

Chapter 12

Private Sector Participation

For the last 10 years, PSP in water supplies has been a hot topic. There was a little "pull" from governments and a lot of "push" from development agencies and the private sector toward PSP, which was spearheaded by half a dozen French and British companies. This chapter looks at the progress made in Asia against the main reasons for PSP, and it looks at the future of PSP in Asia through several different eyes to get some perspective on the subject. The Malé and Manila case studies in Appendix 2 give a more in-depth look at two examples of PSP.

ADB's water policy notes that private sector initiatives and market-oriented behavior are expected to improve performance and efficiency, particularly in service delivery. ADB will seek to provide innovative financial packages to enable commercial lenders and promoters to manage the risks involved when investing in water and related projects. ADB will also develop modalities for public-private partnerships in managing physical infrastructure.

A. Promises and Realities

The advantages of PSP heralded in the 1990s included bringing greater efficiency to management, bringing investment monies to the table for development, and bringing autonomy of operations through legal contracts. Looking around the developing country scene in Asia, 10 years later, it can be perceived that the governments of these countries initially welcomed the BOT type of PSP, but soon became disillusioned with "take or pay" contracts, unsolicited bids, and the fact that these focused on production facilities when the real problems lay in distribution. Some governments—such as those in India, Pakistan, and Sri Lanka—were not prepared to accept long-term concession contracts dominated by foreign contractors for major city water supplies. Labor unions and activist NGOs have provided resistance to PSP. Disappointment about PSP may have been caused by expectations that were too high and wrong perceptions about what can be achieved in the short term. Unfortunately, the need for higher tariffs (which has little to do with PSP per se) has been used against the PSP process. Moreover, and just as unfortunately, regulation by contract became a noose around the necks of



Service in low-income areas (after the meter)

contractors and governments, as illustrated by the foreign currency exchange risk issue and demands for higher tariffs to compensate for the effects of the Asian financial crisis. **Finally, neither regulation nor domestic PSP were offered as solutions by themselves. These might have been more appropriate steps in the development process.** Only now are we beginning to see independent regulatory bodies being established in Asia (Nepal and Sri Lanka) and attempts at domestic PSP (Bangkok).

Examples of PSP in Asian Water Supplies

- **Bangkok:** Consultants proposed splitting the city into two concessions (like Jakarta and Manila). The Metropolitan Waterworks Authority rejected this and proposed instead that, like Thai Airways, the Government would retain a 51% shareholding and the rest of the stock would be offered to the public through the stock exchange. This will be effected in 2003.
- **Chengdu:** This BOT project, prepared under ADB financing, was designed to produce 400,000 m³ per day on a "take or pay" basis. There were five bidders, and Vivendi with Marubeni was successful. Regulation is by contract. The contractor put in only about 30% of the financing. Meeting the terms of the "take or pay" arrangement is now difficult, because demand was overestimated.

- **Colombo:** The World Bank proposed a concession. The Government turned it down. The real issue was autonomy, as already provided for under legislation but not allowed in practice, because the Government averred that all public enterprises need to be similarly treated. Under ADB loan covenants a regulatory body is being established, and PSP is now being introduced through a BOT contract for water production.
- **Ho Chi Minh City:** Three BOT contracts for bulk supply of treated water were signed in 1995, 1997, and 1999. This is a “take or pay” deal, but there was a mismatch of production and distribution capacity, so the water company had to pay for water that could not be sold. One of the BOT operators is pulling out due to financial difficulties.
- **Jakarta:** Only 30% of the 10 million people in Jakarta are directly served with piped water. Concession contracts that split the city’s water supply were negotiated directly with Suez Lyonnaise des Eaux and Thames Water in 1998. Originally the concessionaires were joined by local partners, but after the change in government the Indonesian partners relinquished their shareholdings. NGOs claim concessionaires are not investing their own money in capital works but are using instead the money collected from consumers. The legality and fairness of the contracts were questioned, which led to renegotiations. Both concessionaires have had to grapple with the consequences of the Asian financial crisis and low tariffs.
- **Karachi:** Leveraged by loans to the public sector, the World Bank (water supply) and ADB (sewerage) tried to introduce private sector concession contracts from 1996 to 1998. Due to major objections from NGOs and consumer groups, these failed to eventuate. Recently, NGOs have suggested that the sewerage component could be implemented for just \$20 million, versus \$100 million under the ADB proposal, by using gravity instead of a pumped design and local consultants, suppliers, and contractors.
- **Kathmandu:** Preparations for a management contract for the Kathmandu Valley Urban Water Supply and Sewerage began in 1996. It was a precondition for ADB support to the \$464 million Melamchi Water Supply Project. The World Bank agreed to provide financial support to the PSP process in 1997. In mid-2002, the World Bank pulled out after two unsuccessful attempts to prequalify contractors ended with only one prequalified each time. ADB staff requested that joint ventures of water utilities from developed countries and international consultants with experience in developing countries be allowed to bid. ADB will now revisit the PSP and regulation processes.
- **Kuala Lumpur:** Syabus, a joint venture between the state government and private firms, has been chosen to produce, distribute, and sell water to consumers. The former Selangor Waterworks Department is expected to take over as regulator. The award to Syabus follows the federal Government’s directive stating that companies that have been given the right to undertake the treatment of raw water must also be involved in water distribution. From mostly BOT projects in the early 1990s, government policy shifted to PSP in the whole system, from source to consumer.
- **Macau:** The city has about 500,000 people and 170,000 water supply connections. Although it was originally under the private sector around 100 years ago, the Macau Water Supply is regarded as one of the best examples of a water supply run by the private sector. The concessionaire is 85% owned by Sino-French Holdings Ltd., which comprises Lyonnaise des Eaux (50%) and New World Group (50%). Rapid development of the service in the late 1980s was seen as a major catalyst in spurring economic growth. Major achievements include reducing NRW from 48% to 11%, introducing European water quality standards, increasing connections from 55,500 in 1985 to 170,600 in 2000, and increasing production from 85,000 m³ per day to 265,000 m³ per day. The average tariff is now around \$0.60/m³. Recently, there have been some problems with the raw water source and upstream pollution in the PRC.
- **Manila:** Metro Manila has about 12 million people and service coverage with piped water is nominally about 60%. The PSP process was started in November 1995, and the two concession agreements were signed in February 1997. This was in and of itself a remarkable achievement for the largest ever water supply “privatization” in the world, and it was due to two factors—strong political will (of President Ramos) and managing the process of change (with about \$8 million in support from International Finance Corporation). The concessions were bid on a low tariff and awarded to Benpres Holdings Corporation and Lyonnaise des Eaux for the west at 4.97 pesos/m³ and to Ayala, Bechtel, and North West for the east at 2.32 pesos/m³. The winning bids can be compared with the then Metropolitan Waterworks and Sewerage System average tariff of 8.78 pesos/m³. Performance to date is mixed. The

east concession seems to have reduced NRW from about 65% to 57%. The west concession has not reduced NRW (now around 68%). By the end of 2001, only about 75,000 connections had been added. On 10 December 2002, the west concession sought to withdraw—citing failure to agree on new tariff rates and a moratorium (5 years) on the payment of the concession fee as factors in its decision to pull out.

Box 12.1 shows that PSP is of concern to many people all over the world. A major review of PSP in water supplies of developing countries is long overdue. While the results may not augur well for the policy, this study needs to be carried out, and preferably by an independent body of professional repute. Areas of evaluation could include NRW reduction, investment magnitude, staff training, asset mapping, metering, computerization, performance analysis, service to the urban poor, reselling water, and tariff constraints on investment. Box 12.2 summarizes some problems of PSP in the water sector.

Box 12.1 Private Sector Participation in Islamic Countries

Most Muslim scholars agree that a just price for water is that determined by the market, providing the market is free from unfair practices, such as collusion. Even if full privatization of the water sector is allowable in Islam, that does not mean it is desirable. Instead, as is generally the consensus in the rest of the world, where the private sector participates in providing water services, public-private partnerships are recommended where the government retains its “ownership” of water for the community and allows the private sector to deliver (withdraw, treat, and distribute) water and sewerage services but regulates the sector to ensure equitable access and also to ensure that quality standards are maintained. (Faruqui et al, 2001)

Box 12.2 Problems of Private Sector Participation in the Water Sector

- *The headlong rush toward private markets has failed to address some of the most important issues and concerns about water. Water has vital social, cultural, and ecological roles to play that cannot be protected by purely market forces.*
- *There is a need to provide for the basic water requirements of people and ecosystems, permit access to water for poor populations, include affected parties in decision making, and improve water use efficiency and productivity.*
- *Openness, transparency, and strong public regulatory oversight are fundamental requirements in any efforts to shift the public responsibility for providing clean water to private entities.*
- *The World Bank, other international aid agencies, and some water organizations like the World Water Council are increasingly pushing privatization in their efforts, but without a common set of guidelines and principles.*
- *The rapid pace of privatization in recent years and the inappropriate ways several projects have been implemented have compounded the worries of local communities, NGOs, and policy makers. As a result, private water companies are increasingly seeing serious and sustained public opposition to privatization proposals.*
- *Improvements in efficiency reduce water sales and hence may lower revenue. As a result, utilities or companies that provide utility services may have little or no incentive to encourage conservation.*
- *Efforts should be made to strengthen the ability of governments to meet water needs. Unfortunately the worst risks of privatization are also where governments are weakest. (Gleick et al, 2002)*

B. Investments

While investment monies did flow into the “take or pay” BOTs, they have not flowed as expected into the major concessions. In Manila, 5 years after “privatization,” there are still 5 million urban poor without access to piped water. In Jakarta, 4 years after “privatization,” there are about the same number without access to piped water. Elizabeth Brubaker, in a paper prepared in 1998, noted that *the French system is heavily subsidized. Both public and private operations receive subsidies from many levels of government and from one another. In other words, the privatization of the delivery of services has not led to the privatization of the financing of services.* In Jakarta, the leading NGO for consumers has become a watchdog monitoring the implementation of private contractor investment programs. Even where concessions are in place or planned, funding by development banks continues. When international private contractors do invest, they often seek funding from private sector windows of development banks. So, it must be concluded that PSP has not proved to be a panacea for the shortage of development funding in the water supply sector. Part of the reason for this lies with low tariffs that do not encourage operators to invest. Table 12.1 shows utility performance in Jakarta and Manila in 2001. The high NRW, low service coverage, and low capital expenditure levels should be noted.

In Malaysia, by 1996, 57 water treatment plants with a total capacity of 3.8 million m³ per day had been placed in the hands of the private sector. Consumers now enjoy better service in terms of both reliability and quality of water without any substantial increase in tariffs. Nevertheless, the major problem in Malaysia's water sector, the high level of NRW, has not been addressed.

C. Efficiencies

NRW has not been greatly reduced under private sector management. In Jakarta, some consumers think that there is just as much corruption in illegal connections and meter reading as there was under the public water utility. According to some residents, these practices are so common among employees that only firing all staff and hiring new staff would likely resolve the issue. The two concessions in Jakarta have NRW of 48% and 53%. The two concessions in Manila have NRW of 66% and 57%, based on 2001 data. None of these figures are in any way respectable.

D. Competition

International competition for private sector contracts in water supplies has been severely restricted. Early attempts to increase private sector competition for the Kathmandu Valley Urban Water Supplies management and lease contract were resisted. BOTs were also in the early days fraught with much unsolicited bidding and direct negotiation.

Inexperienced organizations with no knowledge of the water industry may begin to make an appearance. These organizations may focus on short-term financial gains instead of on finding long-term solutions to the management and technical challenges resulting from the need to provide quality water and wastewater services to consumers. (Lyonnaise des Eaux, 1998)

Table 12.1 Utility Performance—PSP Concessions (2001)

Contract	Piped Water Coverage (%) ^a	Supply Continuity (%)	NRW (%)	Staff per 1,000 Connections	Ratio of Revenue to O&M Cost	Annual Capex ^b (\$ millions)
Jakarta West	41	92	48	5.2	1.3	6.7
Jakarta East	51	92	53	5.5	1.2	7.6
Manila West	37	88	66	4.3	0.9	0.1
Manila East	34	88	57	4.5	1.1	16.8

^a Based on household connections (five persons per connection).

^b Capital expenditure.

E. Tariffs

It cannot be presumed that there will be any success with PSP in water supplies of developing countries until the problem of low tariffs is addressed. This can only be accomplished through government policies that encourage tariffs covering investments, not just O&M plus depreciation or debt servicing. Then independent regulatory bodies need to be in place and tasked with ensuring that utilities, on the one hand, and governments, on the other, adhere to these policies. Given that the consumer must pay for investments sooner or later, and given that private sector financing is generally the most expensive, it is quite possible that tariffs in the future can fund all water supply investments in cities with more than a million people.

F. Regulation and Contracts

One problem facing water utilities and governments of developing countries, in regard to PSP in water supplies, is the uneven playing field. The knowledge of contractors (one party to the contracts) is far greater than the knowledge of governments (the other party to the contracts). This knowledge disparity is exacerbated by the potential for corruption in making the "deal." Some senior level civil servants and elected officials may have a short shelf life and a tendency to "take and run," leaving other civil servants and another administration to wrestle with the consequences of skewed negotiations. Transparency has also not been evident in deals. It is not normally possible for the public to review contracts signed between concessionaires and governments. Indeed, many legal contracts are so replete with confusing language that very few people can understand what has been written. The draft lease contract for the Kathmandu Valley Urban Water Supply was such an example.

G. Serving the Poor

The summary of problems and solutions in serving the urban poor by Lyonnaise de Eaux (see Box 6.1) illustrates that there are indeed many problems to be overcome, but that there is some reluctance on the part of the private sector to take much financial responsibility for the solutions. Perhaps this is because contracts were not based on policies to serve the urban poor. In Manila, one concessionaire has responded to serving the urban poor by selling water in bulk to a third party who connects the poor to a 24-hour supply of piped water. Unfortunately, the monthly cost to the consumer is four times the normal rate, and the volume consumed is one quarter of the normal consumption. Likewise, one

connection is offered to multiple households, so these users are forced to pay a penalty for high consumption.

H. Risks

A major banker notes that the main risks that banks want to see addressed pertain to construction, revenue, operations, politics, and finance. Significant currency risk arises because customers pay in domestic currency, which does not match the currency of international debt and equity financing. It has also been observed that fewer projects have been successfully financed with private capital than in other infrastructure sectors, and projects financed with private capital have tended to involve direct financial or credit support from governments or third parties, such as bilateral, multi-lateral, and export credit agencies. When we consider risks, the guaranteed rate of return on concession contracts gives an impression that the main risk assumed by the contractor is one of cash flow. Likewise, on BOTs, contractors take negligible risks under the take or pay scenario. Risks for investors can also be reduced if PSP is considered for a pool of towns at one time, which allows risk sharing.



Difficulties of management in low-income areas

I. Future of Private Sector Participation

There is no doubt that the jury is still out after 10 years of PSP in the water sector. The following excerpts from different sources, however, may provide some guidance on the future directions of PSP.

1. Developing Best Practices for Promoting Private Sector Investment in Infrastructure and Water Supply (ADB, 2002)

The Reform Unit

Establishing a state-owned enterprise reform unit is an important first step toward water supply reform and the introduction of private sector investment in water supply. The unit should consist of a team of trained individuals with expertise in economics, management and finance, water supply, and negotiation.

Sector Reforms

There is a strong case for introducing wider sector reforms, such as commercialization and corporatization of water supply utilities, particularly if the introduction of PSP in water supply is to be a phased or staged process.

Tariff Reform

Tariff reforms are essential if the scarcity value of water and efficient use of water are to be achieved. If water tariffs fail to reflect the costs, householders, when deciding to use water, do not know the value of water in its alternative uses. The same is true for the irrigation farmer and the industrialist. Major river diversions for irrigation needs or hydro schemes will only make sense if nearly all potential water uses are factored into calculations. In some cases, closure of irrigation schemes and generous compensation of farmers may be attractive. This is because the new water released may permit industrial and residential expansion and the export of goods and services far more valuable than some grain foregone. As in other markets, appropriately set tariffs will operate as signals for efficient water consumption, production, and investment in water supply. Tariff reforms should be a precursor to PSP in the water supply sector. Without tariff reform, water supply investments will not be financially viable from the private sector lender's and investor's point of view. If private sector investment goes ahead without tariff reform,

DMC governments will need to fund the difference between the lower water tariff paid by consumers and the higher payment made by DMC governments to the private sector. This situation is unlikely to be sustainable in the long term.

Risk Mitigation and Management

In general, risks should be allocated to the party that can minimize and manage risks most effectively. Where no party has a clear comparative advantage in managing risks, they should be shared. Careful identification, analysis, and ranking of risks by an expert team before competitive tendering is a key to best practice in risk mitigation and management. The reform unit, if necessary, in consultation with independent experts, can undertake this process. Ideally, the information gained should be published as part of the tender process.

2. Lessons Learned from the Study of Privatization of Water Supplies in 10 Asian Cities (McIntosh and Yniguez, 2000)

- A regulatory body must be in place prior to signing contracts.
- Governments and water utilities should obtain expert advice.
- The appropriate PSP option should be selected.
- Good relations between governments and private operators are needed.
- Transparency, public awareness, and public relations are beneficial.
- An integrated approach (bundling from source to consumer) is best.
- Employee rights need to be protected, and staff transfer needs to be planned.
- Good and reliable water sources are needed for long-term viability.
- Appropriate tariff structures and tariff-setting mechanisms should be agreed upon.
- Fair and open competition is better than negotiated contracts.
- There is no blueprint for "privatization." Its elements and processes should be adapted to the culture, political structure, and legal and regulatory framework of a given city.

3. The Dutch Model (Blokland et al, 1999)

In many countries water supply is a public service controlled by the Government. There is a lot to be said for this, even if it is only that good water supply and sanitation is in the public interest. The other side of the coin however is that government operated utilities are not always a shining example of efficiency. In recent years, privatization of the water supply sector has therefore been the favoured option. Market forces must ensure that supply and demand are efficiently matched. Private business however has tended to focus on areas where demand is backed up by purchasing power. That means that there are still sections of the population who do not have access to affordable, good quality water.

There is an alternative however. The Netherlands can draw on almost 100 years of experience of working with an alternative mode of organization that is a cross between a public owned utility and a private company: the Public Water PLC (a government owned public limited company). Public Water PLCs are incorporated as private companies and are also subject to the rules and regulations governing commercial business. The majority of their shares however are owned by local or national government. These Public Water PLCs are relatively common in the water supply business. They can be found in Europe as well as in North America, Asia and Africa. In actual fact, the Public Water PLC combines the best of both worlds: public ownership with operation according to commercial business principles. As a public limited company it is required to provide optimum water supply services for everyone in its service area. The fact that it operates on a commercial basis means that the cost of services provided has to be recovered from the users. Another advantage, the importance of which can scarcely be underestimated, is the financial transparency of a Public Water PLC, which is required to open its accounts to public scrutiny. *As a public limited company it cannot conceal data in the annual figures of the holding company.*

Depending on the local situation, various success factors have a part to play:

- One important factor is the political will to make the public water supply system a success. This is no easy task, as politicians and administrators—paradoxically enough—have to relinquish a degree of influence to make this happen.
- The shares and the seats on the board of directors must be divided carefully among the various local authorities to prevent one local authority gaining the upper hand.
- Encouraging local share ownership is important as it ensures that the customers can influence policy. Local involvement is increased by appointing representatives of local authorities or consumers.
- It is advisable to consider private minority shareholding in the PLC. The introduction of private shareholding is likely to increase pressure on the management to improve efficiency. It also means that the water utility can benefit from the private shareholders' knowledge of the market.
- It is vital that the board of directors possesses sufficient utility-specific expertise in the fields of engineering, finance, environmental protection and human resources. This prevents a knowledge imbalance between the managing director and the board.
- Company law must ensure that Public Water PLCs are accountable for their actions, just like other businesses. This transparency is essential to prevent abuse of power and mismanagement.
- It may be advisable to appoint an independent regulator, for instance to reduce political intervention and guard against both technical and financial mismanagement of the water utility.

4. Excerpt from *The New Economy of Water: The Risks and Benefits of Globalization and Privatization of Fresh Water* (Gleick et al, 2002)

Principles and Guidelines (Suggested for PSP)

- **Continue to Manage Water as a Social Good.** (1) Meet basic human needs for water. All residents in a service area should be guaranteed a basic water quantity under any privatization agreement. (2) Meet basic ecosystem needs for water. Natural ecosystems should be guaranteed a basic water requirement under any privatization agreement. (3) The basic water requirement for users should be provided at subsidized rates where necessary for reasons of poverty.
- **Use Sound Economics in Water Management.** (1) Water and water services should be provided at fair and reasonable rates. (2) Wherever possible link proposed rate increases with agreed upon improvements in service. (3) Subsidies, if necessary, should be economically and socially sound. (4) Private companies should be required

to demonstrate that new water supply projects are less expensive than projects to improve water conservation and water use efficiency, before they are permitted to invest and raise water rates to repay investment.

- **Maintain Strong Government Regulation and Oversight.** (1) Governments should retain or establish public ownership or control of water sources. (2) Contracts that lay out the responsibilities of each partner are a prerequisite for the success of any privatization. (3) Clear dispute resolution procedures should be developed prior to privatization. (4) Independent technical assistance and contract review should be standard. (5) Negotiations over privatization contracts should be open, transparent, and include all affected stakeholders.

5. The Private Sector in Water—Competition and Regulation (World Bank, 1999)

Private Participation in the Water and Sewerage Sector—Recent Trends

- There is potential for gains from private sector involvement through greater efficiency and improved access to finance for new investments.
- *There has been considerable political resistance to raising tariffs to cost-recovery levels, increasing the risk of long-term investment in water and sewerage assets.*
- By the end of 1997, private companies operating in developing countries had reached financial closure on \$25 billion of investment in water and sewerage projects. There were 97 projects in 35 countries, including management contracts, leases, concessions, divestitures, and build-operate-own and BOT projects. Just a few international companies were sponsoring and operating most projects. About 33% of the investments were in East Asia and the Pacific and 48% in Latin America and the Caribbean. None were in South Asia; 41 of 97 projects were awarded to just two firms (Lyonnaise des Eaux and Vivendi).
- Water and sewerage contracts increasingly are attracting bids from consortia of multisector utility and construction companies.
- *The water sector has a long history of tariffs below costs and political resistance to raising them. Considerable government commitment is required to raise tariffs to cover costs and to build regulatory arrangements that give private companies*

confidence they can make a fair rate of return on their investments.

Improving Water Services through Competition

- Regulators and consumers may compare utilities to judge their performance.
- The price a firm may charge is set by the costs of other firms in the industry.
- Regulatory benchmarking of companies against one another should be practiced.
- Comparisons of the performance of companies should be publicized by the media.

Regulating Water Companies

- To regulate well, the regulator needs to have an idea of how much it would cost an efficient company to supply high quality water. One way of generating that information is to auction the right to supply water every 20 years or so. Firms state the price at which they would be willing to supply water of a specified quality, and the firm offering the lowest price wins the contract.
- Prices can be adjusted between auctions based on maintaining a given rate of return on capital or on retail price index minus a factor to account for productivity gains and other changes.

Getting the Private Sector Involved in Water—What to do in the Poorest of Countries?

- Take a stepwise approach—begin with a management contract.
- Simplify contracts with clear and indisputable performance indicators and a strong monitoring agency.
- Contract out parts of the regulatory function— independent auditors.
- Renegotiate and adjust contracts over time.

Competition in Water and Sanitation and the Role of Small-Scale Service Providers

- There has long been a belief that the water and sanitation sector has a high degree of monopoly. But competition is widespread in the low-income retail market in developing countries. There is no inherent monopoly in such small-scale

activities as reselling water by the bucket. Small-scale service entrepreneurs supply unserved niches of the water and sanitation market. Small enterprises often account for a larger share of the market than do incumbent utilities, and they are well placed to complement and even compete with trunk concessions and public companies in tailoring services to the poor. Thus governments should take account of existing or potential small providers when designing concessions or any long-term rules for the sector.

J. Conclusion

Some comments above could apply equally well to governments running public utilities and private companies running their own utilities. A transparent government policy that adequately addresses tariff issues is the foundation for all water supply development. An independent regulatory body governing water operators is the next step. *Regardless of PSP or a lack thereof, an infusion from the private sector into public utilities is needed in human resources management and financial management.* Much more training is needed in-house, and training programs must be structured and include all staff. In this modern age of information technology, everyone can improve with some training each year. This is not an option, it is a mandatory requirement.

If the international contractor is not going to be a part of the permanent solution, a time-bound program of knowledge transfer to national counterparts must be put in place. This has worked well for the Malé Water and Sewerage Company, where after 5 years there were no longer foreign personnel (apart from Sri Lankans and Indians) on the staff. This, of course, works against long-term international inputs, as it should. All private sector contracts should include the transfer of knowledge from foreign to local staff and be accompanied by the requisite training to achieve these objectives.

The main thrust of new approaches to PSP must come from a policy (not just a contract) that promotes tariffs covering investment and a regulatory environment. Domestic “privatization” must be encouraged much more than it was in the past. Water consumer societies and civil society in general must be watchdogs monitoring the performance of water utilities and the implementation of government policies. The public has a right to know the essence of all private sector contracts and should have access to information, including annual reports of utilities. Comparative benchmarking of performance with other utilities is needed. To level the playing field, much more competition should be encouraged. This includes joint ventures involving consultants with experience in developing countries and utilities from developed countries. More public awareness, public relations, and public involvement programs are needed, as these will ensure the public can learn the facts, instead of myths, about PSP. An exit strategy for any international involvement should be considered as a matter of policy.

Future PSP efforts should look to bundling “source to consumer” facilities, because the “series” system of delivering water is only as good as its weakest parts. If there are parts of that system under public corporation or government department control, the benefits of PSP in other parts will to a large extent be nullified.

The Dutch model of crossing a public-owned utility with a private company, in which mostly local authorities own a water utility that is managed by the private sector, could be replicated. The Malé model of 70% public ownership and 30% private ownership for 20 years also appears to be successful, perhaps because the Government has been strong over the need for tariffs to cover investment costs (see the Malé case study in Appendix 2).

Private Sector Participation (Problems) in a Nutshell

- Promises of finance and efficiency are largely unfulfilled.
- There is a lack of competition and transparency.
- Playing field is uneven.
- Service to the urban poor is a major constraint.
- Social, ecological, and cultural matters are sometimes ignored.
- Tariff reform is needed for the private sector to engage.
- Regulation by contract is not the answer.
- Take or pay is not a good option.
- There is much civil society resistance to PSP.

Private Sector Participation (Solutions) in a Nutshell

- Manage the process of change.
- Domestic PSP is preferred.
- Contracts should be based on policies.
- Consider exit strategies for internationals.
- Tariff reform is a prerequisite.
- Competition and transparency are musts.
- Public-private partnership has promise.
- Principles and guidelines are needed.
- Independent evaluation will help.
- SSWPs should be included.
- Regulatory arrangements must come first.