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Applying the Principles for Private Sector Participation in Infrastructure to the Water and Sanitation Sector

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The 3 dimensions of the PSP project

1 - **Develop guidance** for private sector participation in water and sanitation infrastructure building on the 2007 OECD Principles => Matrix linking 24 Principles, specificities of water and sanitation infrastructure, concrete issues faced by governments and good practices

2 - **Conduct a review of country experiences** => Database of some 30 developing and emerging countries in Africa, Asia and Latin America and 7 dimensions : resources and uses, access, investment needs and tools, pricing policy, institutional framework…

3 - **Engage** with existing initiatives and **discuss** the guidance and country practices at regional level => Regional roundtables (Nov. 2007: Zambia, early 2008: MENA…).
Tentative list of countries

Africa: Burkina, Ghana, Kenya, Mauritania, Mozambique, Senegal, South Africa, Uganda, Tanzania, Zambia

Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Honduras, Mexico, Peru

Asia: Bangladesh, Cambodia, China, India, Indonesia, Malaysia, Nepal, Philippines, Singapore, Thailand + Russia

MENA: Algeria, Egypt, Jordan, Morocco and Tunisia
Information framework

1- **Environment**: demography and business

2- **Basic Water & sanitation data**: resources, uses and access

3- **Performance indicators**

4- **Investment needs**: Public expenditure, investment gap, available financing tools

5- **Pricing policy**: tariffs structure, metering practice, affordability, sustainability

6- **Institutional and policy Framework**

7- **Private Sector Participation**
Scope of the work

- Focus on developing and emerging countries where the needs are tremendous
- Focus on increasing access to drinking water and sanitation, excludes other uses of water such as irrigation, hydroelectricity
- Participation understood broadly, including non-financial forms of participation that involve managing infrastructure services
- Private sector understood broadly: international investors, small-scale operators, private sector whose core activity is not water, financiers
Context and trends

- Water and sanitation is a key sector where much effort is still needed.

- New management issues: resource allocation, quality control, improved maintenance and preservation => promotion of decentralization, local governance, participation and equity, financial viability and environmental sustainability.

- Partnership with the international private sector since the 1990’s has led to highly politicized debates.

- Rapid changes in the terms of involvement of private sector: less risky contracts, emergence of new actors, growing recognition of the small-scale private providers.
Key characteristics for the cooperation between public & private

- Monopolistic sector where competition is difficult to introduce: high fixed costs, long-term irreversible investments, inelastic demand and important asymmetry of information

- Basic need, important externalities on health, gender equality and environment => high political interest

- Local management, but requires integrated water resource management (externalities, full water cycle)

- Numerous stakeholders and segmentation

- Risky sector: contractual risk, foreign-exchange risk, sub-sovereign risk and political interferences

- Pricing has multiple objectives: cost recovery, economic efficiency, environmental sustainability, equity and affordability
Key issues faced by governments and some innovative approaches

- Global vision & local management
- Bridging a segmented sector: consistency across policies, objectives and public agencies (SWAP in Uganda)
- Designing the incentives: price setting, targeting of subsidies (Chile). Allocation of risk, performance targets and monitoring (Senegal)
- Diversity of private actors: building on comparative advantages and engaging the small-scale operators (Mauritania, APWO)
- Strengthening ownership: developing consumer trust (NWASCO), promoting dialogue (Water Dialogues, BPD)
- Uptake of innovative financing tools: OBA, pooled financing (India), municipal bonds (Jo’burg)
Today’s discussion

Session 1 - institutional and regulatory framework
What are the key elements that impact the involvement of private sector? How to build capacity and share objectives? How to design the cooperation?

Session 2 - responsible business conduct
What are the key elements of a responsible business conduct? How to promote dialogue and channel efforts towards same objectives?

Session 3 - financial risk mitigation innovations
What are the main bottlenecks to financing? What are the promising avenues? What will it take and the risks?
Thank You