

Private Sector Participation in Water Infrastructure, lessons learnt from policy dialogues

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Some issues around PPPs

- Massive infrastructure investment needs coupled with budget constraints make PS involvement an attractive option for governments – OECD & non-OECD.
- Countries struggle to meet the financial requirements for water. Lack of basic elements of a sound governance framework impedes efficient use of funding & mobilisation of additional sources of finance.
- Challenges include a lack of public sector capacity, weak financial sustainability and inadequate accountability mechanisms
- A need for focus on the governance aspects of PPPs in order to meet these challenges and to use tools and recommendations that are ‘road tested’

An important concern in OECD countries

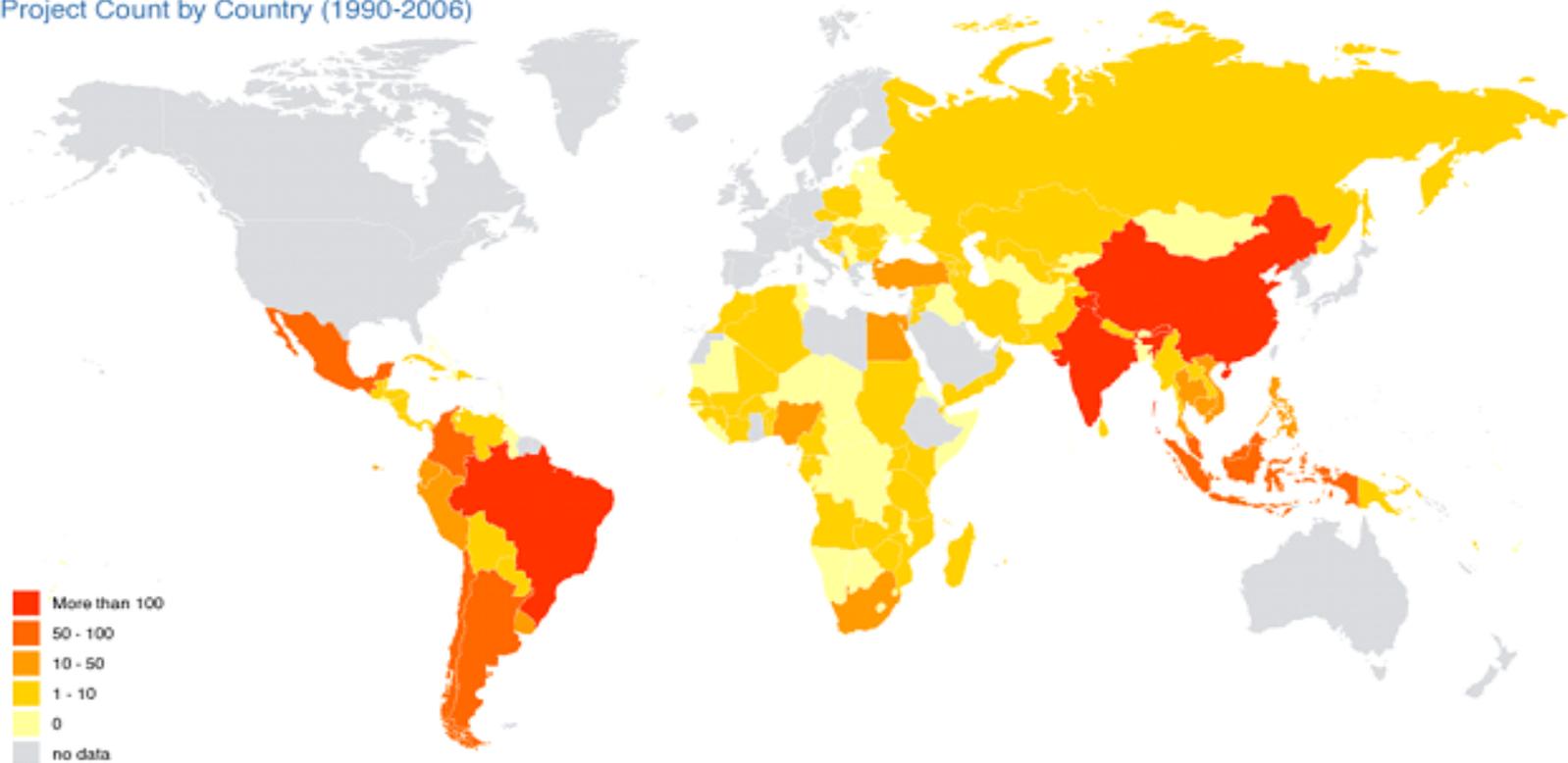
What percentage of public sector infrastructure investment takes place through PPPs?

Range	N	Country
0% - 5%	10	Austria, Germany, Canada, Denmark, France, Lithuania, Netherlands, Hungary, Norway, Spain
>5% - 10%	7	United Kingdom, Czech Republic, Slovak Republic, Greece, Italy, South Africa, Ireland
>10% - 15%	2	Korea, New South Wales
>20%	2	Mexico, Chile
Total	21	

Note: No responses for 15-20% band

PPPs are also becoming popular with many emerging & low income countries

Project Count by Country (1990-2006)



Source: World Bank (Private participation in infrastructure [PPI] database)

Diversity: the case of WWS (% of pop)

	% PSP Water	% PSP Sewerage
Austria	7	0
Belgium	3	10
France	74 Veolia: 39% - Suez: 19%	55 Veolia: 26% - Suez: 18%
Germany	21 (RWE: 16%)	18
Hungary	29	27
Italy	40 (ACEA: 16%)	29
Lithuania	0	0
Netherlands	0	10
Norway	6	0
Poland	3	3
Sweden	1	1
Switzerland	0	0
UK	88 (> 17 private utilities)	90

Complexity of water sector

Monopolistic

Capital intensive, high fixed costs, long-term investments, technology-specific, inelastic demand, low returns and important asymmetry of information.

Essential for life

Basic need, important externalities on health, gender equality and environment. Essential input for business.

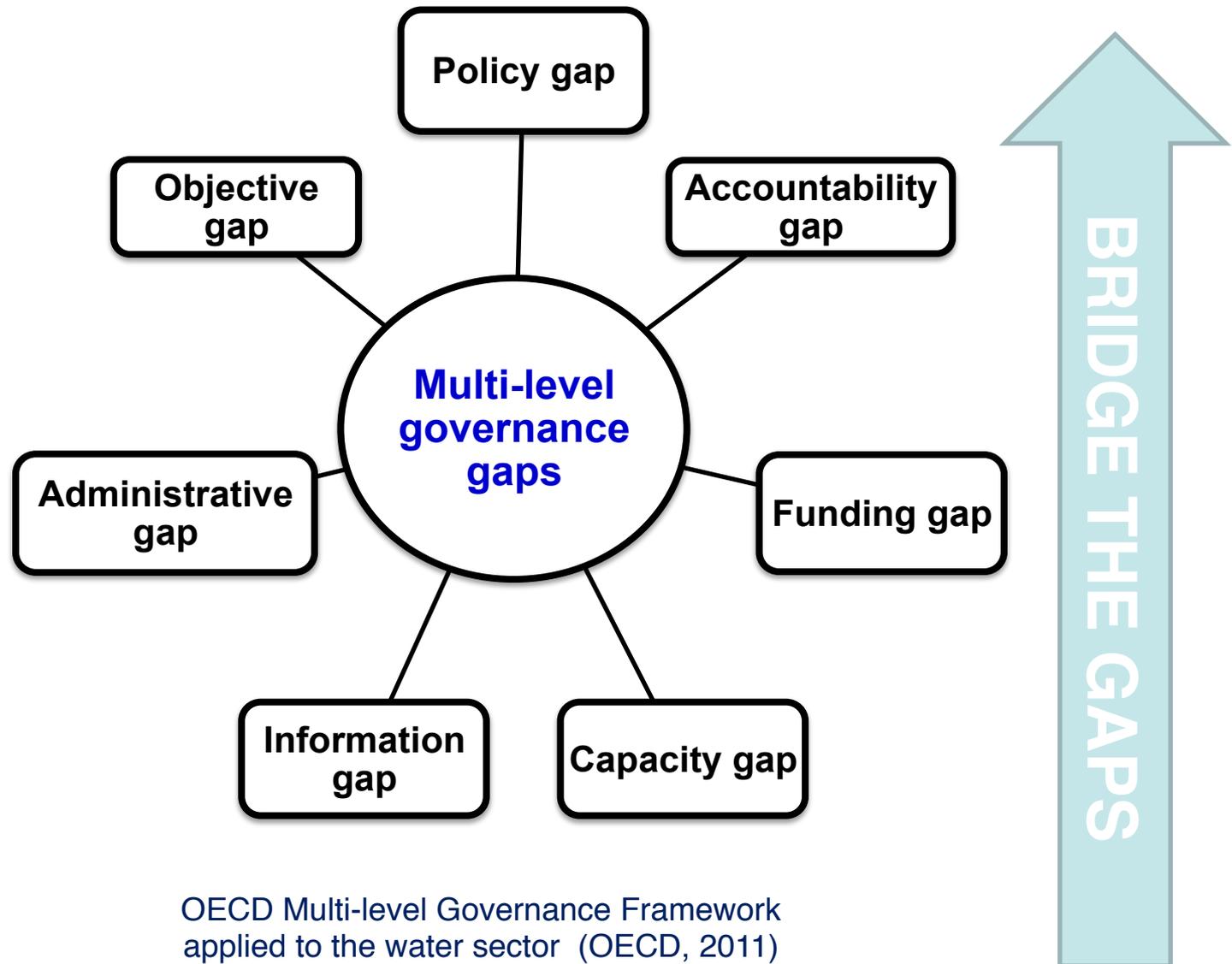
Many stakeholders and segmentation

Public sector, communities, users, employees, private sector, donors, NGOs. Responsibilities split between different ministries and across national, regional & local authorities.

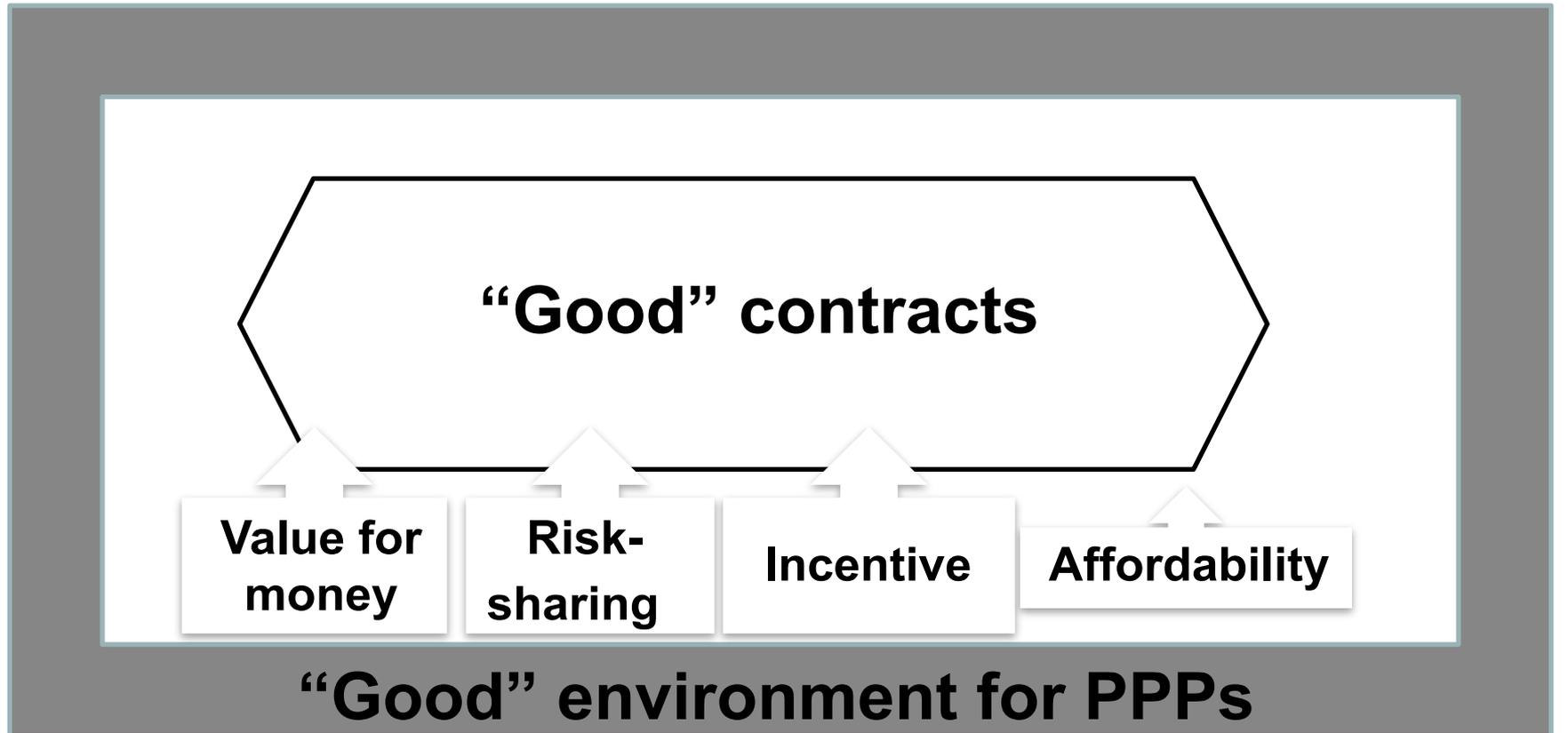
Risky

Commercial risk, contractual risk, forex risk, sub-sovereign risk, risk of capture by vested interest. Combination amplifies the risks.

A fragmented sector, with multiple stakeholders and major governance “gaps”



Making private participation work



Policy tools and processes

Tools & platforms for exchange on good practices in the institutional, policy & regulatory environment for PPPs

- Platforms**
- Network on PPPs of Senior Budget Officials
 - Network of Economic Regulators
 - Water Governance Initiative

- Tools**
- Recommendation on Principles for Public Governance of PPP
 - Checklist for Public Action in the Water Sector
 - OECD Multi-Level Governance Framework
 - Strategic financial planning
 - Recommendation on Regulatory Policy and Governance
 - Best Practices for Budget Transparency

Support reform implementation in countries through reviews:
Russia, Mexico + Egypt, Lebanon (with GWPMed)

With GWPMed, EIB & SIDA support: **Tunisia, Jordan, Morocco**

Lessons learnt, OECD water policy dialogues

- **The enabling environment:** a critical condition of success and one that is becoming even more crucial in current context of competition for financial resources
- **Building capacity at all levels of government:** acute need to bridge multi-level governance gaps & entrust reg. functions to competent, well-resourced authorities
- **Long term financial sustainability:** a particularly difficult equation to achieve in the water sector, and one associated with important regulatory risk
- **Developing the accountability mechanisms:** a revolution in government culture and practice towards performance and output based specifications with high benefits in the long term, but difficult in the short run

Institutional framework under development

Pilot projects are important to develop better understanding and trust. Over the long run, the enabling (consistent institutional & regulatory) environment needs to be in place.

- **Egypt:** strong impetus towards the end of 2000. Scalability crucially hinged on the development of the enabling environment - PPP Law ratified by Parliament in June 2010; pending Water Law.
- **Russia:** legislation in transition, PPP in stagnation - Amendments to the Concession Law; tariff regulation & technical regulations under development.
- **Lebanon:** legislative framework not in place yet, draft laws are under development or approval.
- **Mexico:** no federal framework for WSS, limited regulatory functions outside of contracts => establishment of economic regulator under consideration.

Limited capacity of resp. authorities

Real change in government culture & practice => need to catalyse expertise within government on different areas (project preparation, procurement, enforcement & monitoring, economic regulation, dispute resolution...)

- **Egypt: capacity building mechanisms and tools** - establishment of a PPP Central Unit within the Ministry of Finance; development of sector-specific tools; support from high level foreign consultants.
- **Russia: capacity at municipal level not addressed** - Creation of a PPP Centre within VEB, network of regional entities

Dedicated PPP Unit

Organisation set up with full or partial government aid to ensure necessary capacity to create, support and evaluate multiple PPP agreements by government.

Is there a dedicated public-private partnership unit at national level?

	Number of countries	Countries ¹
Yes	17	Australia, Belgium, Canada, Czech Republic, Denmark, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Korea, Netherlands, Poland, Portugal, United Kingdom
No	12	Austria, Finland, Iceland, Luxembourg, Mexico, New Zealand, Norway, Slovak Republic, Spain, Sweden, Switzerland, United States

1. No data for Turkey.

OECD (2010) Dedicated Public-Private Partnership Units: A Survey of Institutional and Governance Structures. OECD Publishing, Paris.

Arguments for setting up a unit

- **Pooling expertise** and experience within government,
- Appropriate **budgetary consideration** of projects
- **Standardisation** of procurement procedures
- **Separation** of policy **formulation** and project **implementation**
- Demonstrating **political commitment** and trust.

Functions

- **Policy guidance** on content of legislation; eligible sectors & PPP methods; project procurement & implementation processes; procedures for conflict resolution.
- In some cases (UK, Victoria, South Africa), **Green lighting projects**. In Germany & Korea, the Ministry of Finance fulfils this role, because the unit is independent.
- **Technical support** to government organisations during the various stages of project identification, evaluation, procurement, contract management.
- **Capacity building** including training to public sector officials interested or engaged in PPPs.

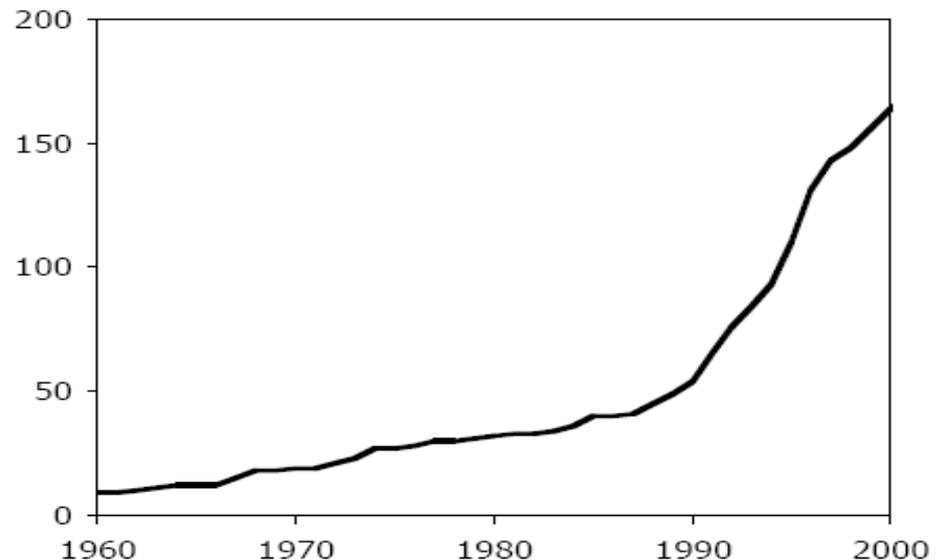
Budget and staffing, 2009

Country	Number of staff	Approximate annual budget	Funding source
Partnerships Germany	21	n/a	User charges
PIMAC, Korea	77	KRW 17 065 million (EUR 9.56 million)	Government budget & user charges
PPP Policy Team, United Kingdom	13	No discrete budget	Government budget
Partnerships Victoria	12	No discrete budget	Government budget
National Treasury PPP Unit, South Africa	20	ZAR 35 million (EUR 3.1 million)	Government budget

Regulatory authorities

- Fundamental rethinking of the role of governments over past 3-4 decades
- Need for more sophisticated understanding of “regulation” and its structure
- Progressive trend towards contracting-out & liberalisation
- Establishment of independent regulatory agencies

The diffusion of regulatory agencies in 36 countries & 7 sectors (Gilardi et al, 2006)



Improving governance of regulators

Institutional Setting:

- Legislation framing the regulator's status and powers
- Relationship & coordination with the rest of government & other regulatory bodies
- Governing structure
- Independence

Internal Organization

- Personnel (management & staff), expertise, rules for hiring
- Financial resources; operating budget; funding sources and level
- Decision making process

Role clarity:

- Objectives and mission
- Core regulatory functions
- Powers

Accountability

- reporting requirements & disclosure
- transparency mechanisms against regulatory capture
- assessment of the regulator's performance and outcomes
- Tools & mechanisms for regulatory quality

Difficult financial sustainability

The cooperation will not work if financial sustainability is not ensured. This has 3 dimensions: value for money, cost recovery & affordability for governments

- **Most countries: low cost recovery & budget constraint** - water tariffs do not recover O& M costs owing to low levels (Greater Cairo: user charges = 11% of available finance) and low bill collection rates (some 50% in Egypt, down to 11% in South Bekaa, Lebanon). Limited room for public subsidies & tough political economy of tariffs increase.

- **Egypt: scalability & affordability for governments** - Limited scope of PPPs (demo BOTs for big projects) => demand risk born by the public sector, sovereign guarantee; Forex risk & limited development of local financial market & banking sector.

What is strategic financial planning?

- Lack of realism
- Need to take better account of affordability
- Ensure that resources go where they can achieve the biggest impact
- Improve coordination of sector actors
- Improve dialogue with MoFin

=> **Need for Strategic Financial Planning**

- Approach that attempts to develop a national consensus on WWS services the country can afford in the next 20-30 years and how to pay for them.
- A methodology based on consensus-building:
 - (i) development of accepted baseline and assessment of financing gap,
 - (ii) discussion of policy options to close the financing gap,
 - (iii) development of alternative scenarios,
 - (iv) identification of most appropriate scenario and associated policy mix.

The SFP equation

The supply of finance

- Three ultimate sources of finance that can help to close the financing gap:
 - User charges
 - Public budgets (tax payers), and
 - External sources, ie ODA
- Loans, bonds and equity will need to be paid back and mainly serve to “bridge the gap”, by helping to cope with large up-front investment costs

The demand for finance

- Closing the gap requires efforts on the cost side
- There is a need to improve efficiency of WSS systems (ie leakage, energy efficiency)
- Opportunities to reduce costs through better planning and low-cost technology
- In the last instance reconsider objectives for coverage and service levels if they are unrealistic

Outcomes of strategic financial planning

- Shared understanding of issues
- Consensus on realistic infrastructure targets
- More objective discussion of tariff policy
- Reflection on realism of social and environmental objectives
- Opportunity to improve dialogue with MoFin
- Opportunity to incorporate results into MoFin MTEF and into PRSP

Nascent accountability mechanisms

If used adequately, PPP can be a powerful leverage to promote transparency and accountability to users

- **Most countries: limited culture of performance based assessment** - just starting the development of monitoring indicators.
- **Strengthening accountability in the public interest** limiting discretion, revising unrealistic regulation & establishing appropriate incentives; improving the information base and monitoring; strengthening the competitive environment, developing the tools to ensure value for money
- **Big gap: users' involvement** – respective role of utilities & government?

Thank you!

For more information:

www.oecd.org/gov/regulatorypolicy

www.oecd.org/gov/water

www.oecd.org/gov/budget/ppp

www.oecd.org/daf/inv/investment-policy/water.htm

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