

Introduction

An evolving environment

Water and sanitation is a key sector where much effort is needed: with over a billion people without access to drinking water and 2.6 billion lacking basic sanitation, developing the relevant infrastructure constitutes a major challenge. Financing the achievement of the Millennium Development Goal (MDG) targets for water and sanitation in developing countries (i.e. halving the proportion of people without access to drinking water and sanitation by 2015) would require investments of some USD 72 billion per year (18 billion for coverage extension and 54 billion for maintenance).¹ OECD countries also face significant financial challenges to replace ageing water infrastructure and comply with ever-stringent water regulations: France and the UK for instance need to increase spending on water by 20% and Japan and Korea by over 40% to 2030 to maintain current services.² To meet these tremendous needs and expand their infrastructure in a context of tight budgetary constraints, but also in an attempt to improve the efficiency of – often deficient – water systems, many developing and emerging countries have sought the involvement of the private sector.

However, a number of experiences involving the private sector since the 1990s have fallen short of expectations for all parties involved and led in some cases to highly politicised debates and international arbitration. In particular, the expected surge in the flows of private investment did not materialise. The causes were often a poor understanding of the opportunities and risks involved by private sector participation in a complex sector, as well as inadequate framework conditions. This contributed to catalysing public attention on the role for private sector participation in developing and managing water systems, as well as more generally on the conditions under which water services can be provided safely, affordably and sustainably. It also led to rapid changes in the forms of private sector involvement, towards less risky contracts (service, management contracts and greenfield projects), the emergence of new actors (local and regional), and a growing recognition of alternative small-scale and very often informal private providers.

Past difficulties have contributed to revealing the complexities of the water sector:

- i) High fixed costs coupled with long-term irreversible investments and relatively inelastic demand tend to make it a monopolistic sector in which competition is difficult to introduce and regulation plays a central role.
- ii) Water is a basic need. Water quality and access have important externalities affecting health, gender equality and the environment. These justify a public policy interest.
- iii) The responsibility for water and sanitation service provision often rests with local authorities. Nevertheless, the importance of the externalities, of taking into

- account the full water cycle and of optimising economies of scale requires an integrated approach to development and management of water infrastructure and service provision.
- iv) The sector involves numerous stakeholders and suffers from segmentation of responsibilities – notably across government tiers and public agencies.
 - v) Investors in the water and sanitation sector are faced with commercial risk, contractual risk, foreign-exchange risk, sub-sovereign risk, arbitrary political interferences, and complex pricing policies with multiple objectives, such as cost recovery, economic efficiency, environmental objectives, equity and affordability.
 - vi) Long-term relationships, limited competition and irreversibility of infrastructure and technology may expose the sector to risks, particularly of capture by vested interests.

Focusing solely on the private *vs.* public dimension of operators might be misleading for two main reasons. First, the obstacles to water and sanitation infrastructure development are largely unrelated to ownership. To some extent, private sector participation brings to light the tensions that the development of water infrastructure generates, tensions that usually remain hidden when infrastructure is kept in the public sector. In that sense, most recommendations to optimise private sector participation, including the *OECD Principles*, remain relevant tools for facilitating infrastructure development projects regardless of the partners.

Secondly, the “private sector” accommodates a large variety of actors. These include, not only the large networked utilities run by international corporations, but also local and small-scale actors and a continuum of partnerships between private operators, public actors and communities. Most systems are increasingly hybrid and rarely either purely public or purely private. The partnerships are also in effect multi-stakeholder arrangements as they involve, in addition to the “private” entity, different tiers of governments, the consumers and the communities. Consequently, they can hardly be reduced to a face-to-face relationship between a homogenous public entity and a single private actor, but can rather be seen in practice as tripartite partnerships.

Why a Checklist for Public Action?

What is the Checklist for Public Action?

The *Checklist for Public Action* builds on the *OECD Principles for Private Sector Participation in Infrastructure*.³ “The *OECD Principles* are intended as guidance to public authorities contemplating the involvement of private enterprises as one, among several, options to improve the provision of infrastructure services. They shall not be construed as advocating the privatisation or private management of publicly owned infrastructure.” As highlighted by the first principle, the mode of infrastructure service provision can only be chosen locally and through tailor-made models.

The *Checklist for Public Action* defines the main specificities of the water and sanitation sector that bear on the co-operation between the public and the private sector; identifies key policy issues for consideration by governments; and provides a set of available tools and practices, building on recent country experiences. It is intended to help governments and other stakeholders properly assess and manage the implications of private sector participation in the financing, development and management of water and sanitation

infrastructure. It underlines the importance of an appropriate allocation of roles, risks and responsibilities and of establishing the framework conditions necessary to make the best of such co-operation.

The structure of this report is the following:

Chapter 1 describes the scope of the work and defines the key concepts.

Chapter 2 constitutes the core of the *Checklist for Public Action*. It is organised around the 24 OECD *Principles for Private Sector Participation in Infrastructure* in the form of a matrix.

Chapter 3 introduces *Water at a Glance*, the information base developed to support the conceptual work, building on the experience of 30 countries in Africa, Latin America and Asia Pacific.

The document also contains an organised bibliography with relevant references and their web links and, in annexes, the summaries of the regional consultations carried out in support to this work.

Who will find this Checklist for Public Action useful?

The *Checklist for Public Action* is primarily addressed to governments and other tiers of the public sector that are responsible for the provision of drinking water and sanitation services. The *Checklist* may also be of use to other constituencies, such as the private sector, civil society (NGOs, communities, users) and the international donor community, for a better understanding of the issues at stake and as a platform for policy dialogue.

What makes the Checklist different?

The *Checklist for Public Action* does not aim at providing detailed prescriptions or technical advice on implementation of specific aspects of project development, contract formulation or regulation. For this, other tools exist such as the PPIAF *Toolkit on Approaches to Private Participation in Water Services*,⁴ the *Policy Principles and Implementation Guidelines for Public-Private Partnerships for Water Supply and Sanitation* (developed by the Swiss co-operation and implemented by Building Partnerships for Development),⁵ the UNECE technical assistance and guides⁶ and the UNDP *Toolkit for Pro-Poor Municipal PPP*.⁷ These tools are largely complementary to the OECD *Checklist for Public Action* in providing, once the nature and implications of private sector participation fully understood, guidance on the specific steps to design the partnerships.

The *Checklist for Public Action* draws on a wide corpus of material from governments, international organisations, NGOs and academia and builds on the experience of selected countries in Africa, Latin America and Asia, for which information has been collected according to a common framework, as well as on practices from OECD countries.

The diversity of the private actors operating in the water and sanitation sector is recognised throughout this *Checklist for Public Action*. There is no need to adopt a narrow definition of the private sector as the *Checklist* is well adapted for most partnerships. As such, its rationale remains also largely valid for not-for-profit systems (NGOs and community-based organisations), although the motivations may differ.

Notes

1. Hutton & Bartram (2008), *Global Costs of Attaining the MDG for Water Supply and Sanitation*.
2. OECD (2006), *Infrastructure to 2030: Telecom, Land Transport, Water and Electricity*.
3. Complete text available at: www.oecd.org/daf/investment/ppp.
4. <http://rru.worldbank.org/Toolkits/WaterSanitation>.
5. www.partnershipsforwater.net.
6. www.unece.org/ceci/ppp.html.
7. www.margraf-publishers.com/UNDP/PPPUE/.

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