Paying for Sustainable Water Infrastructure: Innovations for the 21st Century

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Private Sector Water providers : Where it works, Where it doesn't

Achievements and constraints of Private water operation

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Summary

- AquaFed, a voice for the industry
- Private sector dynamism: growth & diversity
- Perception of Private-Sector Participation (PSP) by int'l. community
- Successful achievements of PSP (PSP)
- Conditions for success
- Conclusion

All sizes

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THE INTERNATIONAL FEDERATION OF PRIVATE WATER OPERATORS

All countries

All business models

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PSP steady growth

Private-Sector Participation: many satisfactory results

Efficiencies, improved levels of service, contribution to MDGs
(MDGs = UN Millenium Development Goals – Goal 7 –Target 10)

Huge privately funded investments

Chile, UK, China, Morocco, USA, BOTs in many countries

More and more active PPPs

+ 7% over 12 months *(GWI, November 2006)*

More and more formal operators with private interests

*(World Bank, Lloyd-Owen, Winpenny) (**+12%** in last Masons Yearbook)*

Numerous informal private operators

They are necessary since **46%** of world population (3 billion people) have no household connection to drinking water *(UNICEF-WHO Joint Monitoring Program, August 2006)* **AquaFed**

All PSP categories are active

"The diversity in public-private partnerships cautions against lumping all private sector involvement under the general heading of "privatization." *(UNDP HDR2006)*

Full divestiture (privatization)	USA
New equity joint-ventures	China, Italy, Brazil
New concessions	Malaysia, China, Spain, Portugal, France
Numerous new BOTs	China, Mexico, Emirates, India
New leases, affermage, O&M	Algeria, Senegal, Slovakia, USA
New management contracts	Ghana, Oman, Armenia, Russia
New service contracts	Mauritania, etc

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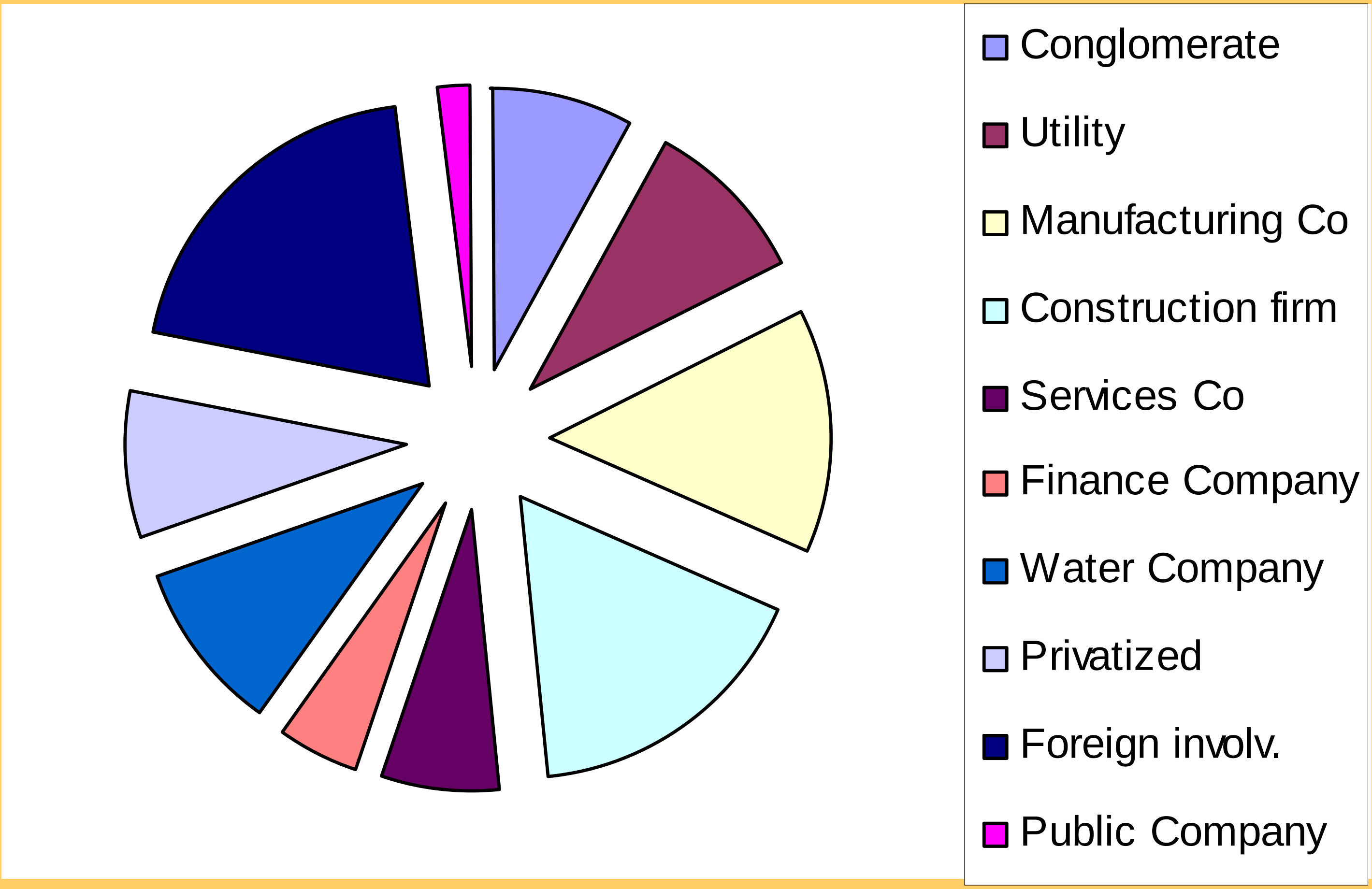
Diversity of new private entrants

Origins of recent market entrants' operators or sponsors



Source: Winpenny, OECD 2006

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Global perspective:

No general pattern

Types of partnerships

- Many **BOTs** for new infrastructure components,
mostly drinking water & wastewater treatment plants (but not in the US)
- **All types** are active, however in different countries

Operation & Development of services

- More numerous **local** operators & investors
- However many **new international** actors
(from India, Philippines, Spain, Malaysia, Japan, Australia, Saudi Arabia, etc)

Each country is a different market with local preferences

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More realism

- Shift from full-cost to sustainable cost-recovery

- Public-private polemics are detrimental for the poor

  "From the perspective of poor households, the debate over the relative merits of public and private-sector performance has been a distraction from a more fundamental concern: the inadequate performance of both public and private water providers in overcoming the global water deficit."
  (UNDP HDR 2006)

- Operators are not bankers

- Many PPP contracts have provided access to water for millions of people. When institutions call these "failures," they distort the reality and hide the benefits.

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- **Successful achievements of PSP - PPPs**

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Successful achievements of PPPs - 1

Example: utility management

- some public utilities are now performing satisfactorily following successful management contracts

Ex: Johannesburg Water (South Africa), NWSC (Uganda), Amman (Jordan)

Example: access to water

- with the support of public authorities, many private operators have already secured the achievement of the drinking water MDG in their operational area.

Successful projects : US track record for PPPs

- 20 + Years of successful PPPs,
- 1200+ water and wastewater projects,
- Duration : short-term to 20 years,
- Renewal rate > 90%,
- Primarily O&M and DBOS (Design Build and Operate),
- Drivers for choosing PPPs :
  - Environmental compliance,
  - Development of personnel,
  - Asst Management,
  - Costs savings,

Contributions from Private Water Operators to access to drinking water - Examples

- **Argentina** - Aguas Argentinas - Buenos Aires: The private water operator provided access to water to **2.1 million people**
- **Philippines** – Manila Water and Maynilad – East and West parts of Manila: **3.4 million people** have gained access to water
- **Gabon** : **200,000 people** connected to water.
- **Indonesia** – Palyja – West Jakarta: over **1 million people** gained access to water
- **Senegal**: over **1.6 million people** have been connected to drinking water networks

Successful achievements of PPPs - 2

Prematurely-terminated PPP contracts
in developing countries

- Either, they did not really start because of flaws in the project (such as inaccurate data, excessive rates): *Cochabamba*

- Or, for many years they have **delivered results successfully** and have benefited to the population, the government and the company as acknowledged by the regulating authority when:
  - an external event created an unexpected situation that put the government in a situation where they found difficult to comply with its own contractual duties: *Buenos Aires*
  - a political change induced modifications of the public policy or the public partner did not fully implement its own part of the project: *Mali, Uruguay, Tanzania*

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Successful achievements of PPPs - 3

Prematurely-terminated PPP contracts

in developing countries

- **Special case:**

  In *La Paz* and *El Alto* (Bolivia), the private operator did such a good job in connecting people in poor areas that unserved people not targeted by the government's project demonstrated in the streets to get the same service. The ensuing political conflicts resulted in the operator being used as a scapegoat by all parties.

Private sector: the convenient scapegoat

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Case of England and Wales - 1

(wholly privatized in 1987 with set up of Ofwat having a price setting power)

Capital Investment		
Average annual capital investment (water and sewerage) all 2002-03 prices	1980-85 (before privatisation)	2005-10
Whole Industry	£ 1,5 bn	£ 3,2 bn
Customer Service	Time close to privatisation (1992-93)	2005-06
% of written complaints answered in 10 working days	81,9%	96,9%
% of billing contacts answered in 5 working days	79,8%	95,6%
Number of compensation payments (Guaranted Standard Scheme - GSS)	11,388 (in 1993-94)	34,040
Water Distribution	1990-95	2005-06
Properties at risk of low pressure	1,33%	0,03%
Unplanned interruptions over 12 hours	0,33%	0,08%

Case of England and Wales - 2

Environmental Quality improvements	1990-91	Latest Figures (2005)
River water chemical quality - good	**47%**	**68%**
River Water biolloogical quality - good	**62%**	**72%**
Coastal Bathing water compliance	**66% (1988)**	**99%**
Sewage treatment works compliance	**90%**	**99%**
Unsatisfactory combined sewer overflows	**31% (1994-95)**	**11%**
Sewer flooding incidents - % of connections	**0,03% (1990-95)**	**0,02%**
Leakage	**1994-95 Leakage peak since privatisation**	**2005-06 Leakage**
Leakage rate in litres per property per day - Industry average	**228 l/p/d**	**149 l/p/d**

Examples of US PPPs

- **Indianapolis Water System :**

  1 million people served by 20-year O&M of city-owned water system,
- **Milwaukee Wastewater system :**

  1 million peolple served by 10-year O&M of MMSD-owned wastewater plants, biosolids facility, and stormwater collection and tunnel systems,
- **Phoenix Water treatment Plant :**

  DBO of 60 MGD water treatment plant (under completion)

Special focus on SSWSPs or SPSPs

Small Scale Water Service Providers (SSWSPs) or Small-scale Private Service Providers (SPSPs) :

- numbered at least **10,000 SPSPs** in **49 countries** (likely to be underestimated),
- **Instrumental in providing basic water services for population out of reach of the local Water Utility** (sometimes the only source of water) particularly in periurban, rural and remote regions;
- prevalent in countries with low coverage levels,
- may be the only viable operators for many years, in many places,
- Also act as "**gap filler**" (when the water service in served areas is interrupted, or not available for long periods),
- Overall, it is estimated that **up to a quarter of the urban population in Latin America** and nearly **half of urban dwellers in Africa** rely on **SPSPs for at least a portion of their water supply.**
- SPSP activity often considered temporary or informal, and thus **often not counted towards coverage targets (or water-related MDGs).**
- **Recognizing and supporting SPSPs further through partnership** within a proper regulatory framework (depending on the type of SPSP : e.g. regulated affordable tariff based on a flat purchase rate to the water utility for stand pipe distribution, franchising after a bidding process,..) **may be a practical way for governments to reach service coverage objectives more quickly.**

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Conditions for success – 1

- Operators are instruments to implement public policies.
  They do not relieve policy-makers of their core political responsibilities: *policies, targets, tariffs, subsidies, enabling frameworks*
- PPPs (and PuPuPs) require a partnership spirit,
  the will to succeed jointly
- Finance is not a stand-alone issue: governance, political will & sound economics are prerequisites
- Most sector constraints that have been identified recently thanks to PPP contracts, have to be overcome by all, either **public or private**

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Conditions for success – 2 : Sector constraints that are faced by both public & private operators

- Need for political will, need for **political support** to operator, public or private
- Pro-poor achievements demand **pro-poor policies**
- Currency risk, availability of **local currency** are key issues for public & private operators
- Apart from budget subsidies, finance only comes if economics are sound:
  - water is ultimately paid by users and taxpayers
    (Although decisive, ODA is a relatively small contribution)
  - need of Sustainable Cost-Recovery
    (affordability + long-term visibility of funding, public or private)
- Decentralisation does not relieve country governments of **organising enabling frameworks** for local governments and utilities, public or private
- Involvement of the population is a key success factor

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Conditions for Success - 3

Need to better understand:

- That periodic **Negotiations** are normal and necessary: partners have to meet on a regular basis to jointly address new developments. These negotiations are not specific to PPPs or regulated private projects. *Many public utilities negotiate budgets & subsidies on an annual basis.*
- The use of **Benchmarking** tools. They cannot deliver the same results as open competition

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Private operators are willing to contribute to solving water challenges

- **Public authorities** need experienced professionals
- Governments cannot afford to limit their progress toward the MDGs > they cannot afford to ignore the **potential contribution of the private sector to the MDGs**

Message to responsible authorities

When your water policy (targets, tariffs & subsidies) is decided, aim at making it **sustainably successful:**

- Keep PSP as an option and decide on a case-by-case basis[1]
- Allocate realistic targets and relevant means to your operator *(public or private)*
- Continuously support your operator *(public or private)*
- Implement your own part of the "deal" *(essential for a PPP)* *(also for public operators)*

[1] *"Local authorities must be able to freely choose among various management models."* *Local governments, Mexico WWF2006*


Thank you
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List of Key reference reports/papers on Water PSP - PPPs

- **UNDP HDR (Human Development Report) 2006** (http://hdr.undp.org/hdr2006/)
- **Article in OECD Observer – March 2006 : "Water Business" by Gérard Payen , President of AquaFed** (http://www.oecdobserver.org/news/categoryfront.php/id/1165/Water.html)
- **Segerfeldt, Fredrik (2005) : *Water for Sale. How business and the Market Can Resolve the World Water Crisis*, Cato Institute, Washington**
- **Owen, D.L. and Pinsent Masons Solicitors, *Pinsent Masons Water Yearbook 2005-2006***
- **Kariuki, M. and Schwartz, J. (2005) *: Small-scale water service providers of water supply and electricity, World Bank policy Research working paper No. 3727, October 2005***
- **World Business Council for Sustainable Development (WBCSD) : Water for the Poor – July 2002** (http://www.wbcsd.org/DocRoot/rb0fIAtRuPY7fCmLkPEB/20020821_water.pdf)
- **WPC Handbook : "Establishing Public-Private Partnership for Water and Wastewater Systems : A Blueprint for Success** (http://www.waterpartnership.org/handbook.htm)
- **Opportunities and challenges arising from the increasing role of new private water operators in developing and emerging economies :Background Issues Paper for OECD Global Forum on Sustainable Development "Public-Private Partnerships in Water Supply and Sanitation - Recent Trends and New Opportunities" – OECD Paper ENV/EPOC/GF/SD(2006)1 by James Winpenny – 21/11/2006**

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