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HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

How and to what extent can the private sector take on a public service mission? How should roles be shared between public authorities and private operators? This issue will be comparing the opinions of experts on the topic.

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Editorial

By Luc Rigouzzo, Chief Executive Officer of Proparco

We have decided to devote this second issue of Private Sector and Development – a bimonthly magazine that compares the opinions of Proparco's community of investors with those of academic experts and members of civil society – to the role of the private sector in improving access to drinking water and sanitation in developing countries.

Indeed, one of Proparco's core mandates is to meet the basic infrastructure needs of populations in South countries via the private sector. Developing countries suffer from serious deficits in infrastructure and basic services: access to drinking water is far from being widespread and sanitation services are scarce. It would be unrealistic to believe that all these needs can be met with national or international public financing alone. Development finance institutions must focus on creating leverage on private resources, using the range of available financial tools, in order to promote the emergence of public-private partnerships (PPPs) that are sustainable, i.e. economically efficient, financially profitable and socially equitable.

The statistics in this issue show us how Sub-Saharan Africa is a dramatic example of the lack of access to water: under one inhabitant in six has running water at home, and over 40% of inhabitants do not even have access to an improved water source.

The international community is aware of the scale of these problems and has mobilized for the Millennium Development Goals (MDGs) by focusing its efforts and resources on a series of measurable objectives to be met by 2015 (for example, halving the number of people without access to safe water). Yet official development assistance, however generous it may be, will not be able to provide all the resources required to meet these ambitious goals. For instance, the annual investments required in the water and sanitation sector in order to reach the MDGs are estimated at some 80 billion dollars, whereas global development aid for all sectors put together amounts to roughly one hundred billion dollars.

Moreover, "classic" private financing does not spontaneously target fragile economies. It is consequently urgent to promote efficient partnership between public and private players that can meet the huge investment requirements, improve project management, and also mobilize savings over the long term.

PPPs can improve public service management, provide private capital for projects in the public interest, and promote the implementation of basic services at a cost that is affordable for the vast majority. The responsibility of public authorities consequently lies in guaranteeing the general interest by focusing on functions that give impetus, regulate and control, for it is ultimately the populations that are supposed to benefit from the new services provided. The challenge is therefore to implement PPPs in contexts where they can be economically efficient, financially profitable and socially and environmentally equitable.

PPPs have been widely implemented in industrial societies and are now playing an increasingly important role in emerging and developing countries. It is however true that the recent history of PPPs has been punctuated by widely-publicized failures that have tended to eclipse the growing number of successes.

I would really like to thank the authors of this issue who must especially be given credit for dissipating a number of conventional beliefs and demonstrating that paradoxically the water sector – despite its long-term profitability – is one of the sectors which has seen the most successes, particularly in Africa where there has been a sharp increase in the number of water sources under private management. This has provided over 100 million people with access to water and has, in most cases, led to a substantial reduction in water losses. It also shows that PPPs often involve partnerships built with local medium-sized enterprises, while monopolies held by major international groups are becoming less and less common. Finally, the type of services (production, distribution...) is also tending to be diversified.

PPPs are, of course, not a panacea, but the contributions in this issue show that when political and social realities are fully integrated and a sound regulatory framework implemented, private investment can play a key role in access to water for the poorest and, more generally, to all essential services.

I hope you enjoy reading this second issue. Please do not hesitate to subscribe to this free magazine and pass the word around!

With my very best wishes.

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

Philippe Marin, a specialist in water and sanitation at the World Bank, led a comprehensive study on public-private partnerships in the water sector between 2006 and 2008. In this article, he presents the main findings and, based on objective facts, makes a generally positive review – while recognizing their limits – of the introduction of public-private partnerships in the water sector in developing countries.

What is the Actual Performance of Public-Private Partnerships for Urban Water Utilities in Developing Countries?

By examining progress achieved and problems encountered by 65 public-private partnerships (PPPs) implemented on different continents, a recent World Bank study is providing some objective facts from an analysis of the practice. Overall, the performance achieved by PPPs in terms of improving access, service quality and operating efficiency has been quite satisfactory, even though the level of private investment has proved disappointing. Without being a panacea, PPPs can continue to be – alongside other types of projects – an option for decision-makers.

By Philippe Marin, Specialist in Water and Sanitation at the World Bank¹

Public-Private Partnerships for urban water utilities in the developing world is a rather conflictive topic. PPPs were widely promoted by International Financial Institutions and donors back in the 1990s to turn around poorly performing water utilities and help improve services for the population. Yet the problems many large PPP projects have encountered during implementation, combined with a series of highly publicized contract cancellations in recent years, have shed doubts on the validity of this approach for developing countries.

Need for a comprehensive review

Unfortunately, the debate about water PPPs has often been more about ideology than objective data. While a rather large body of literature has been published about PPPs in the water sector, there is a lack of quantitative data and indicators upon which to judge the actual performance of PPP projects. After more than 15 years of experience in the developing world, the time had come to carry out a comprehensive review of the overall performance of water PPPs. Between 2005 and 2007, the Water Anchor Department of the World Bank carried out a major study – with financial support from PPIAF – to gather and analyze performance data from 65 water PPPs for urban utilities in 30 developing or transition countries. The sample represented close to 80% of the population served by private operators in developing countries since 1990, under contracts signed before 2003 and in place for at least 3 years. The analysis focused on the improvements achieved

in access, service quality and operational efficiency. This new study provides a fresh perspective on the contribution water PPPs make in developing countries, and brings several important findings for water practitioners (Marin, 2009).

The first of these findings is that – contrary to a rather widespread belief – water PPPs in the developing world are not in retreat. Out of about 260 PPPs for urban water utilities awarded in developing and transition countries in the last 15 years, as many as 84% of them were still active by the end of 2007, and the overall rate of early contract termination stands at just 9%. In spite of several large contract cancellations (in Buenos Aires and La Paz for example), the population served by private water operators in developing countries has in fact been growing every year since 1990 and rose from about 94 million in 2000 to 160 million by the end of 2007. In recent years, several large countries have started experimenting with water PPPs on a large scale, including China, Russia, Malaysia, Algeria, Ghana and Cameroon. What has been going on since 2001 is not so much a downturn but a change in the market. Several large international operators have withdrawn, but they have gradually been replaced by local private investors that entered the business. Water PPPs run by private water operators from developing countries have accounted for the bulk of market growth since 2001. They now represent more than 40% of the market and as many as 28 have been identified that each serves at least 400,000 people. If anything, the market for water PPPs in developing countries has become more ...

¹ This short article is a personal contribution by the author. It is a short and incomplete digest of the findings developed in the study of reference currently being published by the World Bank by the same author. The positions expressed do not necessarily reflect the view of the World Bank, PPIAF, the Executive Directors of the World Bank and/or the governments they represent.

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... mature. There is a more diverse supply side and private operators have generally learnt their lesson: they have become much more aware of the risks inherent to water PPP projects in developing countries when they submit bids for new contracts.

Promising results

The second major finding is that, overall, the performance of water PPP projects has been quite satisfactory. Even though PPPs have proved to be complex arrangements, often difficult to implement in the context of developing countries, many projects have achieved sizeable improvements in terms of access, service quality and/or operational efficiency. While the total amount of private investment² in the water sector has been disappointing, water PPP projects have provided access to piped water to more than 24 million people over the last 15 years. This is not insignificant when considering that private water operators served just 7% of the urban population in 2007³.

Experience in Colombia and Western Africa - as well as with many management contracts - shows that PPPs can help reduce water rationing and improve service quality for populations. The analysis of the evolution of water losses (non-revenue water), bill collection and labor productivity shows that PPP projects can be efficient in improving operational efficiency. The current low mood about water PPPs is probably more the result of exaggerated early expectations back in the 1990s about what private operators could achieve than a reflection of their actual contribution to improving services. Successful PPP projects can be seen on all continents, for instance the national utilities in Cote d'Ivoire, Senegal and Gabon, the concessions in Eastern Manila (Philippines), Macao (China) and Guayaquil (Ecuador), as well as many PPPs for municipal or provincial water utilities in Morocco, Chile, Armenia, Colombia, Brazil and Argentina.

The third important finding, when looking at what worked and what did not work in practice, is that the most suitable PPP model for the developing world seems to combine public financing of investment with private operation which is, incidentally, the approach that has been adopted for more than a century by municipalities in France and Spain. This suggests a new paradigm for PPPs in water utilities: they should not be about attracting private money, but rather about using private operators to improve services and efficiency. Under such arrangements, private operators do have a positive financial con-

tribution, but it is largely indirect. Improving service quality and operational efficiency generates a "virtuous circle" whereby the utility gradually improves its financial situation and creditworthiness, allowing it in turn to gain easier access to financing for investment in expansion and rehabilitation. The most successful water PPPs are essentially long-term contracts with hybrid financing arrangements and an optimal mix between government, donors and private financiers depending on the case. Such hybrid schemes have taken various forms in practice, such as with the affermage contracts in Senegal, Côte d'Ivoire, Niger and Cameroon, the mixed-ownership companies in Cartagena (Colombia) and La Havana (Cuba), or the concessions with public funding in Colombia, Cordoba (Argentina) and Guayaquil (Ecuador).

No magic formula

While this new study confirms that PPPs are a viable option for reforming the urban water sector in developing countries, it is also clear that it is not a magical formula that can solve the sector's many problems. PPPs have proved to be challenging endeavors, and they should not be the sole option on the table for governments seeking to reform their urban water sector. Reforming poorly performing water utilities under public management is an equally viable option: there are well managed public water utilities in the developing world, and several donor-supported projects based on public management have worked well (as in Burkina Faso, Uganda and Phnom Penh, Cambodia). As for PPPs, they can be made to work and bring very sizeable benefits, provided they are properly designed and implemented. Experience over the last 15 years has taught us valuable lessons about what works and what does not. Other approaches for involving the private sector also exist and are gaining acceptance in many countries, such as performance-based service contracts, subcontracting and Build-Operate-Transfer (BOT) schemes for treatment facilities. When it comes to improving water and sanitation services for populations, decision-makers need a choice of options and the private sector does have a lot to bring. ●

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² Keeping in mind that not all PPPs involve private investors

³ Up from less than 1% of the urban population back in 1997, and 4% in 2003

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

Lise Breuil and Aymeric Blanc give a mixed review of public-private partnerships in the water sector. Based on AFD experience – support to sectoral policies and implementation of best management practices – the authors consider that the private sector has still not fulfilled its role in terms of extending networks and policies that are favorable to the most disadvantaged populations. They do, however, underscore the benefits that have been gained from the introduction of private interests – particularly in terms of clarifying the roles and responsibilities of the different players.

Can Public-Private Partnerships Benefit Populations Excluded from Water Services?

Although public-private partnerships may have achieved relatively disappointing results in terms of extending access to water for poor populations, the arrival of private operators has nevertheless often allowed authorities to better define their public service objectives and give a political dimension to access to water for all. International operators also constitute a source of innovation and make it possible to tailor supply to the poorest populations; in future, local entrepreneurs will have to fully participate in this objective.

By Aymeric Blanc and Lise Breuil, Project Managers at Agence française de développement

Throughout the 1990s – during the heyday of public-private partnerships (PPPs) – one of the conditions for donor intervention was often that national water distribution companies in developing countries were opened to the private sector. Although the issue of the future of disadvantaged populations may not always have been clearly dealt within the framework of these partnerships, there were a number of more or less implicit expectations concerning them; first, financing provided by the private sector would undoubtedly increase the supply coverage for the population, second, productivity gains achieved by private management and by competition would improve financial equilibrium in the sector, and the poorest would ultimately benefit as this would bring down tariffs.

Private sector involvement did benefit poor populations, either directly – via the extension of water networks to unserved populations – or indirectly – by drawing the attention of the authorities to the need to focus on access to a service for all in the framework of a more equitable sectoral policy, and also by providing the technical and social innovations required to integrate the poorest populations. However, twenty years of experience of PPPs have produced mixed results.

Globally negative results for the poorest

The first obstacle to providing widespread access to water is the cost of connection to the network. In this context, the most favourable policies for poor populations are those that increase their supply the most. Private operators involved in PPPs have often promoted individual connections to the detriment of standpipes; as early as

1974, the national water distribution company in Côte d'Ivoire financed distribution networks and made some 350 000 connections between 1988 and 2006. This example was followed by Senegal – 130 000 social connections between 1996 and 2006 – Niger and Burkina Faso.

Although access to a connection may have been the meeting point between population demand and a commercial model led by the private operators, the development of this policy did remain limited. Indeed, the lack of financing for networks led to connections being targeted in neighborhoods that were already connected, to the detriment of the poorest that were often located in the outlying areas of cities. This underinvestment – which was sometimes attributable to the State in cases of affermage – was detrimental to the extension of primary and secondary networks to remote neighborhoods and limited the impacts of social connection policies. These policies also failed to make progress as a result of the low capacity of populations to save enough to pay a bi-monthly bill; a number of disconnections (70 000 in Côte d'Ivoire) were observed during the period that followed connection. Service provision mechanisms implemented by PPPs cannot disregard the characteristics of demand which is often unstable and precarious.

Private sector involvement sometimes went hand in hand with tariff increases due to the need to recover costs. Progressive block tariffs were implemented by most PPPs with a first subsidized social block for low monthly consumption – supposed to be that of the poorest. But these systems showed mixed results; the practice of “neighborhood ...

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... sales" where the poorest users sometimes consume more than the subsidized amount due to the high number of people per household and end up in the highest tariff blocks. In some cases, these tariff blocks can have pernicious effects – particularly in concessions – because they do not encourage supply for small consumers. In the Senegal affranchissement, to avoid this bias the average price paid to the operator is the same for every cubic metre sold, whether it be in the social block or in a more profitable block.

Finally, the arrival of the private sector sometimes led to the disappearance of existing cross-subsidization systems. PPPs were often accused of focusing on supplying rich neighborhoods – in urban areas – while the State kept entire responsibility for disadvantaged neighborhoods – in rural areas. It consequently cancelled out the advantages of solidarity among these regions which implied losses in tax revenues, and thus worsening in regional disparities. This "creaming off" effect explains why ideological anti-privatization movements were so virulent in developing countries and why popular opinion took such a negative view of these reforms¹.

In most PPPs, the poorest consumers were consequently the ones that lost out the most: social connections often targeted neighborhoods that were already supplied, tariffs were not reduced proportionately to the productivity gains achieved, and equalization among services or users sometimes disappeared without being replaced by specific subsidies to support the most disadvantaged. Finally, policies to disconnect bad payers were tightened.

Private sector participation, a factor for clarification?

Paradoxically, PPPs often acted as a catalyst by introducing a discipline that was beneficial to water service management and defining developmental objectives that aimed to provide populations with access to essential services. These objectives had been less-well formulated prior to the implementation of PPPs because the poorest had little political representation. This clarification of everyone's respective objectives, roles and responsibilities can, of course, take place in the context of well-regulated State-owned companies. But it becomes essential in the framework of PPPs – which require a clear sharing of risks.

The poorest populations often have a deficient political representation; this situation is worsened by practices of corruption that favour economic and political elites during "privatization" processes (Auriol and Blanc, 2009). In this context, introducing a private partner makes it possible to define objectives to be achieved and estimate their cost, often *via* a financial model shared among players in the sector meaning a realistic financing strategy can be adopted and the contract can subsequently be regulated. On this basis, it is consequently up to the government to make new political commitments, provide the resources required to finance network extension in sometimes remote neighborhoods – *via* tariffs if the equalization system allows it, otherwise *via* public subsidy or earmarked grants. International donors have also increasingly focused their attention on pro-poor Output Based Aid mechanisms: direct financing paid to operators on the basis of the number of social connections made, grants earmarked for certain neighborhoods to extend supply, etc.

Since the 1990s, government strategies in some countries using PPPs have changed considerably: they have shifted from the simple target of stabilizing public finances and have taken on board a social dimension that integrates issues relating to access to essential services for poor populations – in connection with the increasing concern of the international community and the Millennium Development Goals launched by the UN in 2000. Even when PPPs have failed, the experience of the partnership has often led to new reflection on public goods, and accessibility to them for the vast majority, and has helped the role of the State to evolve. This was, for example, the case in Mali following the election of President Amadou Toumani Touré in 2002 and the withdrawal of Saur in 2005.

Once the political orientation has been defined – between fiscal concerns, effectiveness and equity – the difficulty then lies in implementing effective and credible economic regulation to give ...



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¹ According to a 2003 survey conducted by Latinobarometro of 19 000 people in 18 Latin American countries, these reforms generated 80% of negative opinions (see <http://www.latinobarometro.org>). Boix (2005) and Carrera et alii (2005) can also be consulted on this point.

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... economic players long-term incentives and avoid daily and discretionary political interventionism. In Senegal, the affermage contract coupled with a performance contract made it possible to control losses and recovery rates (Blanc and Ghesquière, 2006). The subsidy policy for new connections, the freeze in the level of social tariffs (offset by an increase in the tariff for public establishments), or extensive solidarity between users and regions (over a quarter of revenue collected is used in the cross-subsidy system) demonstrate a strong political will. The latter has led to the implementation of a sector regulation mechanism which today seems able to withstand any political vagaries.

Private sector adaptability and innovation capacity

Ad hoc local solutions need to be found to supply poor neighborhoods, which most of the time come under a sort of contractual gray zone that obliges operators to manage in contexts where implicit and ambiguous situations rule. Traditional approaches do not work in these “unconventional” neighborhoods where there is often no legal security (housing is often illegal) and no financial security (inhabitants have unstable and fragmented income).

International private operators have managed to innovate in this context by bringing in third parties: NGOs, social intermediaries, or even local small-scale private service providers (SPSPs) that are in a better position to provide a service tailored to a specific demand. Some international private operators have taken the initiative to launch social programs bearing the torch of a vision of corporate responsibility. The reasons that motivated them were commercial (how to improve the image of the company), political (uncertainties about the possibility to manage a long-term service in a city while neglecting certain neighborhoods) and pragmatic (how to combat illegal connections or the spread of water-borne diseases from slums). Innovative PPPs consequently came into being, often during the life of a contract, by developing a “participative” component that integrated the interests of poor populations. In other cases, innovation focused on technical sales systems: how to integrate the user into the chain of

services, prepayment meters to reduce management costs relating to poor clients and a culture of non-payment, etc. These PPPs consequently helped provide differentiated services tailored to the needs of poor people, and a social and technical alternative to the “universal network” as it is perceived in developed countries.

Beyond this professionalization in the social engineering of international private operators, the development of local small-scale private service providers adapted to the market of small and medium-sized cities or peri-urban areas would, finally, appear to be a core issue for the renewal of PPPs in the water sector in developing countries in order to make them more favourable for the poorest. The local private sector is admittedly already very present, but remains widely informal. In order to promote the emergence of an effective local private sector that can grow, make economies of scale and become professional, it is essential to set up a dialogue on technical standards by adapting donors’ bidding procedures and, more generally, through measures that promote the institutional transition of these informal players. Indeed, the issue of regulating the heterogeneous services of these small operators does appear to be essential – as much for reasons concerning the management of water resources as for public health or social justice reasons. In many cases, private sector innovation – which is essential in order to supply the most disadvantaged populations – will allow services to be tailored to realities in the field. The local private sector has a key role to play, provided it grows, becomes formal and manages to regulate its services. ●

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HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

Thanks to his experience at Suez, Alexandre Brailowsky has gained solid field experience of the difficulties private operators meet in the framework of PPPs. He demonstrates, via the example of Aguas Argentinas, how operators like the Suez Group – 11 million inhabitants in developing countries connected to a supply network over the past twelve years – face challenges that are purely social. A resolutely participative PPP model and the clarification of relations among players would appear to be essential.

From PPPs to "4Ps", Public-Private Partnerships Need Participative management

The various experiences of public-private partnerships (PPPs) in developing countries have underscored the importance of participative management and dialogue among stakeholders. They are indeed prerequisites for their success. During a thirteen-year concession, the Argentine company Aguas Argentinas, a subsidiary of Suez, consequently had to innovate in Buenos Aires by going beyond the strictly contractual framework of the PPP in order to provide a response to specific social issues which call into serious question the responsibility, positioning and action of private operators in the management of essential services in developing countries.

By Alexandre Brailowsky, Societal Engineering Director at Suez Environment

Year after year, the same objectives are repeated over and over again. This underscores how difficult it is to obtain rapid large-scale results in the drinking water and sanitation sector in developing countries. The public-private partnerships set up in the sector in the 1990s were supposed to be the answer to these challenges; the PPP model proposed at the time was supposed to bring in the professionalism that was essential for the efficient management of these services. Yet it was also expected to guarantee the provision of financing within a competitive environment and a virtuous contractual framework that was satisfactory to all parties.

We have to admit that in most cases these expectations have not really been met although, unlike in previous decades, considerable results have been achieved. Yet at the same time we have seen a proliferation of conflicts that have led to dissatisfaction on the part of all parties and the early termination of some of these contracts¹. International private operators have gradually been moving away from this contractual method.

Is it possible, based on Suez's experience in Buenos Aires, to consider the positioning of the private sector in this type of contract and come up with a participative management model that would provide a better response to issues that are specific to developing countries? The aim is, in particular, to make an objective review of the way in which Aguas Ar-

gentinas managed to go beyond its status as a simple operator to which the contract confined it, in the name of a social responsibility that it felt it had to assume vis-à-vis the entire population.

Innovation as a response to social issues

In the early 1990s, the water and sanitation service in Greater Buenos Aires was in a difficult situation and the Argentine government consequently called on Aguas Argentinas. The main participants in the program that was then set up were the public authorities, the users and donors. An autonomous entity entirely devoted to monitoring and regulating the contract was created to represent the different levels of the relevant territorial administrations. Users came under two distinct categories: those that were already served and those that were not yet served – there was little knowledge of the expectations and needs of future clients when the contract was implemented. The multilateral partners, mainly the World Bank and Inter-American Development Bank, had a very limited level of commitment.

The specific issue of the most disadvantaged neighborhoods

From a contractual point of view, the most disadvantaged neighborhoods sometimes present the most complex situations. There are first the "formal neighborhoods" that are coherently integrated into urban planning, but are not recorded on the land registry. They are considered as "illegal" and the financing mechanisms provided for in the contract, which are based on property titles being held, make it impossible to extend services. There are also ...

¹ The PPP involving the Argentine State and Aguas Argentinas is an example of a project where the public authority and the private operator did not manage to agree over the long-term. The concession contract was terminated in 2006. Settlement procedures are still ongoing.

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By Alexandre Brailowsky, Societal Engineering Director at Suez Environment

... "no-rights areas" where constructions have built up with no coherence and no legal titles. They do not even appear on the plans of the concession area given to Aguas Argentinas.

No specific action for these situations was provided for in the contract and there was not even a mechanism to initiate a regularization process. Moreover, there was no explicit obligation in the contract to provide services in precarious neighborhoods, particularly those where land tenure had not been regularized. In this case, the operator consequently had to address the needs expressed by the population without having contractual tools – or even a legal basis – to provide a service. It was, however, socially and politically difficult to ignore these populations: a response had to be given to their needs.

Suez consequently came up with an innovative approach putting emphasis on the demand for services expressed by the future beneficiaries rather than the supply offered by the service provider. Decisions were a result of the participation of all the stakeholders: future clients, municipalities, the regulator, NGOs, neighborhood associations, concessionaires. Inhabitants expressed their wish to be connected to the network; they appointed representatives that took part in decisions relating to the project and the management of billing recovery. The local authorities validated the various stages of the project, attended consultation meetings between companies, local institutions and community representatives. Aguas Argentinas was in charge of the design and technical management of projects, but planned their implementation in consultation with all the stakeholders. In terms of project support, Aguas Argentinas relied on NGOs or representative neighborhood associations.

In February 2004, the Argentine State and the company, with the participation of the main *piqueteros*² organization, launched a sizeable project for access to water – "Agua más trabajo" – based on the Aguas Argentinas model. It also aimed at social reintegration. The project operated *via* a partnership among communities – which conducted the works – the municipality, which managed the infrastructure, and Aguas Argentinas, which was in charge of the

design and control of projects, as well as training the teams that implemented them. The Argentine State coordinated the entire operation and financed the materials and the workers' salaries.

Communication played a key role

Beyond the consultation that is required on the interests of players, communication was also a key factor in the success of this social responsibility program. In this context, Aguas Argentinas defined and implemented three distinct levels of communication. All Aguas Argentinas' employees, *via* structured in-house communication, had their awareness raised in terms of sustainable development practices and projects for social operations. External communication targeting the final client was based on greater transparency. But this communication also had to target future clients: the aim was first and foremost to gain the acceptance of the community by including it in the project design itself, then systematically accompanying project implementation with an exchange of information among the different players.

Getting beyond the status of simple operator

After thirteen years in operation, and despite countless difficulties relating to the economic situation, Aguas Argentinas had integrated two million inhabitants into drinking water services and a million inhabitants into sanitation services. Going beyond the balance established by the contract, a specific program was implemented with support from the public authorities to allow the most disadvantaged neighborhoods to gain access to drinking water services thanks to a highly participative management model. This type of program is based on the combined contributions of operators, municipalities and populations – the latter fully participate in project design and implementation. To achieve this, Aguas Argentinas had to go beyond its status as a simple operator that the contract confined it to.

Traditional PPP unsuitable

One of the main lessons to be learned from Aguas Argentinas' experience is the difficulty – or even the impossibility – to finance access to water for the most disadvantaged using traditional PPP methods. In this context, coming up with solutions requires a great deal of voluntarism on the part of the operator which is institutionally, and often financially, supported by the public authorities. When an activity in the general interest is provided by a private player, social responsibility becomes a core issue: who is responsible for providing access to basic service-



Alexandre Brailowsky
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² More or less structured social organization mainly gathering the unemployed. Its name comes from the pickets used by its members to block roads.

From PPPs to "4Ps", Public-Private Partnerships Need Participative Management

By Alexandre Brailowsky, Societal Engineering Director at Suez Environment

es when the State itself advocates withdrawal? Aguas Argentinas' experience shows that to be sustainable the company had no choice but to take on this role, even if it had not clearly been assigned to it. It had to come up with its own solutions in order to find a balance between its commercial interests and the interests of local players – populations and political institutions. To do this, the company had to take into account the specificities of territories and the social and cultural dimensions of the contexts in which it was operating. It had to come up with new, more participative, more flexible operating methods and, above all, give each partner incentives to provide their know-how within an institutional framework that optimized everyone's input.

For a participative public-private partnership

By adding a "P" to the equation, by becoming a participative public-private partnership, public serv-

ice management contracts in developing countries must, right from the bidding stage, integrate an institutionalized process for consultation and the participation of all local stakeholders. The aim is ultimately to build a strong link between improving public services *via* a greater participation of beneficiaries and strengthening citizenship by making users aware of their rights and duties. Aguas Argentinas' experience shows that public services can be vehicles for democratic practices and help restore interest for the State.

All these issues – public service performance, citizenship, governance and local democracy – have undoubtedly conditioned the way the project was implemented and have necessarily called into question the responsibility, positioning and action of the private sector in terms of issues with strong social dimensions. •

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Adapter l'offre à la demande dans les pays émergents: vers une logique de processus et de responsabilité sociale partagée, In : Tétart, J.-M., Le Bris, C. (eds.), *La contractualisation : une clé pour la gestion durable des services essentiels*, "Notes et Documents n°43", Agence française de développement, Paris, 92-104.

Some of the lessons-learned from Aguas Argentinas' experience: four key factors for a model for action

1. Use societal engineering techniques

The contexts of operations must be fully integrated if a project is to be sustainable. This requires:

- a societal and political diagnosis prior to the operation (cartography of actors, identification of logics of interests);
- the definition of the operation: concerted construction of a strategic vision with local players with the aim of sharing interests;
- a social methodology for operations and regular evaluations;
- the implementation of awareness-raising and training programs for all players.

2. Clearly distribute roles and responsibilities

- the authorities are responsible for the public service by defining the sectoral policy, its organization and its regulation;
- the operator is in charge of managing the service; the qualitative and quantitative objectives are set in consultation with the authorities; it communicates with each of the parties, particularly with civil society for which it makes the progress achieved perceptible;
- international institutions finance heavy investments that neither local authorities nor the final client can finance and assumes the associated risks; they help strengthen the competences of local authorities and must remain involved

during the life of the contract in order to help maintain confidence between the public authorities and the operator;

- civil society must be sufficiently informed so that it can participate in decision-making processes with full knowledge of the facts.

3. Establish good communication among the stakeholders

The legitimacy of the private operator is dependent on the political and social acceptance of its operation. It must consequently seek to develop:

- mechanisms for communication, dialogue, conflict management, in order to support relations with the local authorities and civil society;
- the participation of development institutions during the life of the contract and their role in maintaining confidence among parties.

4. Design contractual and financing mechanisms that allow flexibility – this is necessary in an uncertain, complex and changing environment.

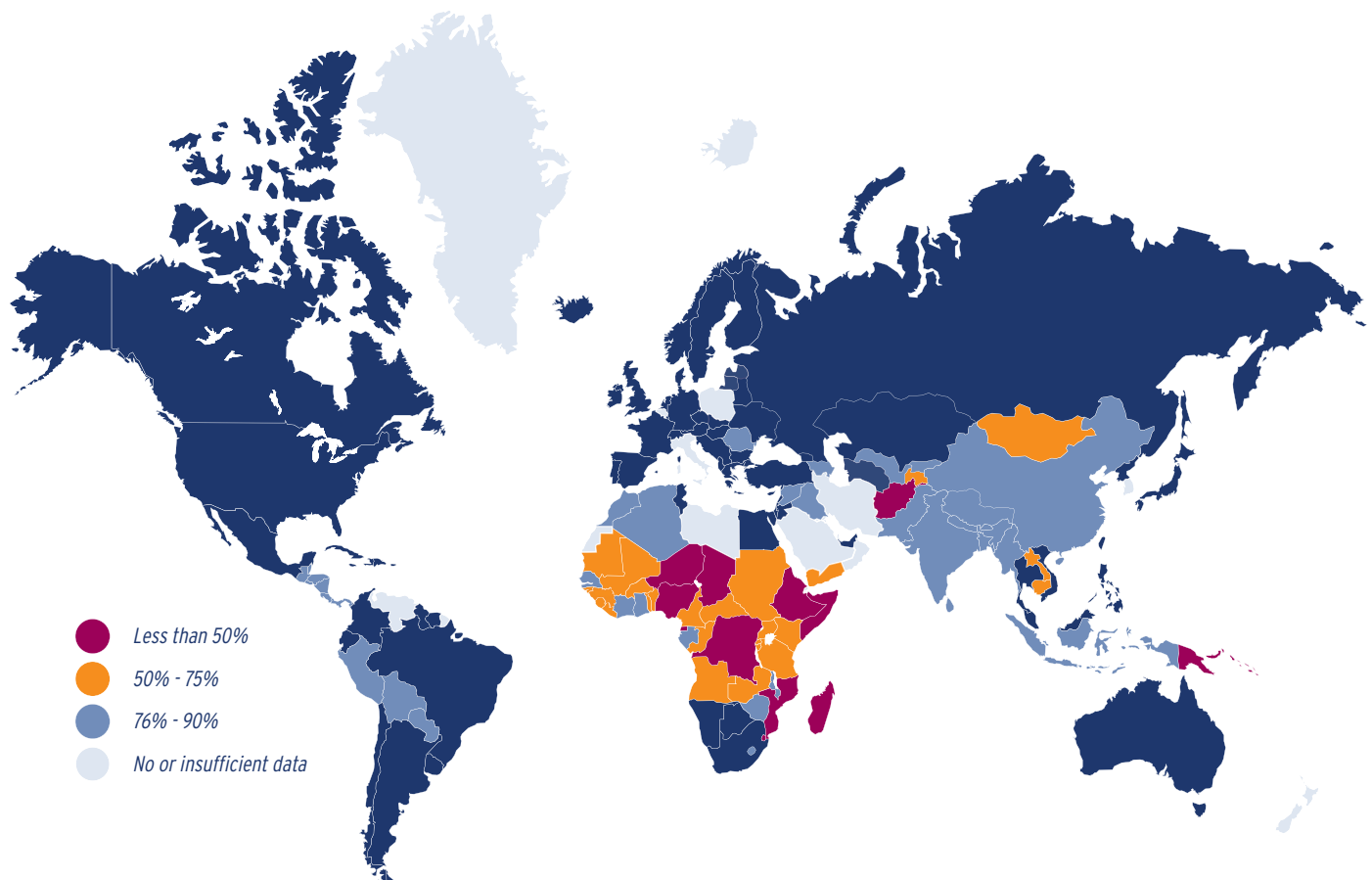
It is essential to contractually formalize the societal dimensions of these projects if they are to run smoothly. This requires implementing formal mechanisms for information and consultation, as well as defining concrete objectives and a series of supervision indicators.

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

Key Data

The majority of southern hemisphere countries, particularly those in Africa, face considerable challenges in terms of access to drinking water. Although private sector intervention in the management of water distribution services has clearly brought about improvements over the past few years, considerable progress still needs to be made. The types of private sector intervention and the results obtained can be assessed from this statistical data.

Drinking water coverage (2006): African countries face lag behind



Proportion of the population that today uses a domestic connection to a water supply, another type of improved water source or an unimproved water source (2006)

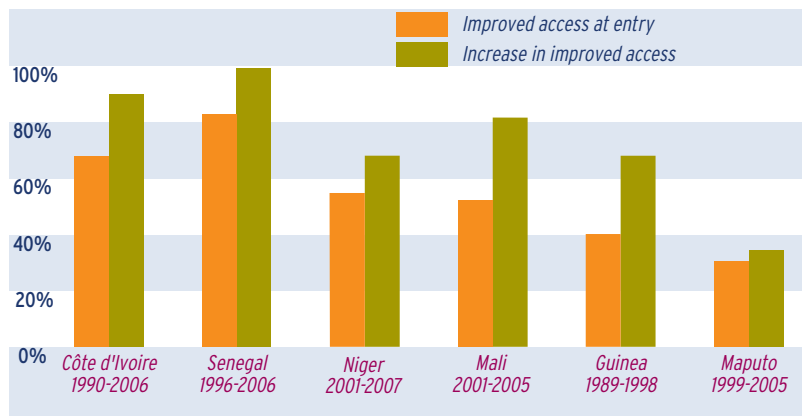
		World	Developing regions	Sub-Saharan Africa
Unserviced population	Unimproved water sources	13%	16%	42%
Drinking water coverage	Other improved water sources	33%	38%	42%
	Running water at home	54%	46%	16%

Regional and global progress towards the Millennium Development Goals drinking water

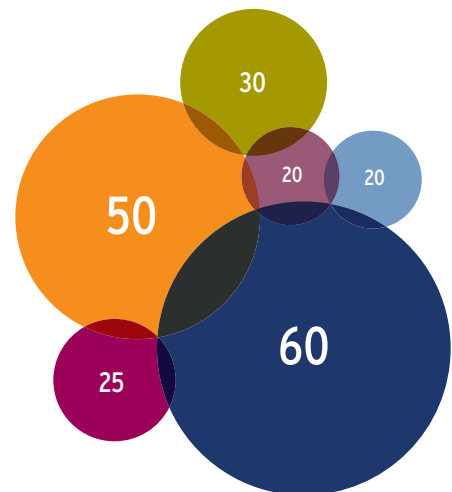
Regions	Drinking coverage (%) 1990	Drinking coverage (%) 2006	Coverage by MDG (%)
Commonwealth of State	93	94	97
Northern Africa	88	92	94
Latin America and Caribbean	84	92	92
Western Asia	86	90	93
Eastern Asia	68	88	84
Southern Asia	74	87	87
South-eastern Asia	73	86	87
Sub-Saharan	49	58	75
Oceania	51	50	76
Developing Regions	71	84	86
Developed Regions	98	99	99
World	77	87	89

Source: 2008 report on progress on drinking water and sanitation, UNICEF and WHO, 2008

Sub-Saharan Africa: evolution of water supply coverage under PPPs



Water PPPs during last 15 years: project outcome by population served (million)

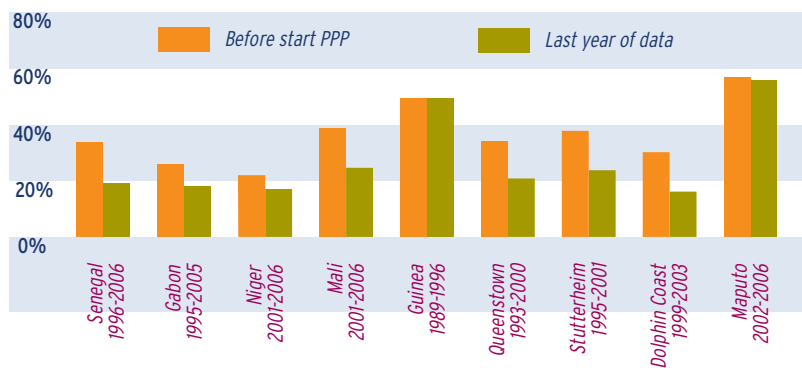


Recent projects (since 2003)

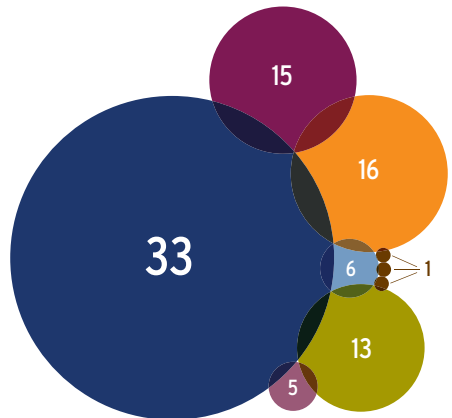
Clearly successful
Mixed outcome, still active
Early termination
Expired, not renewed
No Data available

Source: Marin, P., 2009, Public Private Partnerships for Urban Water Utilities, a Review of Experiences in Developing Countries, World Bank

Sub-Saharan Africa: water losses (non-revenue water) under long-term PPPs



Water utility projects with private participation in developing countries by subtype, 2004-2008



ROT (Rehabilitate-operate-transfer)

BROT (Build-rehabilitate-operate-transfer)

Leases

Management Contract

BOT (Build-operate-transfer)

Partial divestiture

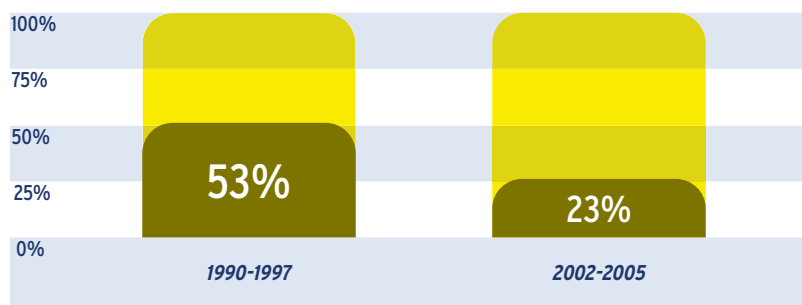
RLT (Rehabilitate-lease ou rent-transfer)

Full divestiture

BOO (Build-operate-own)

Source: PPI Project Database, World Bank et PPIAF

The number of PPPs assigned to one of the 5 biggest private operators in developing countries (Suez, Veolia, Thames, Aghar, Saur)



Source: Marin, P., 2009, Public Private Partnerships for Urban Water Utilities, a Review of Experiences in Developing Countries, World Bank

Private participation in water networks takes many forms...

Option	Ownership	Management	Investment	Risk	Duration (years)	Examples
Service contract	Public	Shared	Public	Public	1-2	Finland, Maharashtra (India)
Management Contract	Public	Private	Public	Public	3-5	Johannesburg (South Africa), Monagas (Venezuela), Atlanta (United States)
Lease (affermage)	Public	Private	Public	Shared	8-15	Abidjan (Côte d'Ivoire), Dakar (Senegal)
Concession	Public	Private	Private	Private	20-30	Manila (Philippines), Buenos Aires (Argentina), Durban (South Africa), La Paz-El Alto (Bolivia), Jakarta (Indonesia), Casablanca (Morocco)
Privatisation	Private	Private	Private	Private	Unlimited	Chile, United Kingdom

Source: Human Development Report, UNDP, 2006

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

The Institut de la gestion déléguée (IGD) is a corporate foundation that promotes improvement in public service quality, particularly in cases of delegated management. Jean-Marie Tétard, from this research institute, makes the same analysis as the major private operators: one of the main reasons why PPPs fail is the lack of comprehension and communication among parties. By explaining how "Quadrilogues" – an original platform for four-party dialogue formalized by IGD – operate, he presents solutions that can make up for these shortfalls and shows how they can give legitimacy to private sector intervention.

The Interest of Multiplayer Dialogue for Public Service Operators

IGD has designed the concept of Quadrilogues – four-party dialogues – based on the observation that the success of public-private partnerships depends on the various stakeholders' capacity to dialogue. They provide an original setting for consultation among players involved in the management of public services – particularly in the water sector – and promote and structure their exchanges. Operators play a key role in the Quadrilogues in terms of informing and interpellating, and they also act as a safeguard. In doing so, they clearly contribute to giving the entire private sector legitimacy to manage essential services.

By Jean-Marie Tétard, Advisor to the Chairman of the Institut de la gestion déléguée

For the past three years, the Institut de la Gestion Déléguée (IGD) has been working with associations of locally-elected representatives in Benin and Togo¹ in order to help them implement and lead multiplayer dialogue platforms.

These platforms gather four main players (Quadrilogue: a four-party dialogue) that work in the field of public service management²: State services, local authorities, operators – generally public, but also private and non-governmental – and people's representatives: consumer and neighborhood associations, religious and traditional powers. Workers' unions are also generally invited: they are essential for giving impetus to processes for change.

These Quadrilogues have been inspired by over ten years' experience in France of the IGD in terms of bringing together all stakeholders, carrying out joint reflection and sharing public service regulation. The core engine for every initiative implemented in the framework of the Quadrilogues is consensus: the measures and proposals put forward must be fully accepted by all the participants.

When IGD offered to support associations of locally-elected representatives involved in decentralization processes underway in French-speaking Africa, its aim was to share this experience with other countries, particularly developing countries. Decentralization is indeed a key moment for overhauling the way governance operates in essential services – in water management for example. Indeed, the analysis of difficulties encountered in these countries cannot simply involve pointing up the lack of financing: players' practices, the action framework in which they interact, and the values

and principles that guide them must also be questioned. To be justified in the eyes of populations, decentralization must correspond to a marked improvement in their living conditions and, particularly, their access to basic services. This cannot be achieved without first recognizing the deficiencies of the former governance and using them to seek ways to "do things differently".

If a creative process is to be engaged upon, all the players need to speak to each other – and all together. The Quadrilogue must allow them to make a common diagnosis of the situation, express their expectations, their needs and respective constraints, so that they can finally build a "shared vision" of issues and opportunities. From this dialogue, suitable and realistic conditions emerge for the implementation of a common strategy to improve access to essential services.

Role to inform and question

In both Benin and Togo, the Quadrilogues naturally give rise to the question – among others – of service tariffs: why are they the same for every one? Are they affordable, accepted? How are they calculated, what is their cost structure? Dialogue makes it possible to compare different rationalities (political, social, economic, environmental) until a compromise is reached that is acceptable to everyone, because it is explicit and validated within the framework of a process of collective intelligence. For example, the principle whereby "everyone has a right to a level of service at an affordable price" is accepted if one is willing to consider that the service may be different depending on the cases, differentiated by the technical methods used: collective water points, sale from ...

¹ In Benin, the Quadrilogue process has been underway since May 2006 in collaboration with the Partnership for Municipal Development and the National Association of Benin's Municipalities. It initially covered all the essential services (water and sanitation, waste, energy, telecommunications and public transport) via a national approach. A subsidiary approach was specifically undertaken for drinking water supply and water sanitation services in partnership with the World Water Council. In Togo, the process began in 2007 in partnership with the Union of Togo's Municipalities. It took a global approach to all essential services and was also broken down to a sectoral basis for drinking water and sanitation. Local committees for essential services have been set up in the municipalities of Atakpamé, Sokodé and Aného.

² Drinking water and sanitation, household waste, energy, transport and telecommunication.

The Interest of Multiplayer Dialogue for Public Service Operators

By Jean-Marie Tétard, Advisor to the Chairman of the Institut de la gestion déléguée

... individual water points, individual domestic connections. If a household deems a service is too expensive it must have the possibility of choosing a less costly technologic – but it must also accept that it will no longer be getting the same service.

In this context, the “private sector” is often represented by public operators or NGOs that are driven by “market” logic when they provide a service. When the dialogues are initiated, these operators regularly find themselves in the dock: they are responsible for providing services – and consequently to blame for deficiencies. This debate is completely relevant and must be fully dealt with during a Quadrilogue: it will allow a number of taboos or unspoken resentments to be exorcized, there will be no more impugning of motives and, finally, it will be possible to make headway in the collective understanding of essential services. It is therefore essential for operators to play the game in this dialogue, even if it may be uncomfortable at the beginning: no credible prospects for improvement will come about without their participation and cooperation.

Operators play a key role in these Quadrilogues because they represent the “materiality” of services: pipes and the cost of pipes, staff and the cost of salaries, technologies and the cost of patents, financial resources and the cost of financing. These are the material and economic data they will strive to place – through dialogue – at the heart of the vision that the other players have built of these services, as overriding realities that will have to link up with the other terms of the equation.

During the diagnosis phase operators make a twofold contribution. They first inform the other stakeholders of the exact situation of the service

es they provide, they give detailed facts and figures that allow them to describe their activity and present their operating methods. It is quite common to observe the ignorance – or very sketchy knowledge – of the users and local communities in terms of the operators’ actual activity. It is consequently extremely important to devote the time required to explain and straighten out the initial premises. Their role also consists in questioning the other actors on their own responsibilities. Admittedly, operators intervene at the end of the chain, but much of their effectiveness depends on the regulatory framework that has been set for them, the resources they are allocated and related activities that they are not responsible for: unheld promises of matching grants, inappropriate tariff-setting by the government, bills unpaid by well-off users, road works that damage their infrastructure, they cannot give a capacity to pay to populations that are unable to pay. This is a decisive moment in the debate as it helps bring out a systemic representation of the governance of services in everyone’s minds and the idea of shared responsibility. No single person is to blame – and no single person has all the solutions; practices must be overhauled together.

Safeguard role

During the second phase, which leads to a stabilized shared vision of services, operators generally act as a safeguard. Once the diagnosis phase is over, they gain the respect of the other players: the safeguard is the one who dampens fervor and keeps enthusiasm in check, because he is the one who can “present the bill”. He is recognized in the dialogue as being the representative of the “real economy”. This role is, however, positively offset by the other players, because if the operators become prescribers of what is economically acceptable, the other participants clearly assume their responsibilities and say what is politically, socially, and (more rarely) environmentally acceptable. ...



Jean-Marie Tétard
Institut de gestion déléguée

Jean-Marie Tétard began his career at the French Ministry of the Environment in the Department of Pollution Prevention. He has also conducted various expert missions for the World Bank, the French Ministry of Foreign Affairs and the French Ministry of Equipment, and was for 5 years assistant to the Director of Urban Planning on the issue of developing countries. He is currently special advisor on essential services to the Chairman of the Institut de la gestion déléguée.

The Interest of Multiplayer Dialogue for Public Service Operators

By Jean-Marie Tétard, Advisor to the Chairman of the Institut de la gestion déléguée

... The role played by the Quadrilogue, by creating a balance between the different logics, can consequently be clearly seen: each player is legitimate in his role, and is aware of his responsibilities and the constraints of the others. The conditions are then met to seek a compromise that will provide the best response to all expectations.

The Quadrilogue, a platform to legitimize the private sector?

In both Benin and Togo, the participation of the “real” private sector in the provision of essential services is still in its infancy. The priority is to improve the collective comprehension of economic mechanisms and integrate them into realistic social, political and environmental strategies that are pragmatic in terms of local situations. It is eventually - without being an objective in itself - a question of creating favorable conditions that will allow the private sector, with all its specificities and with a well-defined role accepted by all, to contribute to improving essential services.

The Benin and Togo Quadrilogues gather players with real responsibilities that are recognized for their benefits. They have consequently made a twofold contribution to giving legitimacy to the private sector in these countries. The historical operators who then take the floor (even if they are public) first do so from an economic point of view; they gradually build up the market logic of services in the minds of the other partners in the dialogue. Moreover, some associations that are similar to an entrepreneurial model (water vendors, waste collectors, small-scale urban transporters) are accepted around the table as being essential players, even if they have no official responsibility, little economic weight and a legitimacy that is sometimes challenged by regulations – in cases where the historical operator has a legal monopoly. By taking the floor during these Quadrilogues, these players raise the awareness of the various partners to the economic and financial constraints that are inherent, for example, to water management. They consequently play an important educational role and help avoid “public-private” quarrels – a luxury that these countries surely still cannot afford. ●

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

The World Economic Forum Water Initiative gathers governments, bi- and multilateral institutions and international companies for one objective: to promote PPPs in water. In this article, by giving a mixed review of actions by the Water Initiative in India and South Africa, Christoph Jakob underscores how important the multi-stakeholder approach is and the role of industries – too often ignored – in the implementation of these PPPs.

Beyond PPPs: the World Economic Forum Water Initiative, a Multi-Stakeholder Approach

The World Economic Forum's public-private water initiative in South Africa and India showed that "Brokerage Networks", involving stakeholders across all sectors, proved successful in conceptualising, and implementing water projects aimed at both boosting economic growth and satisfying human needs. The Indian initiative focussed on many small-scale multi-stakeholder water projects endorsed by the government and brought satisfying results. Less successfully, multi-municipality water projects were planned, but not implemented, in South Africa. Many lessons can be learned from these experiences.

By Christoph Jakob, seconded from Swiss Cooperation to the World Economic Forum

The World Economic Forum has, since 2005, been working with the Swiss Agency for Development and Cooperation (SDC) and Alcan Inc. on a pilot public-private initiative on water in developing countries – the Water Initiative. Extensive stakeholder consultations were initially conducted to determine where efforts could be best directed. One conclusion was that water partnership projects designed to provide water for both economic growth ("water for industry") and human needs ("water for health") are relatively easy to conceptualise and present a straightforward argument for public and private co-financing. However, they are very often difficult to broker, design and implement since both public and private sector entities generally face too high transaction costs. This "bottleneck" in the project planning stage must be overcome to see more investments in the water sector.

The Water Initiative aims to develop "Brokerage Networks" involving stakeholders across all sectors – governments, businesses, civil society, development agencies and international organisations – and facilitate more effective collaboration to develop and accelerate a series of win-win partnership projects. These projects would in turn help improve access to water for communities in

line with the UN Millennium Development Goals, while securing reliable water resources for industries to foster economic growth. The fundamental objective of the approach is thus to bring together, via shareholding, all the various main parties that might benefit from the project, and coordinate their actions.

Outcomes of the Water Initiative

The Water Initiative decided to initiate two pilot Brokerage Networks in India and South Africa. Indeed, the World Economic Forum enjoys a solid relationship with both these countries and both are experiencing rapid economic growth yet face water security challenges.

All the various cross-sector parties involved in the project collaborated in these "Brokerage Networks" the purpose of which was to:

- Lower transaction costs (especially entry costs) for all stakeholders to engage in the project;
- Reach consensus among all stakeholders from the outset, thereby reducing the risk of future project disruptions;
- Provide the neutral space for stakeholders to challenge and constructively resolve project issues;
- Ensure that projects were "bankable" and aligned with existing economic growth and social development strategies, thereby stimulating additional finance for these projects backed by political and private sector heavyweights. ...

Christoph Jakob 
World Economic Forum

Christoph Jakob, after studying political science and law, worked for various local and international organizations, particularly in South America and Southeast Asia. He was subsequently head of quality assurance at the Humanitarian Aid Department of SDC (Swiss Cooperation) between 2002 and 2006. He has been on secondment from SDC since 2006 and works in the World Economic Forum environmental initiatives team where he is in charge of implementing platforms for water in the framework of public-private partnerships.

Beyond PPPs: the World Economic Forum Water Initiative, a Multi-Stakeholder Approach

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... The Water Initiative demonstrated that it is possible to leverage 3 USD from the public sector and 6 USD from the private sector in project finance for every 1 USD invested in the Brokerage Network by the development agency.

The Indian and South African initiatives

The Indian Business Alliance on Water (IBAW) is a national level public-private partnership involving the Confederation of Indian Industries (CII), USAID, the SDC and the UNDP, that was catalysed at the Forum's 2005 India Economic Forum (www.ibaw-india.com). The IBAW catalysed 25 project proposals throughout India, 14 of which are based in Rajasthan. This partnership at state-level with the State Government of Rajasthan is called the Rajasthan Business Alliance on Water. Project proposal topics include desalination plants, rural water supply and sanitation systems, rainwater harvesting, groundwater recharge systems, wastewater treatment and sewage treatment facilities. The IBAW used an initial 200,000 USD grant from USAID to appoint a full-time Project Officer and to organise project development meetings, which in turn stimulated an additional 20,000,000 USD of public and private finance for the projects. The IBAW has been approached by other Indian states to replicate this partnership and is now examining this matter with government officials of other potential states.

In South Africa, the NEPAD Business Foundation (NBF), with the support of the World Economic Forum Water Initiative, has helped facilitate a multi-stakeholder water network that includes government departments (such as the Department of Water Affairs and Forestry, the National Treasury PPP unit and the South African Local Government Association), development and commercial finance institutions (such as the Development Bank of Southern Africa, Trans Caledon Tunnel Authority and Standard Bank), civil society groups, national and multinational companies, especially from the mining sector, and finally, multilateral institutions (such as the European Investment Bank, IFC and the African Development Bank).

This network aimed at developing two major "win-win" water project propositions in South Africa – large and complex projects that involved the col-

laboration of multiple municipalities, agencies and industry sectors. Combined, these two projects were designed to provide clean water for 750,000 people in some of the poorest areas of northern South Africa, as well as to secure reliable water supplies to industry to stimulate economic growth.

Due to capacity constraints within the NBF at the time, the projects, after conceptual agreement was reached, were handed over to project champions for implementation. It has regrettably not taken place failing the appointment of an "external coordinator".

The success of the South African projects seems less convincing compared to the Indian one. Yet, activities are to be extended to other SADC countries with due consideration for lessons learnt from the positive pilot experience. In preparation of Phase 2, the NBF has established a dedicated Project Management Office (PMO) to serve as ...

Water Recycling Project in Rajasthan

Shree Cement Ltd currently operates a cement factory in Beawar, in the Ajmer district in Rajasthan. This district suffers from a lack of sewage treatment and waste disposal facilities, thus resulting in health concerns and polluted groundwater. Shree Cement will build and operate a sewage treatment plant that

treats and reuses wastewater in its cement factory. This project will free up 1000 m³ of water per day. The project will be conducted in partnership with the Government of Rajasthan, who will provide land for the treatment plant, as well as the local government who will provide the wastewater supply infrastructure.

Hartbeespoort Dam Project in South Africa

This project will treat and pipe poor quality, non-potable water from the Hartbeespoort Dam in the Gauteng Province to north and potentially to Botswana to be used as industrial-grade water by various heavy industries, thus providing them with the water they need to maintain and grow their operations in the North West and Limpopo

provinces, creating employment and supporting wider provincial economic growth. The volume of potable water currently being used by these industries will be reduced by up to 50%. Clean water will thus be supplied to approximately 595,000 people in two district municipalities.

Beyond PPPs: the World Economic Forum Water Initiative, a Multi-Stakeholder Approach

By Christoph Jakob, seconded from Swiss Cooperation to the World Economic Forum

... a cooperation hub for project development. More companies will come on board to tackle targeted projects aligned with the SADC priority Growth Development Corridors. At the 2009 World Economic Forum on Africa, over 60 public and private sector, civil society and NGO participants endorsed this idea and will re-convene in the autumn of 2009 to develop the implementation action plan.

Lessons Learned

Stakeholders who have been involved in the regional processes to date have expressed their desire to scale up these activities (for example in multiple states across India and across the Southern Africa region). New stakeholders have signalled their interest to replicate the model in other regions (for example in the Middle East, suggesting Jordan as a potential starting point). Before moving forward, it is important to draw from the lessons of the pilot network experience.

Necessity to appoint a coordinating project officer: it is crucial to have full-time, dedicated resources to coordinate the network and oversee the work from the design process through to the implementation phase. The India pilot network used part of its USAID grant to remunerate a dedicated project officer who worked with the network stakeholders to broker the project proposals. The South Africa pilot network did not have sufficient funding to appoint a full-time project officer. After the project design discussions, the project concepts were left to the specific project stakeholders to be carried forward, which slowed down the project implementation progress. However, in Phase 2 of the South Africa network, a dedicated PMO and project officer, sponsored by the SDC, have been appointed.

Government endorsement: the official backing of government at the highest level is key for success (only a stable government with credible water policies). This kind of backing provides the credibility that a network needs to engage the necessary stakeholders. In India, the Chief Minister of Rajasthan initiated the State partnership which most likely convinced private sector companies and civil society of the IBAW's legitimacy as a partner. However, in South Africa, stakeholder commitment was hard to obtain as the network was not officially launched as a government-endorsed initiative.

Multi-stakeholder network and engagement:

the creation of a network can facilitate more effective collaboration between multiple stakeholders. Due to the political nature of water, it is sometimes unrealistic to work through government or donor-led initiatives alone to promote innovations or reforms in the water sector that include the private sector. A balanced selection of "network partners" and designated representatives that participate as equals is required from all sectors concerned.

Clearly-allocated roles and responsibilities:

India's pilot network took a more formal partnership approach with the IBAW, which included a Memorandum of Understanding signed by all partners. However, the stakeholders of the South Africa network took a more informal approach. While it is difficult to say if one approach is decidedly better than the other, it appears – based on the pilot experience – that some structure and agreement as to stakeholders' roles and responsibilities is beneficial in the project design process.

Types of projects: the India network focused on a larger number of smaller-scale projects compared to the two large-scale multi-municipality projects in South Africa. This experience shows that it is easier (and less politicised) to develop the smaller projects. In addition, projects that focused on demand and efficient use / re-use of water resources seemed less contentious than projects centred on water supply (increasing water capacity).

Managing lead-times: a lead-time of about one year is necessary for the preparation of new networks and to initiate the processes to catalyse and develop project ideas. However, once the network and process are up and running, the time to generate additional project ideas decreases. For new networks to be sustainable on their own, a 2- to 3-year process is necessary.

Management of water needs stands out as an urgent, tangible and fully resolvable issue. The experience of the Water Initiative in India and South Africa shows that this issue can effectively be tackled thanks to a multi-stakeholder effort supported by government. ●

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

Veolia Water Africa, Middle East, India was set up to meet the specific challenges of these three regions. In order to succeed, international private operators must constantly innovate; via a series of examples, Patrice Fonlladosa shows us how Veolia has adapted to local conditions and reduced the cost of access to water for the poorest. The company today supplies over 8 million inhabitants and in 3 years has provided 300 000 people from the most disadvantaged populations with access to drinking water.

How to Develop Access to Water for the Most Disadvantaged Populations?

Veolia designs and implements specific programs for access to water, sanitation and electricity services for all. Water tariff policies are core to the success of programs to develop access to essential services. They must be made “socially acceptable” by reducing production costs and bearing the cost of network connections. Veolia’s experience shows that it is necessary to innovate – technically as much as socially – in order to provide the poorest with “tailor-made” community-based solutions and flexible services.

By Patrice Fonlladosa, Member of the Executive Committee of Veolia Water and CEO of Veolia Water AMI (Africa, Middle East, Indian Subcontinent)

The application of the “water pays for water” principle that is often in force in developed countries is unrealistic in developing countries. The investments required are far too heavy and the principle of “full cost recovery” must be replaced by the notion of an “acceptable cost recovery” from the consumer.

Making tariffs “socially acceptable”

The tariff of an essential service such as access to water must be socially acceptable and to be so, its price must be adapted to the user’s income. Mechanisms must be designed to finance service charges for connections or consumption that cannot be borne by households. For example, in Morocco, the tariffs set by the authorities include several blocks; the first is a “social” tariff block: six cubic metres a month sold at a price lower than that paid to the producer, ONEP, the national drinking water authority. The tariffs in the upper blocks subsidize the social block. By developing submetering – installing meters for each apartment in a building – Veolia extends this social mechanism to the widest possible number of families.

In Gabon, the most disadvantaged households have access to a social tariff that is made possible thanks to an equalization system implemented for all the water and electricity services managed by the Gabon Energy and Water Company (SEEG): the water service sells the cubic meters in the social block at a loss (up to 15 m³ a month). There is a combination of three types of solidarity here: solidarity among subscribers that lowers the price of the social block; geographical solidarity between major cities and remote

areas, the former financing the latter; solidarity among activities with resources from the electricity service financing investments in the water service. The diversity of activities allows the accounts of services in deficit to be balanced. In Niger, water tariffs are among the lowest in the region: the high billing recovery rate – 97% for private customers and 98% for commercial and industrial customers – bears witness to the affordability of the water price.

Reducing connection and production costs

There is no use reducing the price of a cubic metre of water... if you do not have access to the network! Indeed, the connection fee is the main obstacle to connection. In Morocco, Veolia has developed “social connection” processes with the delegating authorities in order to provide access to individual connections. Original financing mechanisms have consequently been implemented using a combination of credit, taxes and local revenue based on equalization among users and geographical areas, as well as financing from national and international donors. For example, in 2006, Amendis – a Veolia subsidiary in Tangiers – received a two million dollar grant from the World Bank and the Global Partnership for Output Based Aid (GPOBA)¹ in the framework of a pilot “output based aid” project. This type of aid, whereby the disbursement of a grant is dependent on the achievement of quantifiable objectives set in advance, is seen as a way of optimizing the use of donor funds and the State budget and, at the same time, mobilizing private capital. Amendis is consequently experimenting with this mechanism in order to promote the connection of disadvantaged populations to water ...

¹ The GPOBA gathers donors and international organizations that provide output-based aid (OBA). GPOBA’s mandate is consequently to design, finance and support projects that provide services and basic infrastructure in developing countries.

How to Develop Access to Water for the Most Disadvantaged Populations?

By **Patrice Fonlladosa**, *Member of the Executive Committee of Veolia Water and CEO of Veolia Water AMI (Africa, Middle East, Indian Subcontinent)*

... and sanitation networks. This aid has made it possible to subsidize the connection of over 3 000 households living in disadvantaged neighborhoods. The works fund, which is managed by Amendis, prefinances the investments pending the disbursement of the grant which is proportioned to offset the gap between the beneficiaries' contribution and the real connection cost. Amendis and the delegating authority consequently both bear all the financial risks and are both interested in achieving the objectives that have been set for this operation. Thanks to this type of mechanism, between 2003 and 2008, some 250 000 people benefited from access to water "at home" in Morocco (almost 100 000 people for sanitation). In India and Niger, social connections are subsidized at installation by the State and international donors.

Reducing costs for consumers also involves reducing production costs. It is therefore necessary to try to optimize the way in which existing infrastructure is operated: water production plants and depollution units, water and sanitation networks, reservoirs, etc. In actual fact, the aim is to serve more people with the same capacities. Effective management also helps increase supply. Since 2006, in the framework of a performance contract signed with three cities in the State of Karnataka, Veolia Water India has managed to provide 180 000 people with a continuous supply, whereas they had previously only benefited from a few hours of water per week in the best of cases. In Niger, drinking water production increased by 8% during the first three years of the contract simply by optimizing existing equipment.

Innovation to develop "tailor-made" services

Despite the implementation of such mechanisms, not all families can currently benefit from an individual connection. Veolia has consequently developed an innovative system which it has proposed to the Moroccan authorities whereby the most disadvantaged families benefit from six cubic metres of water a month prepaid by the municipalities² from a new type of fixed price standpipe called a "Saqayti". These standpipes contribute to rational

and sustainable water management by allowing the poorest populations to continue to have free access to drinking water. This system for access to water is subsidized, collective and secured and completes the social connection services by providing a solution that is specifically tailored to supplying households that are the most in need pending their individual connection.

Solutions for disadvantaged populations are designed in partnership with elected representatives and the inhabitants. Veolia's aim is to provide as many people as possible with a tailor-made service and, for example, has set up "mobile agencies" in Morocco that visit clients within their communities. These buses have been transformed into client agencies and have a specially trained staff. Many operations can be made such as requests for "social connections", subscriptions or bill payments. These buses travel to outlying neighborhoods and villages according to a schedule set in advance with the inhabitants; clients that live in remote areas without a means of transport consequently have access to the same service without having to travel. The numerous payment outlets, "Jiwars" (franchise networks), complete this flexible, community-based service. The population particularly appreciates these innovations since they have little access to banking services and pay most of their bills in cash. All these services make it possible to reduce the indirect costs of access to water (cost of transport, contact with operators, etc.).

Yet it is not enough to provide drinking water, a sanitation service or innovate technologically: it is also essential to explain "best practices" to beneficiaries in order to maximize the benefits of access to services. The dissemination of clear messages to inhabitants on the best way to use water, sanitation and electricity is an integral part of the service that Veolia provides to its clients. In the case of newly served households, Veolia conducts awareness-raising actions on hygiene and health in partnership with NGOs and doctors. SEEN, the Niger water operating company, has launched a far-reaching "Water and Health" process which trained ...



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² Similar prepayment systems have successfully been implemented in Gabon for electricity distribution.

How to Develop Access to Water for the Most Disadvantaged Populations?

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... its 550 staff during its initial phase; the second phase includes a health education program for populations in 52 urban centers where it manages public water services. It is also necessary to continuously innovate in the fields of information and training.

To conclude, it is worth noting that Veolia's projects to promote access to water are subject to continuous evaluation. Several scientific evaluation programs initiated with partners that are recognized for their

competence and independence are underway. For example, since 2007, the impacts of the individual social connections made by Veolia in Tangiers have been studied by the Poverty Action Lab, a laboratory specialized in the random evaluation of poverty reduction programs³. By continuously seeking to optimize costs, Veolia's aim is to make tariffs for essential water services "socially acceptable"; in the same spirit, Veolia seeks to provide practical solutions to the needs of the poorest populations *via* continuous technical and social innovation. ●

³ This laboratory was set up in 2003 at the Massachusetts Institute of Technology (MIT). It is led by Esther Duflo, who also holds the annual "Knowledge against Poverty" chair at the Collège de France – this chair is supported by Agence française de développement.

Veolia's involvement in "social business"

In 2008, Veolia set up a joint venture based on the "social business" method with Muhammad Yunus, Professor of Economics and Nobel Peace Prize winner: Grameen-Veolia Water Ltd. Its first project involves implementing a quality water service for 100 000 inhabitants in Bangladesh in an area where the aquifers are shallow and naturally contaminated by arsenic. Works are ongoing and the service will be commissioned in the second semester of 2009. In line with the principles of "social business", profits from this new service will be re-used to increase supply and launch similar projects.

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

The experience of the past twenty years has shown us that international operators can come up against difficulties in adapting to local contexts. Small-scale private service providers (SPSPs) have been too often forgotten in public-private partnerships. However, based on research conducted by ASPA Utilities – which advises multilateral organizations, development agencies, ministries and private players – Bertrand Dardenne shows us that SPSPs have now become a credible – if not essential – alternative.

A New Generation of Public-Private Partnerships for Drinking Water and Sanitation in Developing Countries

There is a gradually rising trend in developing countries towards more professionally managed urban drinking water services as a result of delegation to private companies. The integration of a new generation of often small-scale national private operators into water distribution networks certainly contributes to the implementation of a public service of good quality. It is, however, also a new and complex challenge that States and donors must address today.

By Bertrand Dardenne, General Manager of ASPA Utilities

A recent World Bank study (Marin, 2009)¹ analyzes the experiences of the last fifteen years in terms of public-private partnerships (PPPs) for urban water and sanitation services in developing countries. As the World Bank itself had widely advocated the systematic use of PPPs in the 1990s – before taking a more moderate position – this study was keenly awaited. The publication bears witness to the emergence of a second generation of PPPs in developing countries; the private sector may have been serving an increasing number of people since 2000-2002, yet there has been a radical change in the type of operators intervening.

Major operators ill-adapted

At the outset, private operators were mainly major international companies, particularly French companies (Générale des Eaux - Veolia, Suez - Lyonnaise des Eaux, SAUR). Although there was a sharp drop from 2000-2002 onwards in the involvement of these major groups, which were replaced by a new generation of national operators, they do still remain dominant. Indeed, when the first public-private partnerships were implemented in the water sector, there was no local offer available from private players. It was consequently necessary to turn towards major international companies that already had the required experience and know-how.

Yet is it really rational to call on a group like Suez to manage water and sanitation in cities such as Limeira in Brazil for example? Suez did successfully play its role as a pioneer in this case, but is it re-

ally the best player to meet new demand? Whatever the answer to that question might be, one can see that there are currently no foreign operators among the fifty or so PPPs that currently exist in Brazil's water sector. All the "international" players have, in one way or another, sold² their stakes to national players. At the same time, we have witnessed the gradual emergence of structured services provided by private operators that are 100% Brazilian. Some of them now have about ten years' experience in medium-sized cities and their results are generally satisfactory.

It is likely that the "misadventures" that marked the first generation of PPPs partly stem from the fact that the services provided by the private sector did not match public sector demand. In their rush to set up concessions that seemed the perfect solution, national public authorities and the donors that supported them forgot that it takes two to talk about public-private partnerships. The "invisible hand" of the market does, of course, dictate that demand creates supply, but Adam Smith did not say that this new supply would come about overnight!

The decision to entrust concessions or affermage to private operators was consequently often taken for lack of another solution: since State-owned companies were unable to provide solutions, one might as well call on private professionals. But the fact that institutional operators are chronically weak does not mean that a private player can do any better. It takes time for the new market of private operators to establish itself and take hold ...

¹ See also the article by Philippe Marin in the issue of Private Sector and Development.

² Suez in Limeira and Manaus, Aguas de Barcelona in Campo Grande, Aguas de Portugal in Cabo Frio, Earth Tech in Nova Friburgo. Veolia is the only one to have kept a minority stake in Sanepar in Paraná, but it is not the operator.

A New Generation of Public-Private Partnerships for Drinking Water and Sanitation in Developing Countries

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... at the regional level. The presence of major international groups is fully justified for a handful of sites where state-of-the-art technologies are required. But these groups have not proved that managing a vast number of medium-sized cities as a whole has brought about real economies of scale. National or regional operators are required to operate services in these small or medium-sized cities. Water services do not simply come down to technical capacity – even if the latter is indispensable. The fact of delegating such a public service to a private actor is already an act that – as far as we defend the concept – legitimately gives rise to debate; delegating the management of this public service to a foreign company also legitimately raises other questions.

Small-scale private service providers, better equipped?

Drinking water is an essential public good that carries evident cultural, political and social components that are specific to each society. If such a service is to be well managed, it is necessary to have a deep understanding of the institutional mechanisms and the local way of thinking, to fully integrate into the context. It would consequently appear that one of the major issues over the coming years resides in the creation of a real national market of operators.

This emergence can arise when local entrepreneurs take control of operations implemented by the subsidiaries of major international groups. The loss of interest on the part of groups, Suez in particular, in international operations conducted on all fronts led to a number of spin-offs of overseas subsidiaries which were bought by local players. Elsewhere it is the local partners that were from the outset involved in operations implemented under the leadership of international firms that are taking hold: they are gradually taking control of the joint-ventures *via* a more or less friendly process. The di-

versification strategy of national companies that were firmly focused on other core activities (public works, public transport services, agribusinesses) also encourages a private local supply. This is also the case with the consolidation and formalization of small private players that were already present on the more or less informal small-scale water supply market. Indeed, on a vast number of urbanized sites which are not covered by an official “urban” water service, city dwellers are mainly supplied by private initiative.

Most of the small-scale water suppliers are simply carriers and do not have any real resources or capacities to evolve towards a more structured professional activity. But we can also find real entrepreneurs that have gradually managed to build up more elaborate structures and even manage networks, generally without any State aid, sometimes even without any authorization from public authorities. In Paraguay, a pioneer country in this field, a third of domestic connections in the country's two main cities are provided by several hundred small-scale informal and independent operators, the *aguateros*. They have provided almost 50 000 connections in Asunción over the past fifteen years, whereas Corposana, the formal operator, only established 62 000 with considerable support from institutional financing. Mozambique provides an interesting example. It is clear that the presence in Maputo of 400 private operators that are too small and too informal alongside an “official” concessionaire that only covers half of the city is not satisfactory. Yet this market is certainly being structured relatively quickly and supply is being consolidated. The biggest operators are reaching a size which leads them to become completely formal and acquire skills and a technical control that turn them into real professionals. A small group of dynamic companies is consequently being formed. They can successfully participate in public-private partnerships that in this case are organized according to best practices and meet the specific requirements of public service management. Some small-scale private service providers (SPSPs) in Mozambique are already using ...



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A New Generation of Public-Private Partnerships for Drinking Water and Sanitation in Developing Countries

By Bertrand Dardenne, *General Manager of ASPA Utilities*

... the experience they have gained in the outskirts of Maputo to bid for concessions for water services in small towns elsewhere in the country.

Towards a regulation and integration of SPSPs?

Similar SPSPs have sprung up in other countries: Cambodia, Vietnam, Mauritania, Uganda. The spontaneous development of informal SPSPs is both attractive and a cause for concern. It is attractive because it is a sign of social and economic dynamism, the symbol of an entrepreneurship that should be encouraged. It is a matter of concern because urban drinking water services are supposed to be a public service that must meet health and technical standards on the one hand, and equity and accessibility standards on the other hand. The anarchic development of small-scale private service providers does not guarantee the quality of a real public service and gives cause for fear of possible Mafia-like abuses.

Public authorities face a sensitive issue. It would be absurd to seek to outlaw small-scale private service providers. It is surely preferable for a suburban population to have access to an SPSP service than nothing at all, even if tariffs are high, even if the quality of equipment and water is often questionable. But how can we take advantage of this spontaneous dynamism, without muzzling it with heavy

administrative constraints? What is the right way to integrate it?

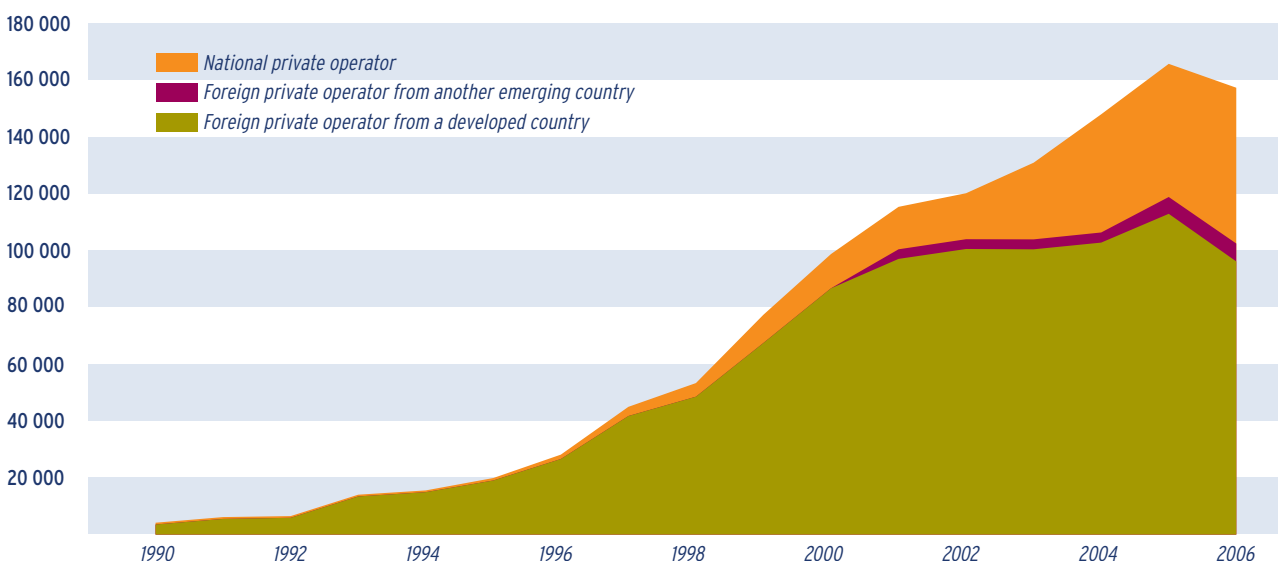
The challenge lies in creating a new generation of PPPs that meet the requirements of public service without excluding the SPSPs, by regulating them and integrating their services into a coherent system. This is a new issue that States and donors really have to face today. And to address it efficiently, it will certainly require a strong dose of pragmatism. ●

A small-scale private service provider in Mozambique

José Alberto Gulele was a farmer in the outskirts of Maputo. In 2000, when Greater Maputo finally spread out to reach his neighbourhood, he became an SPSP and started to supply drinking water like the 400 or so other SPSPs in the city's suburbs where the public concessionaire does not have a network. Today he owns six bore holes, which supply 422 individual

connections, and a standpipe. Five employees work full time on water works and meter reading, while his wife deals with monthly billing. He set up his business using his own resources and by reinvesting profits. Mr. Gulele only requested a bank loan once (€10 000 over a year with 27% interest). His business is not official. He is barely tolerated. The company is typical of Mozambique's informal sector.

Population served by private operators in emerging countries



Source: Marin, P., 2009, *Public Private Partnerships for Urban Water Utilities, a Review of Experiences in Developing Countries*, World Bank

Lessons learned from this issue

By Maurice Bernard and Julien Lefilleur

Contrary to certain conventional beliefs, private sector involvement in water distribution and sanitation services – mostly via public-private partnerships (PPPs) – has been widely scaled up in emerging and developing countries over the past fifteen years. Yet the share of traditional international operators in this segment, mainly French operators, has declined in both relative and absolute values. The market is in fact boosted by the emergence and expansion of new private operators from the South. If we consider performances in terms of drinking water coverage, service quality or operating efficiency, PPPs have achieved satisfactory results. However, results are less conclusive in terms of targeting poor populations. Indeed, these disadvantaged populations, who often illegally occupy areas outlying major cities, have posed new challenges for all the stakeholders in these PPPs. On the one hand, these populations are often poorly represented within civil society and as a result public authorities did not explicitly integrate their needs for access to the service into sectoral policies. PPP contracts therefore generally did not include specific objectives in this respect. On the other hand, international operators – the first to penetrate these new markets back in the mid-1980s – were unfamiliar with such varying local socio-economic contexts. It took them a long time to adapt their services and they initially tended to ignore these populations which presented less economic interest and considerable risks of insecurity due to the informal and disorganized nature of their settlements.

The urgency of situations, as well as political and social imperatives, rapidly compelled the different players to seek solutions to this problem of the exclusion of the vulnerable population. Operators, who wanted to ensure they would be there over the long haul, therefore set out to innovate both financially – by inventing new financing methods for non-profitable segments (public subsidies, redistribution mechanisms...) – and technically – by providing different services tailored to the specific demand of different types of client base. They consequently helped roll out a social and technical alternative to the “universal network” as it is designed in developed countries. At the same time, local civil society organized itself in order to define and communicate its needs, often via regulation mechanisms. Finally, due to their political and media exposure, these experiences led the relevant national and local public authorities to define more realistic sectoral policies and financing strategies that integrated the poorest. While private sector involvement has had, until now, a limited direct impact on access to water for the most disadvantaged, the experience of the past fifteen years has led the different players to make adaptations and the effects of these changes should be felt over the long term.

The situation may be improving little by little, but the impact of PPPs on excluded populations is still subject to controversy and it would appear necessary to learn lessons from (recent) experience in order to make headway along this path. First of all, the major international operators may have paved the way for PPPs in developing countries – and consequently helped give the private sector legitimacy in essential service management – but it would also seem important to foster the development and involvement of private national operators. Indeed, water is

a good that carries unquestionable cultural components; local entrepreneurs have better knowledge of them and can integrate them more easily. They are also in a better position to communicate with the authorities and local populations. Although there are emerging countries where a modern water industry is being developed, the local private sector does nevertheless still generally lack structure in most countries, is widely informal, poorly regulated and controlled, and consequently requires real institutional support in order to truly come into existence. Another lesson from these “pioneer” years is that PPPs must be implemented using a participative approach that integrates both client demand (clients that already have access to the service) and demand for access to the service from those that are excluded: the peri-urban disadvantaged populations. To achieve this, civil society must organize itself so that it can relay this demand. The need for dialogue among the different players is also an important lesson to be learned from these experiences. This communication must be formalized and coordinated in order to clarify the needs and constraints of each stakeholder and ensure the respective roles and responsibilities are clearly understood. The participative approach, together with a good communication strategy, also helps players take ownership of the solutions implemented and consequently makes the projects more sustainable. In these three respects – structuring a local private sector, integrating civil society into projects and promoting communication among the different players – donors can certainly play an important role alongside States.

In our next issue

Is the microfinance sector's increasing profitability threatening the fragile trade-off between social and financial issues?

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