

Tapping into the private sector?

Private sector participation in water supply and sanitation

Introduction

The private sector is increasingly acknowledged as an important development partner in the water and sanitation (watsan) sector, although there are some reservations about whether the private sector can meet the needs of the poorest citizens. WaterAid Ethiopia (WAE) invited a private company, Metaferia Consulting Engineers, to study the extent of private sector involvement in the watsan sector in Ethiopia, the constraints and challenges faced, and options for the future.

This Briefing note will summarise the key findings and recommendations arising from the research. The full detailed report will soon be available on www.wateraidethiopia.org.

Definition of private sector participation

Generally speaking, the term 'private sector' is used to refer to formal, profit-making enterprises, but can also denote any organisation that is not public, i.e. government owned or managed. The focus of private sector participation in the water sector has traditionally been formal water companies, which are usually large, commercial and multinational. However, small-scale and/ or informal operators are increasingly being recognised and described as private sector. Civil society organisations are also sometimes recognised as part of the private sector when they engage in water supply or sanitation provision.

Case study:

Hiwot Hand Pump Installation and Spring Development Cooperative in Assosa, BGRS, (see photo above) is a typical example of grassroots private sector involvement in the watsan sector. The 12 to 14 members received training from the Ethiopian Social and Rehabilitation Development Fund (ESRDF) and are now involved in excavating hand dug wells and development of springs for the government and non-governmental organisations (NGOs). Since the cooperative started work, the cost of digging a well has come down from 60,000 Birr to 33,000 Birr. If this type of association were to be given appropriate training and some funding, they could also bring about significant changes in latrine construction.



Photo credit: WaterAid/ 2004

Employees of artisan's association, Hiwot Cooperative, at work digging a well in a remote area of Benishangul-Gumuz Regional State (BGRS) – see case study below

Background

Millions of people worldwide lack access to safe water and sanitation facilities, in both urban and rural areas. In most cases, providing new services and significantly improving existing systems will require major investment in new works, rehabilitation and extension of supply systems and in efficient operation of water utilities. In Ethiopia, the estimated investment required to meet the Millennium Development Goals in water and sanitation is US \$2,935.8 million. Private sector participation in providing watsan services is seen by some as one alternative in bridging the existing gap, through greater efficiency and increased financial resources. However, others believe that profit-making enterprises will not take into account the needs of those least able to pay, leading to further exclusion of the poorest from these basic and essential services.

WaterAid Ethiopia commissioned this study in order to have a clearer picture of private sector involvement in the watsan sector in Ethiopia as a basis for future advocacy work. The data collected aimed to address the following areas: the major activities of different government bodies involved in water supply and sanitation; areas of current private sector involvement in the sector and their range in study, design and construction; and possible areas of further private sector involvement as well as constraints to enhanced involvement.

Methodology

The research consisted of a combination of desk-based studies and field research in the capital Addis Ababa, in Adama, Oromia Region, and in Assosa, Benishangul-Gumuz Region: all areas where WaterAid Ethiopia is active. Telephone interviews were also conducted in two additional regions.

Information was collected from a range of levels mainly within the private sector but also including key government personnel. Informants ranged from small-scale artisans and government staff working at grassroots level, to large national companies and government policy makers. Approximately 30 interviews were conducted in total.

The intensive desk research consisted of a literature review of previous documents and studies related to private sector participation in the watsan sector internationally, and a review of the key relevant laws, strategies, policies, programmes and manuals in the Ethiopian context.

Key findings

International background

Previously, the role of the private sector in the watsan sector was seen as restricted to consultancy, construction and goods supply. Since the late 1990s, private sector participation has expanded to play a larger role, especially in industrialised countries such as the UK, USA and France. Developing countries are increasingly following their lead, after heavy promotion of the benefits of private sector involvement by governments and multilateral agencies. The World Bank currently lists more than 100 countries in Asia, Africa and Latin America where private companies play a major role in water supply and sanitation provision. However, there has been vehement opposition

internationally by those who believe that the private sector will ignore the needs of the poor because of their obligation to make a profit.

For and against private sector participation

Those who advocate for the benefits of the private sector as a supplier of basic services argue that the public sector is characterised by inefficiency, mismanagement and conflicting interests. They believe that the private sector would introduce technical and managerial efficiency, expertise and new technologies; improve economic efficiency in operational performance and capital investment; inject large scale investment or gain access to private capital markets; reduce public subsidies or redirect them more directly to the poor; insulate basic services from short term political intervention and limit intervention by powerful interest groups; and make services more responsive to consumer needs and preferences through the introduction of business oriented principles. Others feel that the involvement of the private sector in the watsan sector will further disadvantage the poor. Many think that private sector participation will increase tariffs, and therefore favour high-income consumers to the detriment of the poor and social development goals.

Ethiopian context

Until 1991, Ethiopia's economy was heavily controlled by the state. Major reforms since then have seen many state owned enterprises sold to private companies, with restrictions on non-local investors in a number of cases. Public infrastructure remains underdeveloped, even by sub-Saharan Africa standards, and the government lacks the financial or skills resources to address the issue without some form of private sector involvement. The most common form of private sector participation in the watsan sector is through service contracts, or private firms competing for government tenders to render various services. This involves minimum private sector responsibility; see table below.

Table: Allocation of key responsibilities in different private sector participation options

	Increasing private participation						
	Service contract	Management contract	Affermage	Lease	Concession	Build-own-transfer (BOT) type	Divesture
Asset ownership	Public	Public	Public	Public	Public	Private/public	Private
Capital investment	Public	Public	Public	Public	Private	Private	Private
Commercial risk	Private	Public	Shared	Shared	Private	Private	Private
Operations/maintenance	Private/public	Private	Private	Private	Private	Private	Private
Contract duration (years)	1-2	3-5	8-15	25-30	25-30	20-30	Indefinite



Tap attendants play an important role in water provision and hygiene education at grassroots level.

Key players in the Ethiopian watsan sector

Ethiopia is a federal state, with powers transferred to regional level, and further devolved to local woreda and kebele levels, with supervisory, policy making and technical assistance bodies at federal level. The Ministry of Water Resources is responsible for developing policies, rules, regulations and guidelines, and for setting standards and procedures. The Water Sector Development Programme states that water supply and sanitation activities at regional level are the responsibility of regional bureaux; therefore, regional water bureaux are the main implementers in the watsan sector, with funds from federal government, NGOs and multilateral institutions. Zonal and woreda level authorities work under regional authorities in small-scale design, planning, implementation and maintenance works. Recent reforms have given town water supply services greater autonomy, in order to encourage business-oriented principles such as cost recovery.

Private sector involvement in the watsan sector is mainly limited to contractors, consultants, suppliers, artisans and tap attendants (see picture above). There are restricted numbers of consultants and contractors in the sector; for example, there are only 21 private consultants working in the watsan sector, with the vast majority based in Addis Ababa. Very few of the registered contractors in Ethiopia work in water supply, except for drilling companies, and suppliers and manufacturers are also limited in number. Private companies working in the sanitation sector are even less, with only a handful of private firms involved in vacuum cleaning septic tanks or solid waste collection in major towns. Private maintenance and management actors are not yet involved in providing any watsan services in the country.

Legal issues

Watsan sector analysts agree that an appropriate and clear legal and regulatory framework is crucial to the success of private sector participation; therefore, it is preferable for increased private sector involvement to be preceded by a range of policy reform measures. In the watsan sector in Ethiopia, regions have produced their own policy frameworks, while the Ministry of Water Resources retains the overall responsibility for water resource development and management, including issuing permits for construction, maintenance or alteration of water works. While policies acknowledge the importance of partnership with the private sector in construction, consultancy and supply, there is no legal or institutional framework for the private sector to be involved in management or service provision.

Constraints to private sector involvement

The Water Sector Development Programme acknowledges that the watsan sector in Ethiopia suffers from a serious lack of capacity, especially in the government but also in the private sector. Many experienced professionals have left for better-paid jobs in more affluent countries, leaving much of the Ethiopian watsan sector to junior and inexperienced staff, many without adequate training. Private sector actors strongly voiced their concerns, especially around issues of excessive bureaucracy and unnecessary delays. The problem of failure to assume responsibility for decisions is another major drawback linked to issues of low capacity.

Financial constraints are another major issue. For contractors and drillers, the absence of collateral is a major impediment to obtaining loans, both short and long term. Bidding or insurance bonds are not acceptable in most bid procedures, and in addition the slow bidding process ties up cash that could be used productively in the meantime. Lack of access to funds is also a problem for artisan associations: financial institutions are mostly absent in rural or remote areas, and the restricted number of micro-credit organisations do not address the needs of construction companies, so artisan groups often have to pay high interest to local moneylenders.

The government is by far the dominant actor in the watsan sector, but the division of roles and responsibilities between departments and bureaux is often unclear. Furthermore, regional bureaux in particular are often overstretched, but do not outsource work to the private sector, even when a private firm would be quicker and cheaper. Many private companies in the watsan sector, such as the Hiwot Cooperative in Assosa (see front page case study), are in danger of going out of business, while government agencies are overloaded, delaying implementation.

Recommendations

Meeting the Millennium Development Goals (MDGs) on water and sanitation by 2015 will require a dramatic scaling up of efforts, both in terms of the extent of action required and the speed with which these actions must be undertaken. Investment in the sector is one of the prerequisites to meet the 2015 MDGs. Sustainable service delivery is also of paramount importance, in addition to constructing additional facilities. The following is a summary of recommendations arising from the study on how the private sector can contribute to achieving the watsan goals in Ethiopia.

- Introducing reform into any sector requires complex efforts in which multiple interests must be balanced. Any reforms should enable communities to hold to account public officials, as well as public and private service providers, for their policies, actions and use of funds.
- Adequate monitoring, assessment, information gathering and sharing systems for watsan services need to be active and adequately resourced from regional to federal levels.
- The government should be a regulatory and policymaking body, rather than being involved in direct implementation. It should revise existing rules and regulations, as well as draft additional laws relating to the involvement of the private sector in service and management contracts. This may require revitalising existing structures or creating a new institution with sufficient watsan sector experience.

- In order to encourage the development of a small-scale private sector, artisan associations should be tax exempt up to a certain threshold and support should be made available in other ways, such as training.
- Financial constraints faced by the private sector could be alleviated by the Ministry of Infrastructure changing the requirements for bank guarantees from requiring high liquidity in favour of insurance or advance payment bonds.
- Before embarking on reform, increasing capacity at regional and local levels should be a government priority to overcome the problem of slow and non-transparent tender evaluation processes.
- The roles of the Ministries of Health and Water Resources and of regional bureaux need to be more clearly demarcated to avoid overlapping responsibilities, especially in the sanitation sector. A committee should be formed to oversee sanitation activities.
- The Ministry of Water Resources should implement realistic licensing requirements commensurate with the available professional capacity in the country.
- Government institutions currently have an unfair advantage over the private sector in the watsan sector. In order to level the playing field, the role of government owned institutions should be redefined and incentives such as tax breaks extended to private associations.
- A joint forum between public and private stakeholders should be formed, for a process of continuous consultation on division of roles and responsibilities in the watsan sector.

Keywords

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WaterAid-water for life

The international NGO dedicated exclusively to the provision of safe domestic water, sanitation and hygiene education to the world's poorest people

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