

# **Public-Private Partnerships in Water Supply and Sanitation – Recent Trends and New Opportunities**

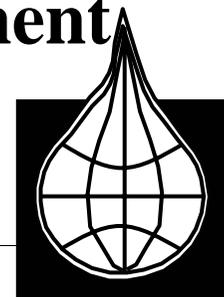
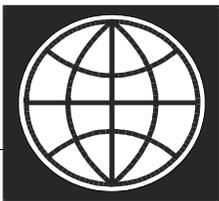
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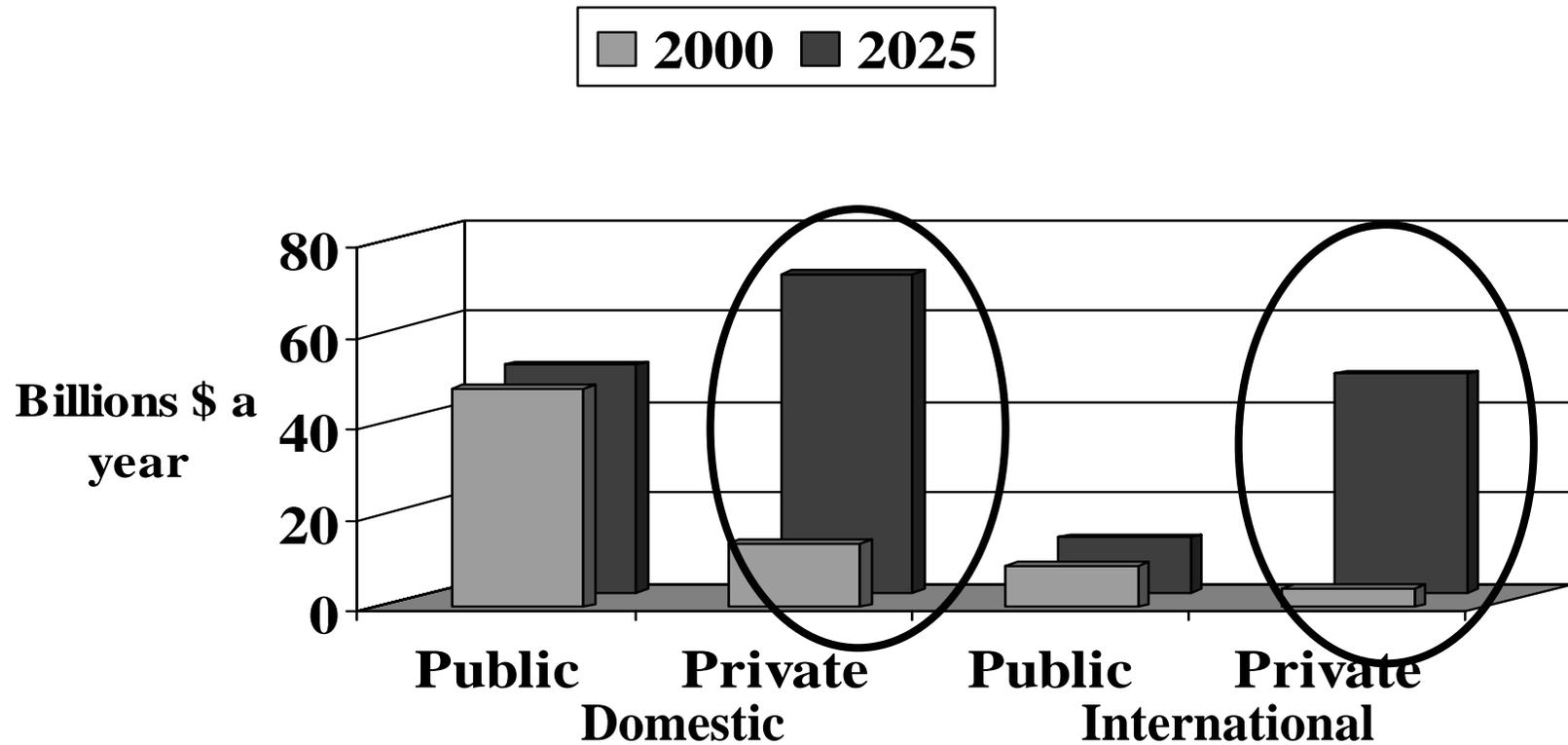
**OECD Global Forum on Sustainable Development**

**Paris - November 29-30, 2006**





**Consensus in the late 1990s: Increased financing will come from private sector**



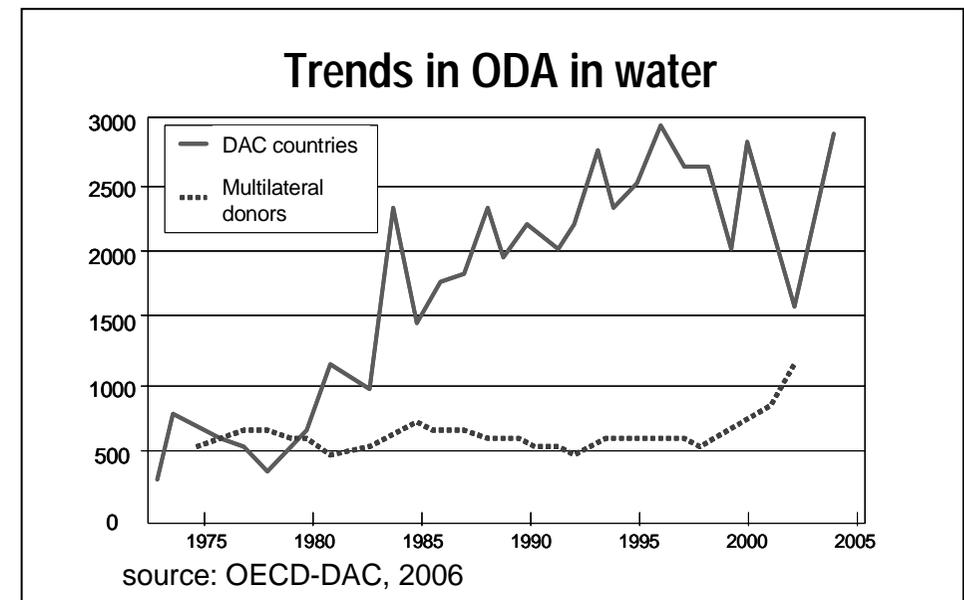
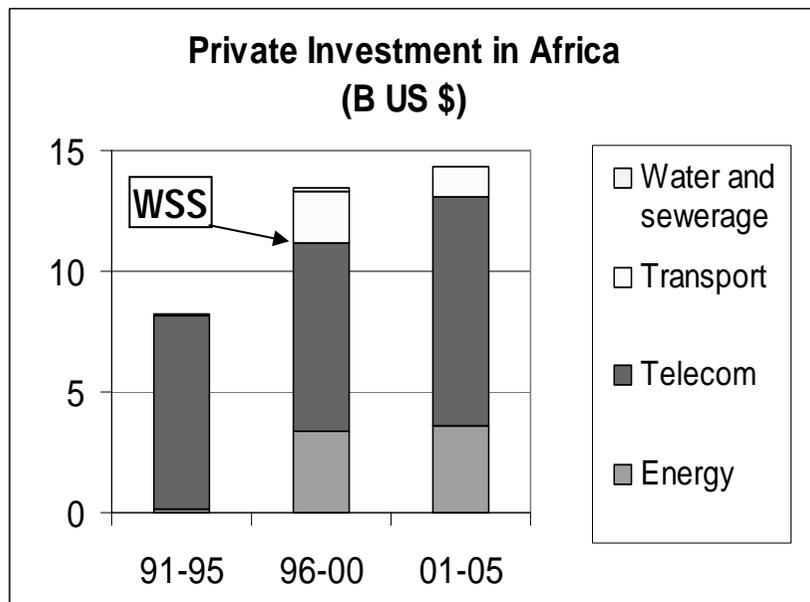
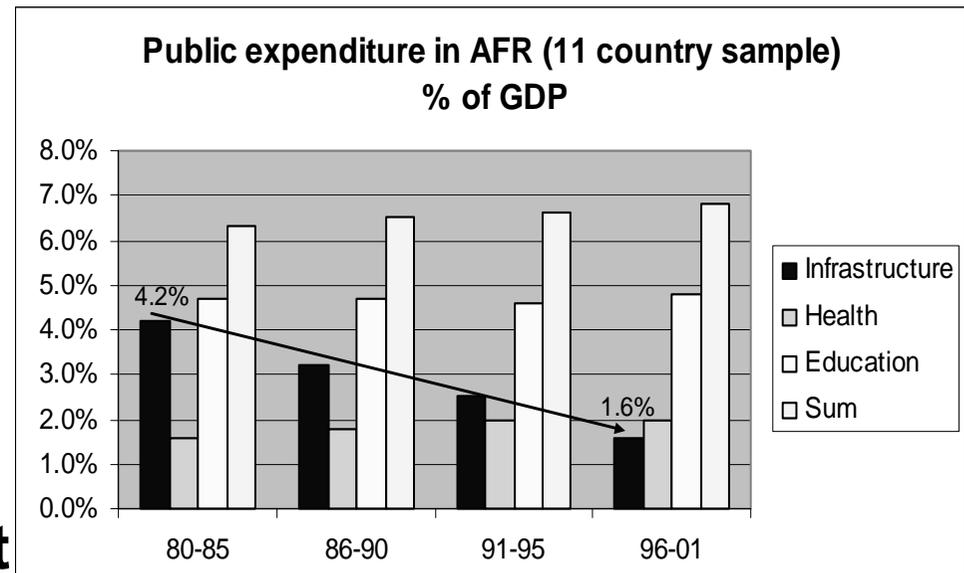


# A sobering picture: flows going down

**Private investment is increasing, but little goes to water**

**Public investment in infrastructure decreasing**

**Donor financing stable at best**



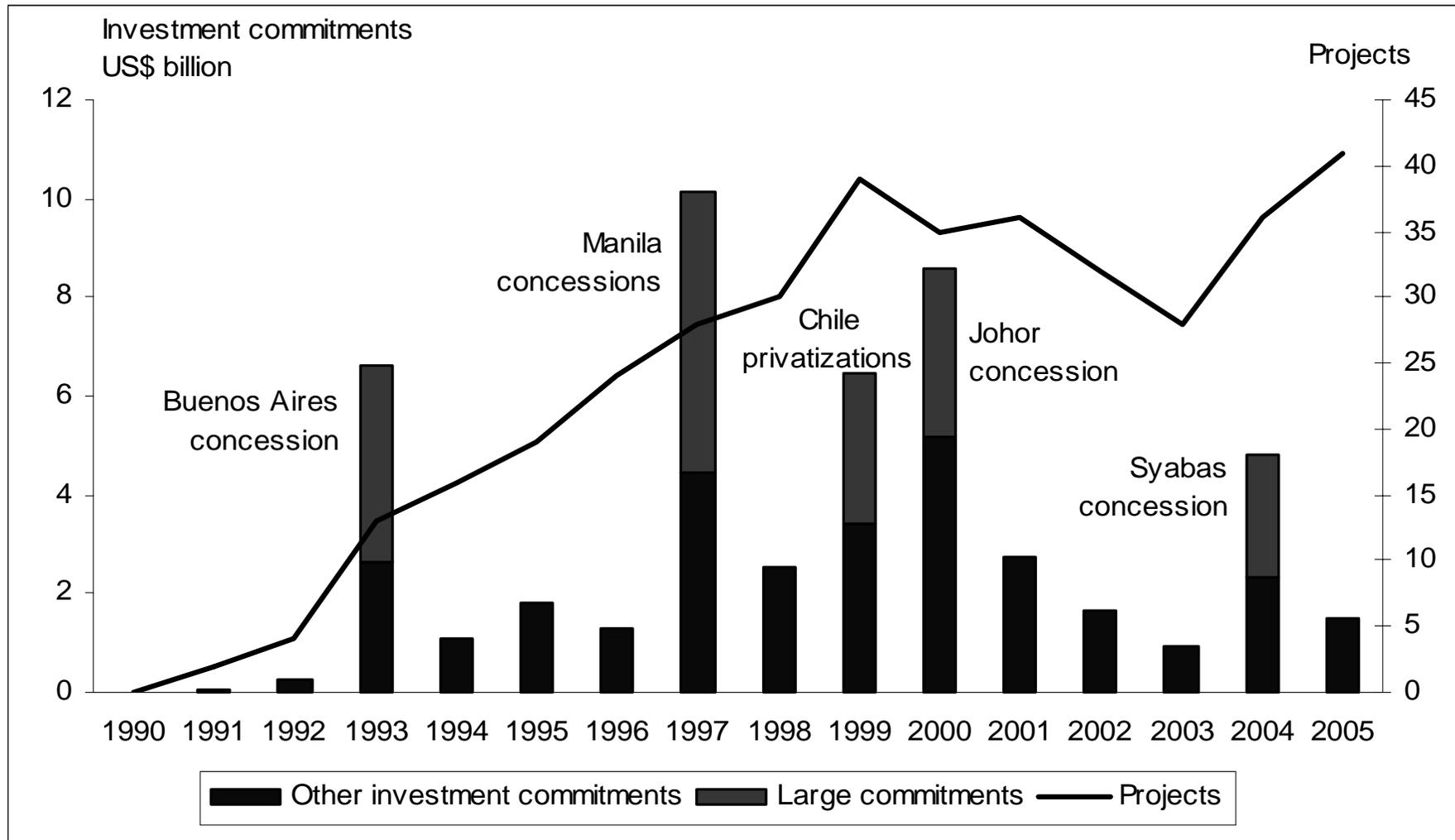


# Water PPPs: new Trends and Opportunities

- **Water PPPs: a look at historical data**
- New trends and opportunities: what does that mean?
- What did we learn?
- Way forward

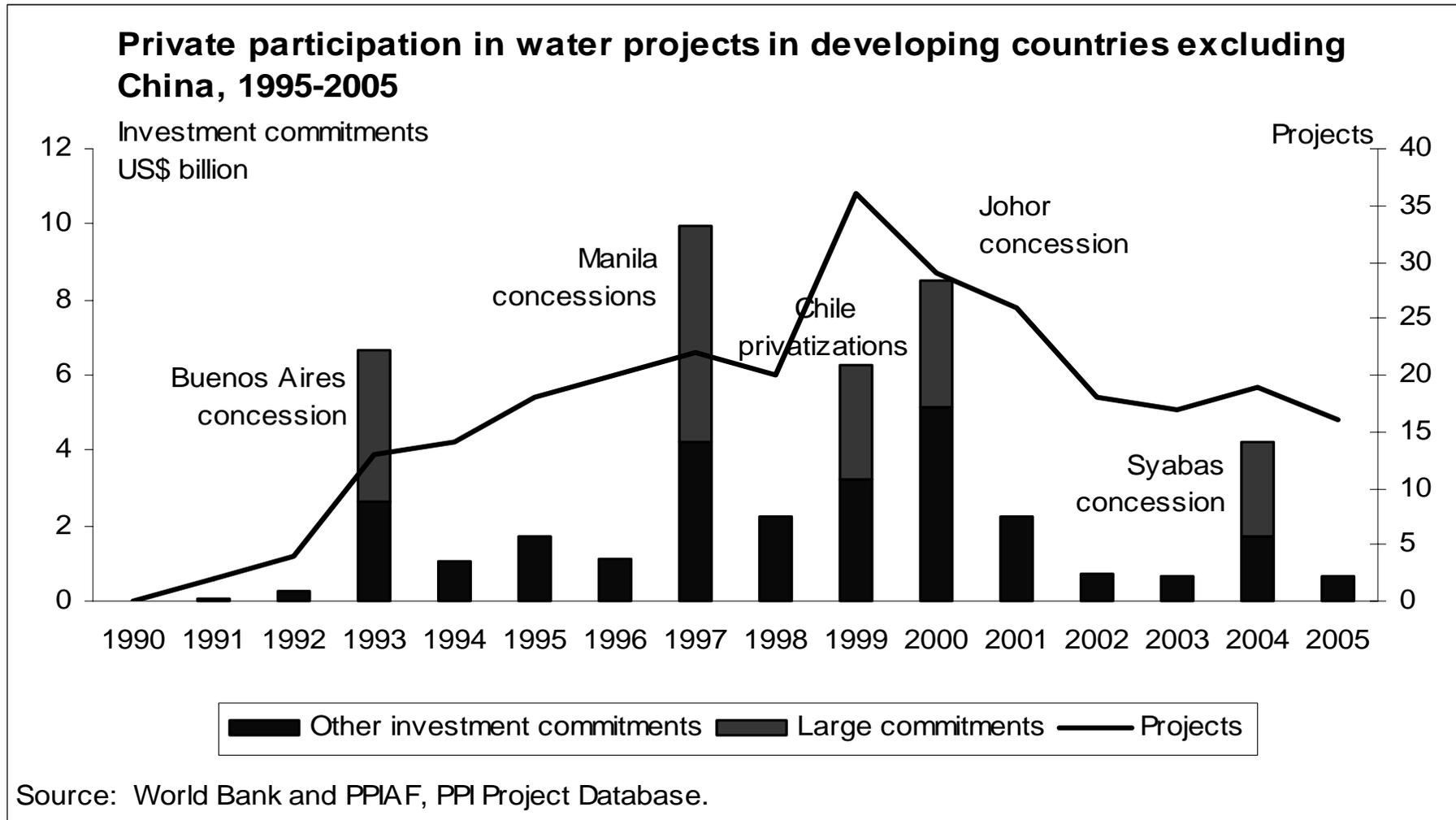


# The last 15 years: investment commitments & number of projects awarded



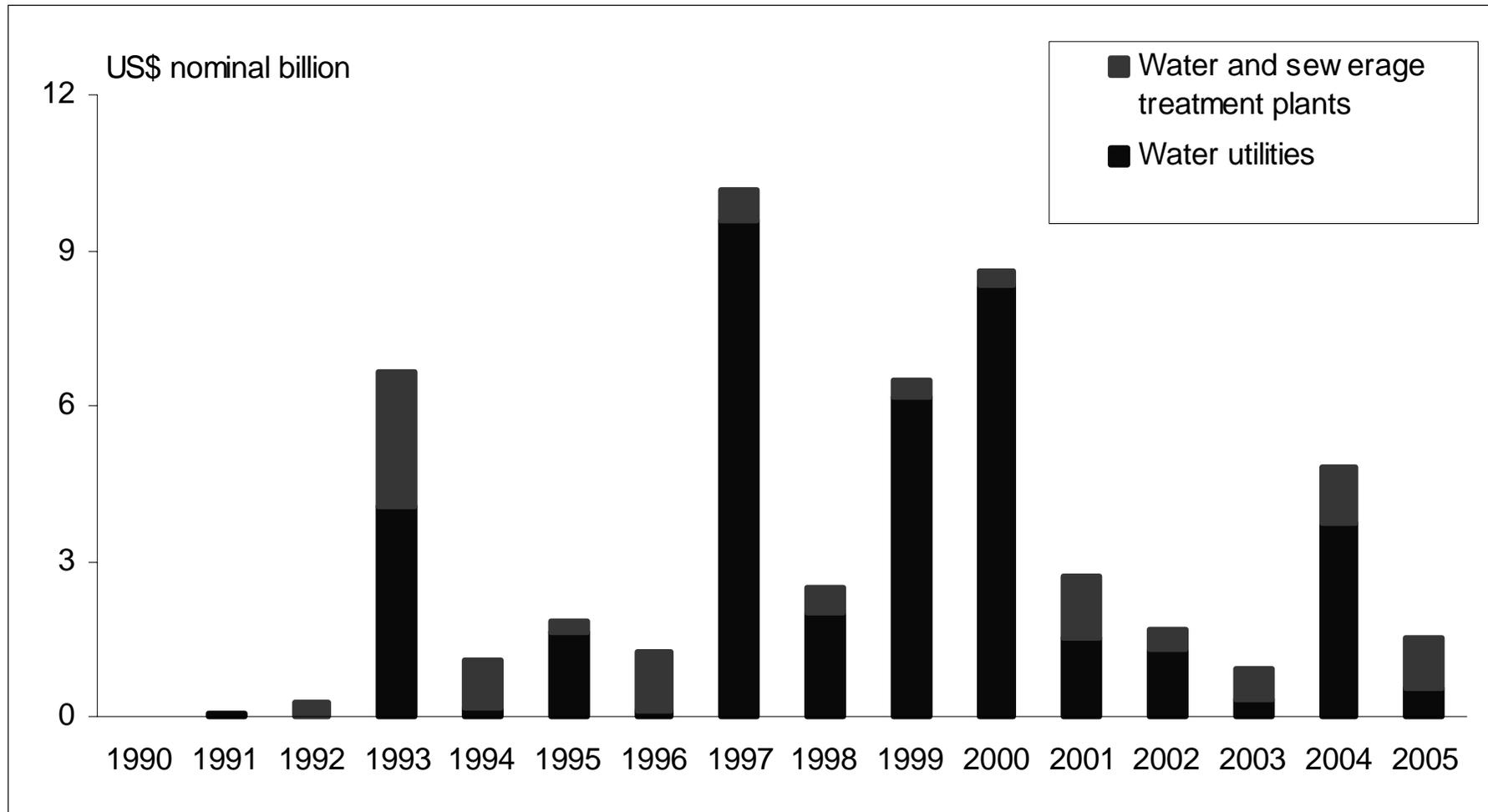


# The last 15 years without China data



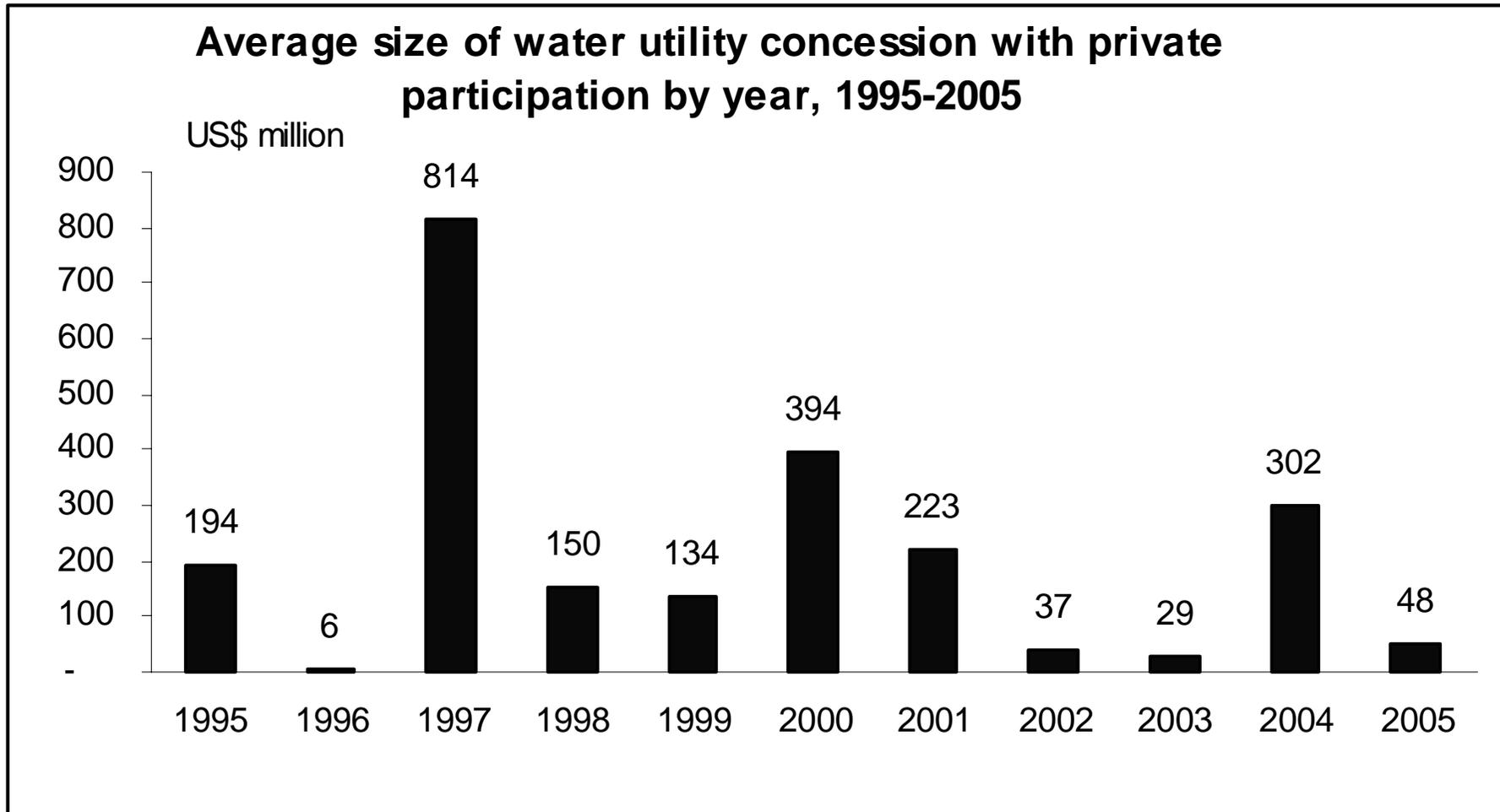


# Bulk facilities BOT now represent a sizeable share of total investments



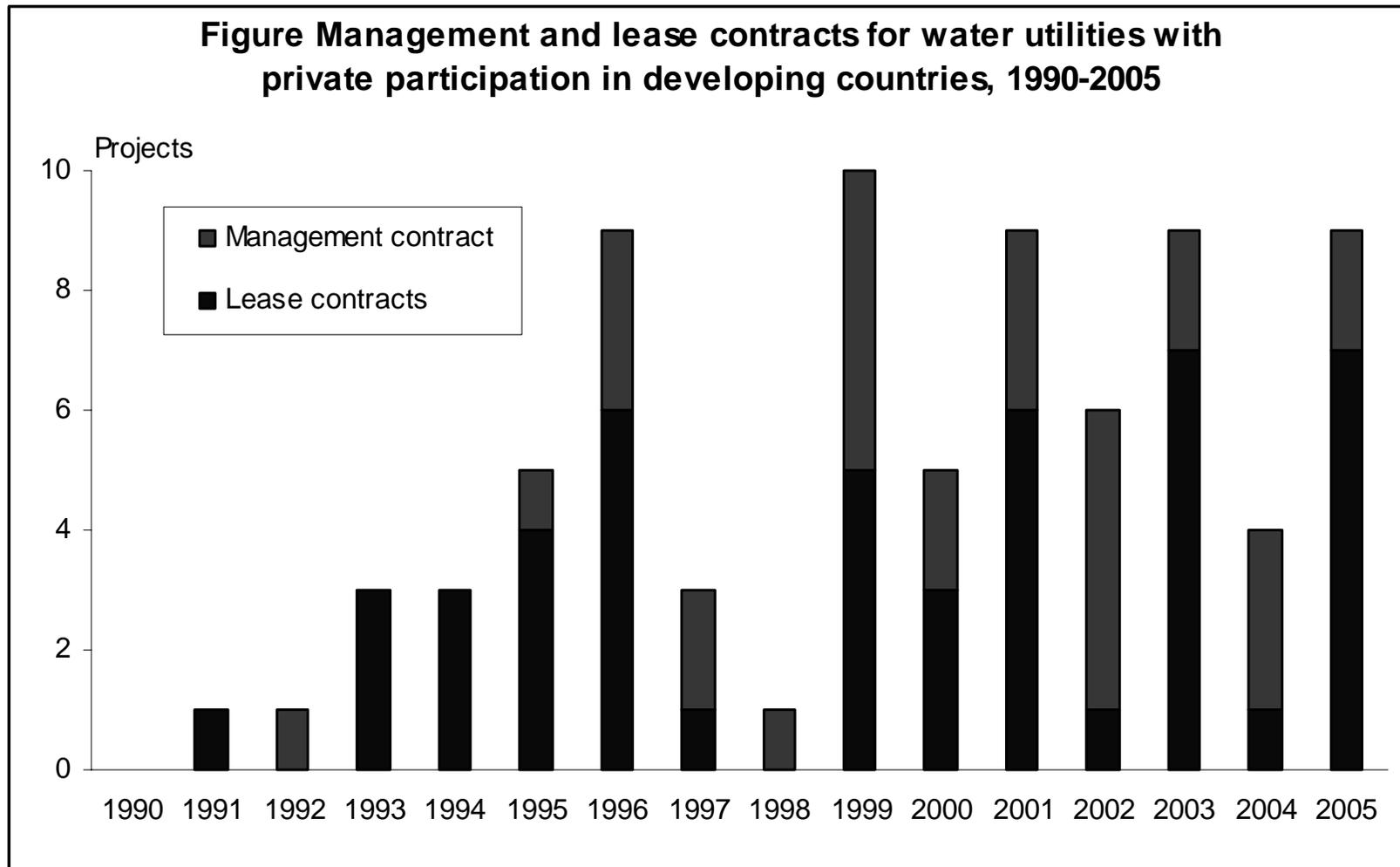


# The time of mega-concessions with international operators seems to have evolved



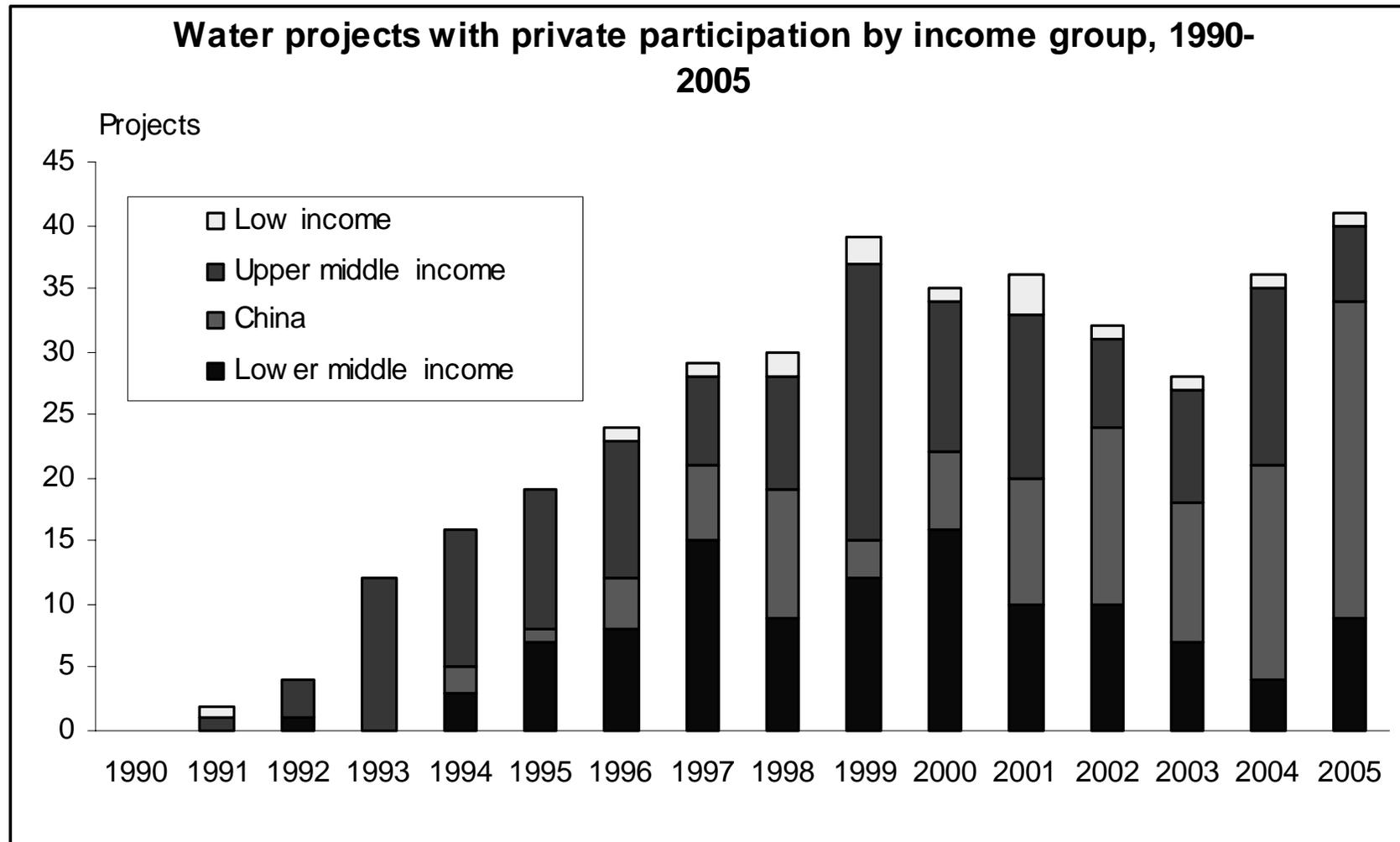


# Leases and Management Contracts are becoming prominent- Short term or long term trend?



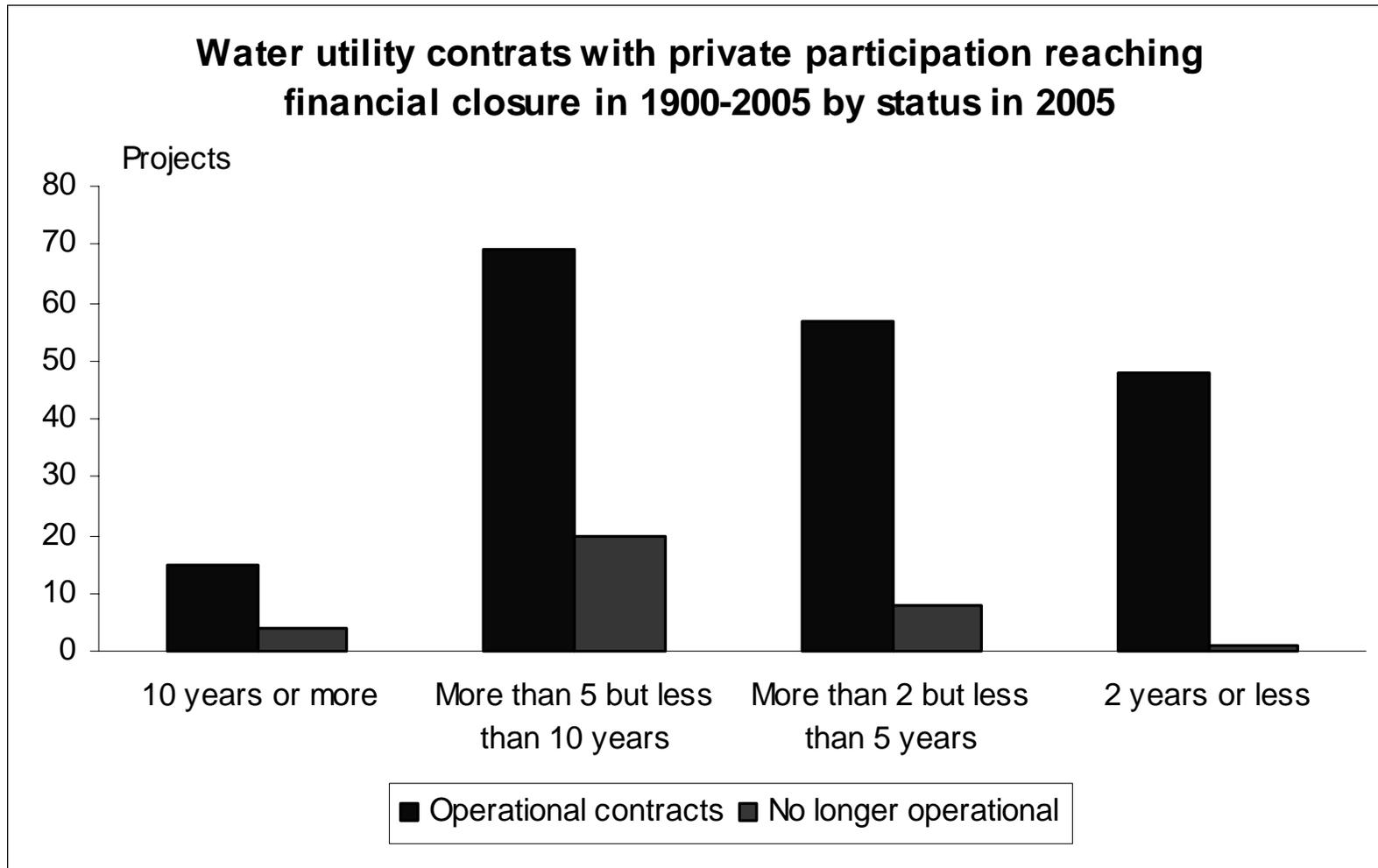


# Water PPPs by country income categories





# Projects failure: the “real” data





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# Good news: Water PPP does not appear as failed proposition in developing countries!

- ◆ Total number of countries with water PPPs in operation is growing every year:  
49 countries in 2000 → **55 countries in 2005**
- ◆ **16 countries** have introduced for the first time PSP in water since 2000, including Russia
- ◆ While **10 countries** which had water PPPs have reverted to public management only...



## **In which countries have PPPs been abandoned?**

- ◆ Uruguay: passed a new law forbidding private participation in water...
- ◆ Belize and West Bank & Gaza
- ◆ Uganda
- ◆ Central African Republic, Chad, Comoros, Guinea, Mali, Tanzania



## **Private investment is viable, although not everywhere and not for any projects...**

- ◆ Still taking place in countries with access to medium/long term financing in local currency
- ◆ Bulk facilities BOT: a solid business line
  - ~ Between US\$1 to 2 billions per year
- ◆ Growing presence of local investors, which are becoming national/regional operators



# **A new generation of water PPPs: Public and/or new forms of financing**

- ◆ Dominance of public financing in many countries (IDA):
  - ~ management contracts and lease/affermage
  - ~ Explore innovative risk/reward structures
- ◆ Can subnational lending become a new driver for water PPPs?
- ◆ Leverage on non-traditional financing sources (e.g. pension funds)



## ... which requires a new approach from Donors and Governments

### ◆ Make room for the new entrants:

~ Explore partnerships

~ Revisit what is minimum requirement for operators

**Session 2**

### ◆ Wider choice of “private sector” for various needs:

~ National/regional companies

~ Small/informal local operators

**Session 3**

### ◆ What are the policy implications?

**Session 4**



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**...Yes for a new approach from Donors and Governments  
..... But we should build on Key lessons learned (20 years):**

- ‡ Depoliticizing tariffs. Affordability, willingness to pay and cost recovery.
- ‡ Smart risk allocation between private investors, government and end-users.
- ‡ Public money support to PPPs. Managing the contingent liabilities.
- ‡ Building adequate institutional capacities. The “time” trap. Decentralization of service provision
- ‡ Governance and Corruption.



## Key Lessons Learned: (1) De-politicizing end-user charges

- ◆ Provision of WSS services are funded by tax payers and end-users

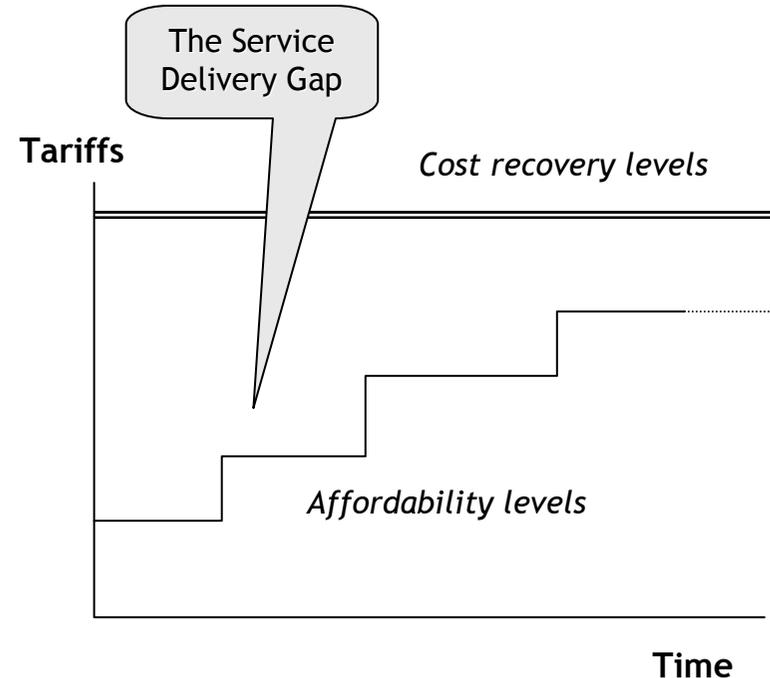
### *Tax payers*

- Funded via ordinary revenues (tax payers)
- Funded via earmarked taxes (selected group of tax payers)
- Funded via public debt financing (future tax payers)

### *End-users*

- End-user tariffs

- ◆ PPP are funded by a combination of tax payers and end-users
- ◆ Successful PPPs are able to maintain a full cost recovery cash flow stream through time via a combination of end-user tariffs and subsidies.
- ◆ Balance Growth (efficient investments) with Access (reaching the poor) for better results.



1. Limited affordability
2. Externalities of quality service provision
3. Limited full cost recovery
4. Room for "smart" subsidies



## Key Lessons Learned: (2) Smart Risk Allocation

- The most important “P” for successful PPPs is the last one ..... **Partnership**
- The key is to efficiently share risks, liabilities and profits between government, PPP entity and end-users.
- **Principle : Risk should be allocated to those best able to manage them**
- Allocating PPP Risk Guidelines:
  - Allocate to the **party best able to influence the risk** factor (e.g., constructions cost to private sector – completion risk).
  - Allocate to the **party that can best anticipate or respond** to the risk factor --influence impact or sensitivity of risk factor on project value (e.g., shifting inflation risk to users of the facility linking tariffs to CPI)
  - Allocate to the **party best able to absorb** the risk (e.g., tariff setting to public sector)
- Understanding how much risks can the private party and end-user absorb is the best proxy for defining how much public money support (i.e., subsidies and guarantees) is required in that particular PPP project.



## Key Lessons Learned: (3) Managing Contingent Liabilities

### Types of Fiscal Obligations created by PPPs:

#### 1. PPP selling to the government:

- **Unitary (or “capacity” or “availability”) Payments.** Government main fiscal obligation is not contingent to the occurrence of any unlikely event but to the performance of the PPP.
- **Contingent Obligations.** Government assumes a contingent fiscal obligation based on the occurrence of a particular event (risk allocated to the public sector, e.g., termination payment).

#### 2. PPP selling to end-users:

- **Subsidies.** Similar to the unitary payment, Government has an obligation to make a payment to supplement end-users tariffs because the project is socially valuable but privately unprofitable (on the basis of existing tariffs).
- **Guarantees.** In projects where revenues are uncertain, Government could guarantee a minimum revenue level to allow the project to service its debt or could assume debt service payment if tariffs are not increased as defined in the PPP contractual arrangements.

**These type of arrangements creates contingent obligations.**



## Key Lessons Learned: (4) Building Institutional Capacities

- Mobilizing **greater private sector participation** in the provision of public services is challenging and requires solid and well steer government leadership.
  - ~ Experience has demonstrated that the best way to mobilize more private capital into WSS is to provide a **sustainable and credible policy and regulatory framework or set up** governing investments in the provision of services.
  - ~ The provision of **risk mitigation financial products and the deepening of local capital markets** also play a contributing role in the mobilization of private capital (but second to the need for adequate policies and regulation).
- Seldom are this institutional capacities present at the launch of a PPP program, results take longer to mature raising concerns regarding effectiveness of private investment.
- **It is important to be patient and “invest” the time and resources to build such capacities.**



## Key Lessons Learned: (4) Institutional Capacities: Political and fiscal decentralization

*The deepening of “democratization” is pushing political and fiscal decentralization policies across the developing world*

- Fiscal reforms are transferring taxing authority as well as investment responsibilities to local governments.
- Decentralization has permitted constituents to make local public officials and administrations accountable for the lack of WSS public service provision (as well as social and basic services).
- Today, 60% to 70% of the investments decisions in the provision of infrastructure services in developing countries are taken at the sub-national level (by local governments or utilities) <sup>/1</sup>.

<sup>/1</sup> World Bank staff estimates



## Key Lessons Learned: (5) Governance & Corruption

- WSS is particularly vulnerable to corruption
- Recent studies, done by Water and Sanitation Program show that:
  - in South Asia, 41% of customers reported having paid a bribe to utility staff during the last six months to get a falsified consumption reading, while 20% of households with illegal connections admitted that they were paying bribes on a regular basis to utility staff.
  - The excess costs for civil works, due to collusion between contractors, were estimated at 15%,
  - kickbacks for contracts award was in the range of 6 to 11%.
- Corruption needs to be addressed within a PPP Program in an explicit manner.



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# Way Forward: Rebuild and adapt the PPI/PPP

- We need to rebuild and adapt the **PPI/PPP Model** of the 90s on the basis of the lessons and experiences of the recent years and the immediate needs:
  - ✓ **Public sector role** as enabler (policy maker and regulator) and in some cases provider cannot be substitute.
  - ✓ **Private sector** is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development and economic growth.
  - ✓ **End-users** play a significant role in the “political economy” required to sustain a successful PPP Program.
- ◆ The World Bank Group is committed to assist our client countries in the design and development of their PPP programs.
- ◆ We believe that only through effective partnering and increase mobilization of private resources will we be able to make a “dent” in the growth and poverty reduction agenda.
- ◆ PPPs need to be mainstream as an important policy tool to provide public services.
- ◆ IFC and the World Bank stand ready to continue supporting PPPs



## **Way Forward:** **Policy implications: our next challenge**

- What are the links between water PPPs and the subnational financing agenda?
- How can we better leverage our generic work on local financial market development?
- Can the new regional/national players fill the financial gap left by the “traditional” operators?
- What should we do with small/informal private operators?



**Thank you !**