

Key Trends in PPPs and Drivers for Change in the Future



Peter H. Gleick
President
Pacific Institute, Oakland, California

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Conclusions

- ◆ New trends are driving changes.
- ◆ Balancing among competing objectives and models is a challenge.
- ◆ There are opportunities for numerous business models and financing mechanisms to succeed. But current success is skewed.
- ◆ Regulation remains a key factor for success.
- ◆ Public education, public involvement, and transparency also remain key to success.



New Trends and Important Drivers

- ◆ **General Issues**
 - New global interest; Millennium Development Goals,...
- ◆ **Public Models**
 - “Re-engineering”
 - Corporatization
- ◆ **Private Models**
 - Public opposition and concern
 - Move towards leases, O&M contracts; Away from concessions.
 - Move toward wastewater; away from water supply.



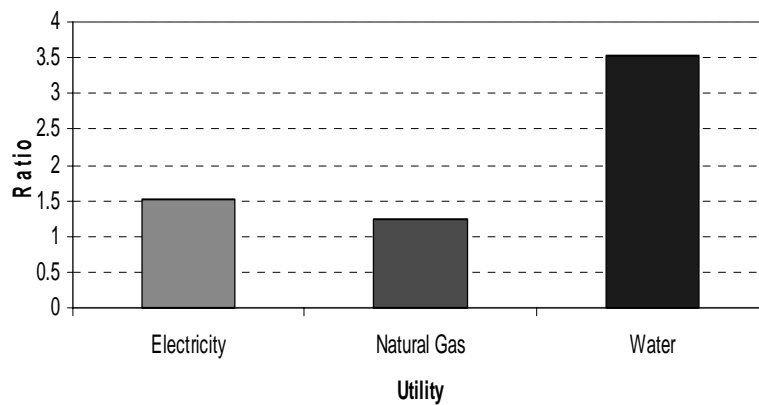
New Trends and Important Drivers

- ◆ **Financing**
 - High capital costs; full-cost pricing;
- ◆ **Demand Management**
 - Potential to reduce capital needs; less cost; faster
- ◆ **Scale**
 - Regionalization; PoU; On-Site
- ◆ **Public Involvement and Equity**
- ◆ **Global Climate Change**
 - Potential to increase costs; reduce reliability;



Financing Issues in the Water Sector: High Capital Intensity

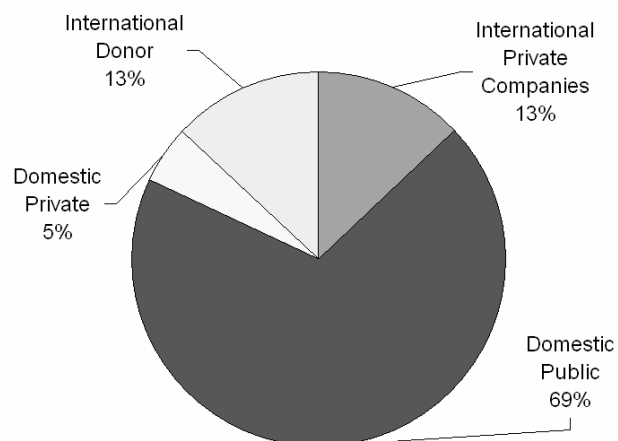
Ratio of Utility Plant to Revenue in Electricity, Gas, and Water



Source: NRC, 2002



Characteristics of the Water Sector: Typically Publicly Owned, Operated, and Financed



Source: Camdessus Report, 2003



Main Business Models: Public/Private

Table 1. Matrix 1: Allocation of Public/Private Responsibilities Across Different Forms of Private Involvement in Water Services

	Setting Performance Standards	Asset Ownership	Capital Investment	Design & Build	Operation	User Fee Collection	Oversight of Performance and Fees
Fully Public Provision	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red	Dark Red
Passive Private Investment	Dark Red	Dark Red	Light Red	Dark Red	Dark Red	Dark Red	Dark Red
Design and Construct Contracts	Dark Red	Dark Red	Dark Red	White	Dark Red	Dark Red	Dark Red
Service Contracts	Dark Red	Dark Red	Dark Red	Dark Red	White	Dark Red	Dark Red
Joint Ventures	Dark Red	Light Red	Light Red	Light Red	Light Red	Light Red	Dark Red
Build, Operate, Transfer	Dark Red	Dark Red	White	White	White	Dark Red	Dark Red
Concession Contracts	Dark Red	Dark Red	White	White	White	White	Dark Red
Passive Public Investment	Dark Red	White	Light Red	White	White	White	Dark Red
Fully Private Provision	Dark Red	White	White	White	White	White	Dark Red

Key: Dark Red: public responsibility - Light red: shared public/private responsibility - White: private responsibility

Source: Yale-UNDP Partnerships Program 1998

Source: OECD, (2000), Global Trends in Urban Water Supply and Waste Water Financing and Management: Changing Roles for the Public and Private Sector, Paris



Financing Innovations

- ◆ National governments are shifting financing to local governments and the private sector.
- ◆ Currency risk forcing more local financing.
- ◆ Municipalities need to be able to incur debt:
 - Revolving loan funds in the U.S.
 - Municipal bonds
 - Guarantees for private investment
- ◆ Micro-financing for local and community projects?



Scale Issues in the Water Sector

- ◆ Typically, centralized systems.
- ◆ New efforts include regional systems; point-of-use and closed-loop systems:



Innovations: On-Site Systems

- ◆ Range of systems from low-energy, low-technology systems to small-scale conventional plants
- ◆ Peri-urban, rural, and greenfield areas
- ◆ Becoming required to sell new homes in water stressed urban areas in many emerging economies
- ◆ Challenges: private ownership, equitable access to water services for all, regulation and monitoring



Public Involvement/Equity and Governance in the Water Sector

- ◆ Water is a public good as well as an economic good.
- ◆ Traditional centralized provision of water services is a classic monopoly; some new options.
- ◆ Public oversight and regulation is required to protect public goods.
- ◆ Hence, governance is key to successful planning and management systems.



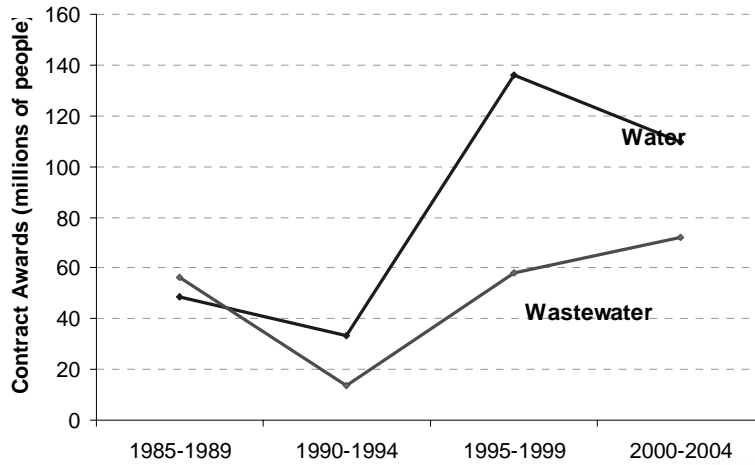
Challenges and Opportunities in the Water Sector

- ◆ Large investments are needed, but estimates vary enormously depending on assumptions.
- ◆ There is growing competition for public resources and a legacy of underinvestment.
- ◆ Environmental concerns are new key issues: climate change, water scarcity, pollution.
- ◆ Public involvement is key, but complicated.
- ◆ New technologies have a role.



Private Model: Trend To Wastewater (just OECD/BRIC)

Water and Wastewater Contracts: 1985-2004

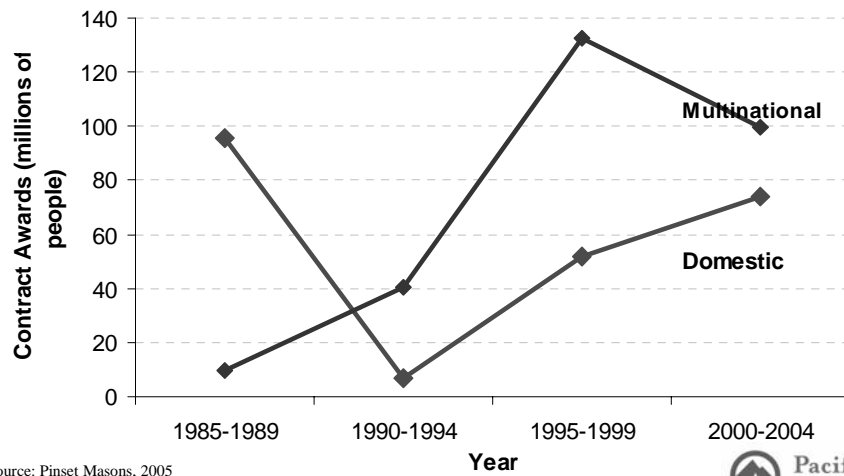


Source: Pinset Masons 2005



Private Model: Trend to Domestic Private Contracts

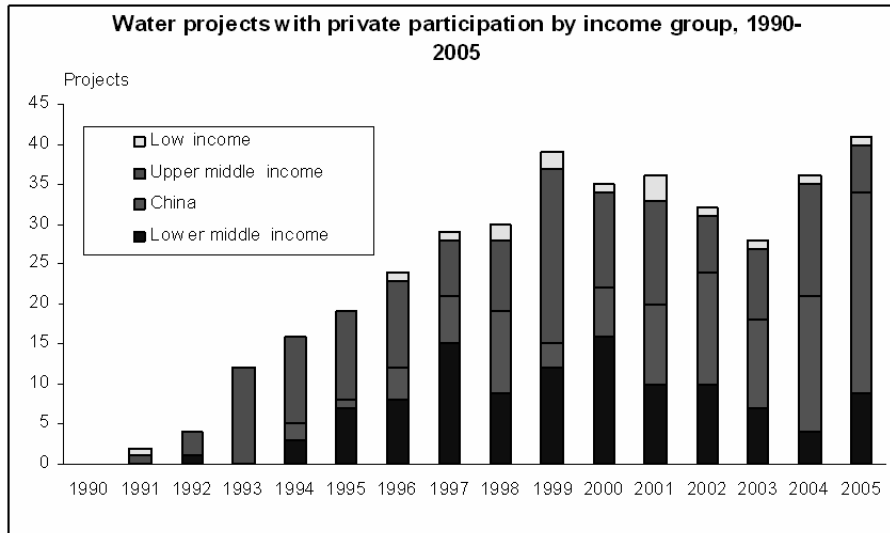
Multinational vs. Domestic Private Contracts. 1985-2004



Source: Pinset Masons, 2005



A Focus on China



Source: World Bank, Saghir, 2006



Conclusions

- ◆ New trends are driving changes.
- ◆ Private financing is not filling the gap; public financing remains critical, but too low.
- ◆ Private sector participation, as a whole, is not a failure. But understanding the successful business models and financing mechanisms is key.
- ◆ Private-sector participation is skewed toward higher end of developing markets.



Conclusions

- ◆ We continue to fail to meet the most basic needs in the poorest countries and regions.
- ◆ Better efforts are required for these unmet needs.
- ◆ Public oversight remains a key factor for success.
- ◆ Public education, public involvement, and transparency also remain key to success.



Peter H. Gleick

Pacific Institute
Oakland, California

www.pacinst.org
www.worldwater.org

