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

Céline Kauffmann
OECD, Investment Division

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

