



NEPAD-OECD AFRICA INVESTMENT INITIATIVE ROUNDTABLE

Private Sector Participation in Water and Sanitation Infrastructure Lusaka, 28th November 2007

Summary of the discussions

Session 1: The private provision of water and sanitation infrastructure services in Africa: where do we stand?

The OECD work presented in this session builds on the OECD *Principles for Private Sector Participation in Infrastructure* launched in 2007 to provide practical guidance to governments and institutions on how to make the most of private sector participation in water and sanitation. It is part of a broader OECD horizontal project on *Sustainable financing to ensure affordable access to water and sanitation* that addresses the economic basis for sustainable water service provision and sound water management.

The OECD water project relies on a review of specific country experiences of international and local private sector participation in the water and sanitation sector. It involves some 30 developing and emerging countries in Africa, Middle East, Asia and Latin America. The main information collected on African countries in terms of state of the resource, access level, performance of service delivery, institutional environment and trends in private sector participation were presented in a stocktaking paper.

The stocktaking exercise underlines the involvement of the private sector in the water and sanitation sector. Many countries have entered into contract with the international private sector in the last 15 years or are planning to in the coming years. Transactions are undertaken under a wide variety of contracts, but with a trend towards shorter, less risky arrangements involving less investment obligations. In parallel, new actors are emerging, such as local and regional actors, and there is a growing recognition of the small-scale private providers.

The challenges appear daunting, with very low access levels and limited operational performance of the sector leading to substantial investment needs. Limited access to drinking water and sanitation is a major human challenge as well as an impediment to business development. To help solve the internal problems of the water and sanitation sector, African countries have engaged in substantial institutional reforms.

Private sector involvement is one of the options that countries have at their disposal to improve the performance of the sector and increase population's access to water and sanitation services. However, countries need to have adequate tools to assess and manage the implications of this involvement properly. The OECD *Principles for Private Sector Participation in Infrastructure* as applied to the water and

sanitation sector provide such a tool by reviewing within a structured framework the specificities of the water and sanitation sector bearing on the cooperation between the public and the private sector; identifying the pertinent issues for governments; and presenting some country good practices and tools to overcome the difficulties.

Session 2: Applying the *Principles* to the water and sanitation sector

The discussion on private sector participation in the water and sanitation sector revolved around investment environment conditions and governance conducive to private sector involvement in a way that benefits all stakeholders. Four key points emerged from the debate:

1- Participants stressed that partnerships are multiple across the different stakeholders, including consumers, communities and NGOs. Hence, a **beneficial relationship between the stakeholders in the water and sanitation sector implies careful allocation and understanding of respective roles and responsibilities**. It also involves an understanding of the nature of the partnership and of the appropriate incentives to ensure that partners remain involved. This constitutes a precondition for sustainable cooperation.

Sound allocation of responsibilities requires the separation of the political role, from the role of administration and of operations of service delivery. Some countries have managed to achieve this separation through their contract; others have established regulatory agencies to help better define respective roles. The right allocation and understanding of the respective roles go beyond the setting of institutions.

Participants agreed that the OECD could help clarify the roles and constraints of the different stakeholders. On that matter, some participants stressed that the roles and responsibilities will probably not be found to differ much between private and public operators. Some grey areas will also probably be found (i.e. who communicates the good and bad news?). Respect of commitments remains the main follow-up responsibility of the different stakeholders. Government should support responsible business conduct: by supporting innovations coming from small-scale operators, for example. All tiers of government should also respect timely payments of bills. Institutions, such as AFUR (African Forum for Utility Regulators), that can help bring clarity to the role of specific stakeholders - the regulators in this case, based on benchmarking and peer reviews.

2- Participants underlined that relationships are not static. Partners face a constantly changing environment, which constitutes a major challenge in terms of their long-term contractual arrangements. **Their relationship is dynamic and should allow for the flexibility of adapting to these changing conditions**. In this type of environment, negotiations are necessary and healthy. The contract should facilitate conflict resolution.

3- All participants agreed that **promoting transparency is a critical element in the relationship between the partners and in tackling corruption**. Transparency involves information sharing that would help restore some symmetry in the relationships and greater consideration of population and community expectations. It also requires consistency and predictability of decision making.

Inclusive dialogue, as promoted by the Water Dialogue for instance, is instrumental to develop ownership and relieve conflicts, but takes time. The private sector must be called upon to make their requirements and constraints clear to improve the design and relevance of contracts. Political leadership is a key element of success. Consumers' involvement has been successfully achieved in Zambia through the Water Watch Group.

Data collection and monitoring require more attention. In this regard, regional sharing of regulatory experiences and benchmarking is particularly useful in the water and sanitation sector.

4- Several participants reminded us that **financial sustainability, coupled with appropriate allocation of risks and costs across the stakeholders**, is a key element of success: in Senegal, a coherent financial model drives price setting. In that specific example, the extension of the network was born by all consumers and urban dwellers agreed to reduced hours of availability.

Session 3: Developing the uptake of financial risk mitigations: what role for donors?

Financing of infrastructure extension remains a key issue. There are notably big challenges in terms of serving the poor. However the participants shared an optimistic assessment. The opportunities exist and some promising avenues lie in Output Based Aid (OBA) schemes, blending financing sources (hybrid schemes bringing together public and private finance) and tapping into domestic sources of funding like social security funds (ex. the recently established Pan-African Infrastructure Fund). Some closing of the gap between small-scale and large scale lending is taking place, but assistance is still needed to overcome the challenge of preparing bankable projects to be able to access finance.