

ADB/OECD Expert Meeting

*For a beneficial private sector participation in the water and sanitation sector, lessons learnt from Asian country experience*

5 March 2008, Manila

# Principles for Private Sector Participation in Water and Sanitation Infrastructure

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# The OECD investment mandate

- 2002: Monterrey Consensus recognised that private investment and FDI are essential for sustainable development.  
2007: OECD investment mandate reinforced by G8 declaration.
- Investment needs are huge and their fruitful undertaking key but benefits do not occur automatically.
- The OECD has tools to facilitate investment and help optimise private sector participation: Policy Framework for Investment (2006), Guidelines for Multinational Enterprises (revised in 2000), Principles for Private Sector Participation in Infrastructure (2007).

# Why do we need “Principles for Private Sector Participation in Infrastructure”?

- Tremendous needs
- A number of private participation in infrastructure projects in the past have failed
  - Often the main cause was not project specific, but short-comings in investment environments, capacities and attitudes
- Advice on how to avoid the mistakes of the past
  - Synthesising a large body of analysis and case examples
  - Offering recommendations of best practices, agreed among a variety of experts and policy communities
- A specific application to water and sanitation

# The 5 areas of the Principles in overview

- Deciding on public or private provision of infrastructure services
  - Informed & calculated choice, project financial sustainability, tailor-made model, preserving fiscal discipline
- Enhancing the enabling institutional environment
  - Enabling environment, corruption, competition, access to financial market
- Goals, strategies and capacities at all levels
  - Consultation, empowerment of authorities, clear and broadly understood objectives & strategies, cross-jurisdiction cooperation

# The 5 areas of the Principles in overview (cont')

- Making the public-private co-operation work
  - Communication, disclosure of information, fair & transparent contract awarding, output-based, regulatory bodies, renegotiations, dispute resolution
- Encouraging responsible business conduct
  - Responsible business conduct, good faith & commitment, corruption, communication, responsibility for social consequences

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# The OECD Water Programme

- The OECD Programme on *Sustainable Financing to Ensure Affordable Access to Water and Sanitation* addresses the economic basis for sustainable water service provision & sound water management.
- It builds on OECD expertise:
  - Economics-based organisation with a multi-disciplinary approach
  - Tools: OECD Principles for Private Sector Participation in Infrastructure, OECD-Danish FEASIBLE tool.
  - Extensive expertise on economics of water (pricing, ODA, assistance in financing strategies...).
- It was launched in early 2007 and will constitute the OECD contribution to the 2009 World Water Forum.

# The Three Pillars

The Programme contributes to the debate by focusing on issues where OECD-specific value added was identified:

1. Identify good practices and share experiences with water pricing and financing of water supply and sanitation infrastructure
2. Support developing country governments to prepare realistic finance strategies for water infrastructure (using FEASIBLE)
3. Develop practical guidance for engaging private investors in the development and management of water infrastructure

# Engaging private sector in water and sanitation infrastructure development

- Guidance for private sector participation in water and sanitation building on the OECD Principles
  - Adapting the principles: matrix linking the 24 Principles with the specificities of water and sanitation infrastructure, concrete issues faced by governments and country good practices
- Review of experiences of some 30 developing and emerging countries
  - Country review: common framework based on 7 dimensions of information for some 30 countries in Africa, Asia and Latin America

# Tentative list of countries

BRICS: Brazil, Russia, India, China, South Africa

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

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

Asia: Bangladesh, Cambodia, Indonesia, Malaysia, Nepal, Philippines, Singapore, Thailand

MENA: Algeria, Egypt, Jordan, Morocco and Tunisia

- Engage with existing initiatives and discuss the guidance and country practices at regional level.
  - 27-28 Nov. 2007: Regional roundtable together with NEPAD in Zambia → discussion of guidance and practices in Africa  
  
Available at: [www.oecd.org/daf/investment/africa](http://www.oecd.org/daf/investment/africa)
  - 5 March 2008: Expert meeting co-organised with the Asian development Bank → discussion of guidance and practices in Asia.
  - Additional discussions in MENA and Latin America.

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# Context and trends

- Water and sanitation is a key sector where much effort is still needed: 1.2bn people w/o drinking water, 2.4bn people w/o sanitation, some \$30bn/yr needed to reach MDGs.
- 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.

# Complexity of sector

- 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, political interferences and complex pricing policy (cost recovery, economic efficiency, environmental sustainability, equity and affordability)

# 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

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# Getting the institutional and policy setting right

- Public sector remains the enabler
  - Build the general consensus on the definition of service provision (level, location, development) desired by society
  - Responsible for overall policy, objectives and institutional setting, incl. consistency across main programmes, cross-border agreements
  - Political will and commitment: corruption, services to the poor
- How to bridge a segmented sector?
  - Consistency across policies, objectives and public agencies (SWAP)
  - Global vision & local management
- Fighting corruption
  - Adopting international Conventions (UN, OECD)
  - Training of staff (PUB in Singapore)
  - Reduce incentives and find alternatives

# Designing the incentives

- Price setting, targeting of subsidies (Chile)
- Allocation of risk, performance targets and monitoring (Senegal)
- Strengthening benchmark competition
  - Manila, Jakarta: coexistence of 2 vertically integrated utilities operating separate networks
  - Publication of performance (Perpamsi, Indonesia)
- Long-term contracts and unforeseen events: what rules for renegotiations? What role for regulation?

# Making the most of diverse private actors

- Building on comparative advantages:
  - Tapping on technology expertise: reducing leakages and reusing water in Singapore and Namibia
  - Local partnerships to strengthen ownership and reduce foreign exchange risk
  - What role in financing?
  - What perspectives for sanitation?
- Engaging the small-scale operators (Mauritania, APWO, MIREP in Cambodia)
- Ensure coordination across diverse contributions – notably from big users - and consistency with environmental and development programmes.

# Strengthening capacities, ownership and accountability

- Building capacities (public/public – public/private – private/private)
  - Development of codes of conduct and staff training (PUB)
  - Training of local capacities (South Africa)
  - Regional platform for utilities (GWOPs)
  - Twining of regulatory bodies, role of regional associations
- Strengthening ownership and accountability
  - Developing consumer trust (NWASCO, Zambia)
  - Promoting dialogue (Water Dialogues, Philippines)
  - Community-driven development programmes (Kecamatan Development Project, Indonesia)
  - Workforce incentive model (Phnom Penn Water Supply Authority)

# The Uptake of Finance

- General issue of sub-sovereign long-term financing in LCU: Guaranteed municipal bonds (Jo'burg, India), Municipal credit rating + Connection of local and international credit rating agencies to lower costs (Mexico), Matching supply and demand for long-term instruments: the potential of pension funds (PAIDF, Southern Africa), Pooled financing (India).
- Instruments to tackle risks faced by PS
  - Foreign exchange risk
  - Political interference (and ring-fencing)
- Access of sub-sovereign entities to financing: long-term planning and project preparation assistance
- Role of donors: OBA (Kenya) and leveraging

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# Objectives and expected outputs

- Develop a better understanding of the key elements for a beneficial partnership.
- Identify concrete issues and practices based on selection of Asian country experiences.
- Contribute to the development of the draft OECD guidance on private sector participation in water and sanitation infrastructure.

# Next Sessions

## **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 – roles and responsibilities**

What are the key responsibilities of the different government agencies? What can be expected from the private actors and how to better align their actions with public authority poverty reduction objectives? How better involve users and communities?

## **Session 3 – developing the uptake of financial tools**

What are the main bottlenecks to financing? What are the promising avenues? What will it take and the risks?

# Thank you

For more information:  
[www.oecd.org/investment](http://www.oecd.org/investment)