

Engaging the private sector in water infrastructure investment

Worldwide, over a billion people lack access to drinking water and 2.6 billion to basic sanitation. Developing and managing water and sanitation infrastructure constitutes an urgent and major challenge. Just halving the proportion of people without access to drinking water and sanitation by 2015 would require investments of some USD 72 billion per year.

To meet these tremendous needs, many countries seek out the private sector to modernise and expand their water and sanitation infrastructure and/or to improve the efficiency of water systems. To make the most of private sector participation, an effective regulatory framework should be in place and key principles of good partnerships should be followed.

The OECD Checklist for Public Action

Responding to these challenges, the OECD, working with non-OECD countries and stakeholders, has developed a checklist for public action. Building on the OECD Principles for Private Sector Participation in Infrastructure, the checklist provides governments with a coherent set of policy directions that address the allocation of roles, risks and responsibilities, as well as the framework conditions necessary to make the best use of private sector participation in the sector.

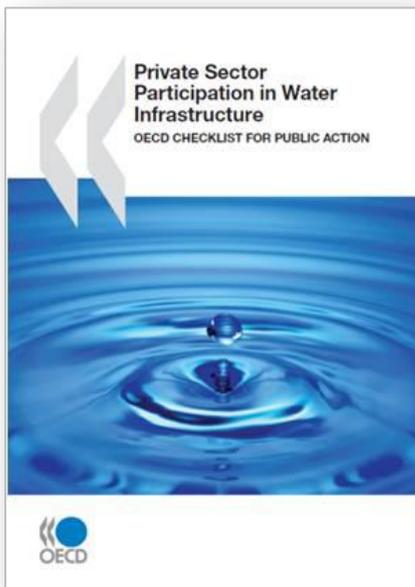
The checklist helps governments and other stakeholders to properly assess and manage the implications of private sector participation in the financing, development and management of water and sanitation infrastructure and underpin appropriate capacity building activities.

Addressing key policy areas

The checklist highlights 24 principles, organised into five key policy areas:

▪ Decide on the nature of private sector participation

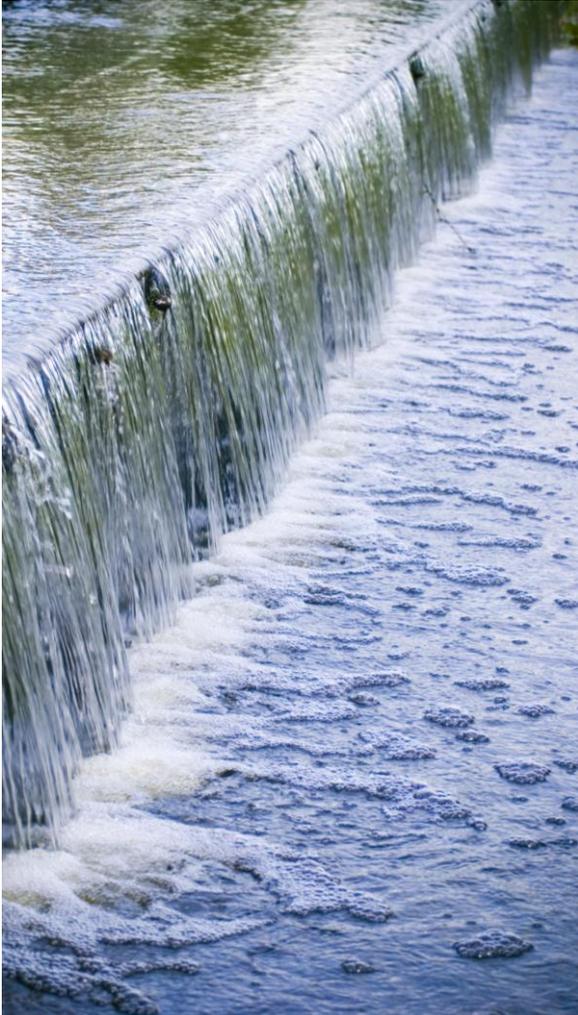
Governments need to clarify the ultimate objectives for service provision and the contributions of the private sector. This means establishing the roles and responsibilities of the private partners and defining the modalities of their involvement. The partnership is thus tailor-made to local specificities, providing incentives for sustainable cooperation in the public interest, which include fiscal discipline and transparency, and brings value for money.





- **Provide a sound institutional and regulatory environment for infrastructure investment**

Private sector participation does not relieve governments of their responsibility to ensure safe and efficient water services and to prevent abuses of monopoly position. This requires developing a conducive framework based on high quality regulation, competition and political commitment which includes fighting corruption.



- **Ensure support for the project and choice of financing**

Beyond the development of a proper legislative and regulatory framework, it is important to ensure the effective implementation of regulations and contractual provisions. This involves a clear allocation of roles across responsible authorities, empowerment of these authorities through clearly defined and communicated objectives and strategies, capacity building and coordination mechanisms.

- **Make co-operation between the public and private sectors work in the public interest**

Mechanisms that improve accountability of the different stakeholders and reduce uncertainty for private actors are important in the context of long term partnerships where the contracts cannot be exhaustive. These include the strengthening of competition in the bidding process and in the contractual phase; allocating risk to the party best able to manage it; using performance-based contracts; inserting clauses and mechanisms to frame the discussions on unforeseen or emerging issues as well as formal dispute resolution mechanisms; and establishing monitoring processes, based on appropriate information, combined with penalties and rewards.

- **Encourage responsible business conduct**

Private actors have an important role to play in ensuring the sustainability of partnerships and that their contributions make a difference, improving the lives of millions of people.

This involves participating in good faith and with commitment, promoting integrity, communicating with consumers, and effectively managing the social and environmental consequences of their actions.

Country experiences

The OECD partners with governments to implement and monitor the policy recommendations in the checklist. To date, assessments have been completed in **Egypt, Lebanon, and Russia**. Assessments in **Mexico** and **Tunisia** are underway.

These assessments all follow a similar structure and comparable preparation processes. They provide an overview of recent developments in private sector participation in the water sector, highlight areas for consideration by governments and suggest ways forward. They build on answers to a questionnaire based on the checklist, publicly available material, extensive interviews with various stakeholders, and national policy dialogues.



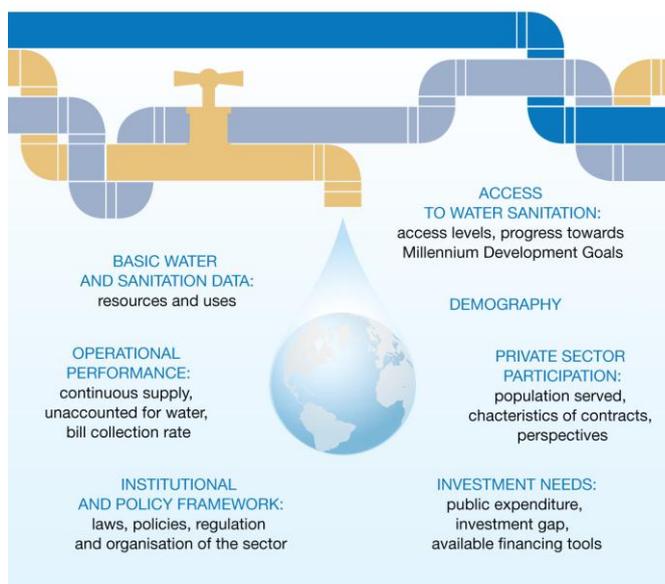
A valuable tool for developing and emerging economies

The checklist has a strong role to play in developing and emerging economies where significant infrastructure gaps can exist, often due to under-development of new infrastructure and lack of maintenance of existing infrastructure.

In Egypt, the government is committed to mobilising private sector financing and expertise for the development of waste water treatment facilities to address raising pollution concerns and a persistent mismatch between water and sanitation coverage. The government estimates the total amount needed at 5.5% to 7% of its yearly GDP, some US\$13 billion, to cover its infrastructure needs, including water.

Private sector participation in water and sanitation: 7 considerations for ensuring sustainable access

To support the checklist, the OECD systematically reviewed 30 countries in Africa, Latin America and Asia/Pacific based on a common framework using 7 considerations of key importance for ensuring private sector participation in the water and sanitation sector. The results were used to build the Water at a Glance Database.



In Russia, a rundown water network is driving the authorities to call on the private sector to bring in the investments and technical and managerial capacities required to improve efficiency and quality of water service provision. An estimated US\$459 billion needs to be found to finance the necessary upgrades, refurbishment and new construction in this sector by 2020.

Facilitating the dialogue

Demand to use the checklist comes from countries with diverse needs and different, but usually early, stages of private sector participation. The checklist allows governments to share tools and access good practices used elsewhere. It is viewed as a flexible and neutral tool which provides a framework able to bring together stakeholders and support policy dialogue on a difficult topic.

In Lebanon, where such experience is very limited, interest was prompted by a desire to better understand the benefits and risks in involving the private sector. The assessment provided a unique opportunity to start a

dialogue between private banks and the government on investor needs and risk perception.

In Egypt, the first major Built-Operate-Transfer (BOT) deal in the wastewater sector was signed in 2009 for a treatment plant in New Cairo. This deal was seen as a pilot project to show the capacity of the Egyptian government to accommodate this new form of infrastructure financing. The assessment allowed a discussion on critical conditions for a sustainable scaling up of PPP projects in the country.

In Russia, active penetration of private business into Russia's water sector dates back to 2003 but has stalled in response to diverse factors, including recent developments in the legislative framework. Interest in the Checklist was prompted by the need to review and resolve the bottlenecks to beneficial private sector involvement.



A strong focus on framework conditions

The checklist's focus on framework conditions is of particular relevance in today's difficult financial environment. Inadequate framework conditions constitute a risk that the private sector will factor in by attributing a cost. It requires that countries pay increased attention to institutional conditions for private sector participation. The development of a high-quality institutional framework is constrained by the lack of capacity and of coordination mechanisms at sub-national level. The checklist is in demand in countries where the legislative framework is under development and allocation of responsibilities across authorities is pending.

In Lebanon, the legislative framework is not yet in place and current legislation does not allow private sector participation in the water sector.

In Russia, where private participation in the water sector developed on an ad-hoc basis in the early years, the legislative framework, including the concession law, is under amendment.

In Egypt, the Law for Regulation of Public Private Partnership was ratified by the People's Assembly in June 2010. Given current credit constraints and tighter financial conditions, private developers are likely to be more selective, demanding higher quality, more "bankable" projects, with clearer forms of public support and risk-sharing arrangements.

Ensuring sustainability of partnerships

Partner accountability

In most countries using the checklist, the development of accountability mechanisms is limited. Significant uncertainty remains as to the reliability of available information on the status of the infrastructure and the performance of providers.

The establishment of performance-based contracts or competitive bidding is proving a complex process with important and broader ramifications, such as, for example, the impact of unclear property rights in Russia.

Financial sustainability

Limited financial sustainability is also proving a bottleneck shared by all countries, with low levels of cost-recovery and/or inadequate price regulation impeding the involvement of private partners. Reciprocally, PPP projects raise issues of long-term affordability for governments when they generate contingent liabilities and lock countries into long-term subsidies.

The checklist highlights these areas of major importance for governments and provides a point of entry for using companion tools that can help countries overcome the challenges, such as the Strategic Financial Planning, the Guidelines for performance based contracts and Water Governance in OECD Countries: a Multi-Level Approach.



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