghana_avrl_must_go_now

2010

AVRL Improves Customer Relations - ModernGhana.com
www.modernghana.com/news/.../avrl-improves-customer-relations.html

Apr 26, 2010 - TO FURTHER improve its services to valued customers, Aqua Vitens Rand Limited (AVRL), acting on behalf of Ghana Water Company Limited as the operator, ...


AVRL to embark on demolition of underground tanks
ghananewagency.org/.../avrl-to-embark-on-demolition-of-underground...

Dec 20, 2010 - 20, GNA - The management of Aqua Vitens Rand Limited (AVRL), acting for and on behalf of Ghana Water Company Limited, said on Monday it would embark ...


Ghana: World Bank, AfDB initiative supports water sector | WASH ...
washafrica.wordpress.com/.../ghana-world-bank-afdb-initiative-supports-...

Feb 5, 2010 - The AVRL contract will end in 2011, but the World Bank, by this new development, has ... This entry was posted in Ghana, Water supply and tagged African ...

http://washafrica.wordpress.com/2010/02/05/ghana-world-bank-afdb-initiative-supports-water-sector/ 

GWCL invests GH¢4.2 million to purchase bulk water meters ...
www.ghanaweb.com › News › 2010-02-24 Feb 24, 2010 - 24, GNA - Ghana Water Company Limited (GWCL) has invested GH¢4.2 million to ... and Aqua Vitens Rand Limited (AVRL), operator of the urban water system, ...


Kofi Ahovi: Automatic Adjustment Formula to start next month
zotomelo.blogspot.com/2010/02/automatic-adjustment-formula-to-start.ht...

Oct 15, 2010 - The managements of Volta River Authority (VRA), Ghana Grid Company ... of Ghana Water Company Limited and Aqua Vitens Rand Limited (AVRL) to meet key ...

http://zotomelo.blogspot.nl/2010/10/automatic-adjustment-formula-to-start.html

Ghanaian authorities allow sharp increase in utility prices - ESI-Africa
www.esi-africa.org/node/11432

Aug 18, 2010 - Water utility prices have increased by 33% from 66 to 88 pesewa per cubic meter ... to assist the Ghana Water Company (GWCL) and Aqua Vitens Rand (AVRL), ...

http://www.esi-africa.org/node/11432

Why Accra Has No Water | The Ghanaian Times
newtimes.com.gh/story/why-accra-has-no-water

Feb 8, 2010 - SOME parts of Accra have been hit by acute water shortage following the ... Rand Limited (AVRL) and Ghana Water Company Limited (GWCL) together with the ...

http://newtimes.com.gh/story/why-accra-has-no-water

Tension At Ghana Water Company - Ghana Web
ghanaweb.com/mobile/wap.small/news/article.php?id=170310

Oct 15, 2009 - Tension is gradually brewing at Ghana Water Company Ltd,(GWCL), following ... and Regional Officers, which were all dissolved by AVRL for unknown motives.


2011

Ghana Urban Water Limited takes over the management of urban ...
ghananewagency.org/.../ghana-urban-water-limited-takes-over-the-man...

Jun 9, 2011 - Accra, June 9, GNA – The newly formed Ghana Urban Water Limited is to take over the management and operations of all the 81 Urban Water Systems in the ...

http://ghananewagency.org/science/ghanai-urban-water-limited-takes-over-the-management-of-urban-water--29769

Aqua Vitens hands over operations back to Ghana Water Company ...
www.world-psi.org › Home › Media › All News
Sep 21, 2011 - Community and trade union activists have successfully pressured Ghana's national government not to extend the contract of Aqua Vitens Rand (AVRL).


National Coalition Against Privatisation Of Water Supports Govt ...
newtimes.com.gh/.../national-coalition-against-privatisation-of-water-sup...

May 26, 2011 - Local News: The National Coalition Against Privatisation of Water, a non- governmental organization, has expressed support for the government's decision not ...


Despite evidence, World Bank still promoting water privatisation ...
www.brettonwoodsproject.org/art-569208

Nov 21, 2011 - The evidence over the years has shown that pricing and privatisation means that ... The latest is Ghana, where the IFC is promoting private provision of water in ...

Water Delivery and AVRL - Ghana Broadcasting Corporation

Jun 9, 2011 - NEWS COMMENTARY ON URBAN WATER DELIVERY AND THE EXPIRATION OF THE AVRL CONTRACT It will
Appendix C – Interview Guide

INTERVIEW GUIDE FOR RESEARCH PAPER

Introduction

The interview guide or design is only to guide eliciting of answers from interviewees that will assist in answering research questions presented in an earlier submitted research paper design. Where necessary important questions not included in guide will be pursued. The proposed questions for the interview were generated from five key sub research questions presented in the research design. The generated questions in this interview guide have been numbered in Roman numerals which distinct them from the main sub questions under which they appear. All the questions asked are supposed to ultimately lead to the answering of the main research paper question:

Why was the five-year urban water management contract awarded to Aqua Vitens Rand Limited between 2006 and 2011 in Ghana seen to have failed, contrary to high efficiency expectations of such a public private partnership?

Interviewees for the interview were selected to represent two initial divergent opinions on urban water privatization in Ghana. The interview is to enable them to reflect back on the policy objectives, processes, implementation as well as results of the urban water management contract. In all it is expected that a total of 5 people would be interviewed. The interviews will compliment text reviews which would also be conducted in order to answer the research questions. Interviewees will only be asked the questions numbered in Roman numerals. Names and designations of interviewees will be taken and recorded before the interview.

Proposed Questions

1. What were the stated and unstated objectives of the major stakeholders in the private sector participation in urban water debate before the management contract?
   i. Who would you say were the major stakeholders engaged in the debates for and against privatisation before and during the management contract implementation?
   ii. Of those that you remember, which among them had access to the policy table and who were not?
   iii. Do you remember some of the reasons government offered as justifications for privatization of urban water?
   iv. Did you agree with government on those reasons offered?
   v. If no, why do you think government in spite of your observations offered and maintained its reasons?
   vi. If yes, why do you think opponents of the privatization persistently kicked against the reasons offered by government?

2. What was the nature of the management contract?
   i. Do you consider the management contract as privatization and why?
ii. Could you explain how you understood the management contract?

iii. Was the relationship between 1) the Ministry of Water Resources, Works and Housing, 2) Ghana Water Company Limited and 3) Aqua Vitens Limited clear for you?

iv. In your view, did this relationship enhance or derail attainment of the objectives of the management contract?

v. Why do you think the reporting relationship was designed as such?

3. Was the management contract implemented as envisaged by proponents of the reform?

i. In your opinion, were the reasons government provided for the privatization policy realized in the implementation of the management contract?

ii. If no, why were the reasons behind government’s justification of the privatization not realized?

iii. If the objectives were not realized and despite the initial agitations by opponents of privatization the privatization policy, could it be seen as a case of government getting it wrong like any other human institution?

4. How was the urban water management contract and its implementation influenced by the general economic and political environment of Ghana?

i. In analyzing the performance of the management contract, could effects of wider economic and political environment be considered?

ii. If no, why?

iii. If yes, are there particular economic and political effects on the management contract you could share? (such as financial, budgetary issues, the role of ruling/opposition politicians etc)

5. Why did the Government of Ghana decide not to continue with the contract in 2011 when it had been a strong proponent of the management contract in 2006?

i. Besides the alleged failure by Aqua Vitens to meet contract benchmarks, do you think there were other reasons why government decided not to continue with the contract?

ii. Were all the stakeholders who had previously supported government on the privatization policy in agreement with government’s policy of non-continuance?

iii. In your estimation what would you say was the contribution of civil society to this change?

Interview Plan

<table>
<thead>
<tr>
<th>No.</th>
<th>Proposed Interviewee</th>
<th>Number of Interviewees</th>
<th>Mode of Interview</th>
<th>Proposed Dates</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>1.</td>
<td>Ministry of Water Resources Works and Housing or GWCL</td>
<td>1</td>
<td>Skype</td>
<td>By 20th August, 2013</td>
<td>Interview was not conducted due to internet connection problems of interviewee.</td>
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<td>2.</td>
<td>World Bank - Ghana</td>
<td>1</td>
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<td>By 20th August, 2013</td>
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</tr>
<tr>
<td>3.</td>
<td>Coalition of NGOs in Water and Sanitation</td>
<td>1</td>
<td>Skype</td>
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<td></td>
<td>National Coalition Against Privatization of Water</td>
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<tr>
<td>5.</td>
<td>Vitens Netherlands office</td>
<td>1</td>
<td>One on one</td>
<td>By 20th August, 2013</td>
<td>Interview was conducted</td>
</tr>
</tbody>
</table>