



# Private Sector Participation (PSP) in water and sanitation

## A WATERAID POLICY BRIEFING PAPER

The international goals, agreed for water and proposed for sanitation, are to halve the proportions of those without access to safe drinking water and adequate sanitation by 2015. In order for these to be met, 140,000 people would have to be connected to a safe water supply and 240,000 given access to adequate sanitation *every day* for the next 12 years.

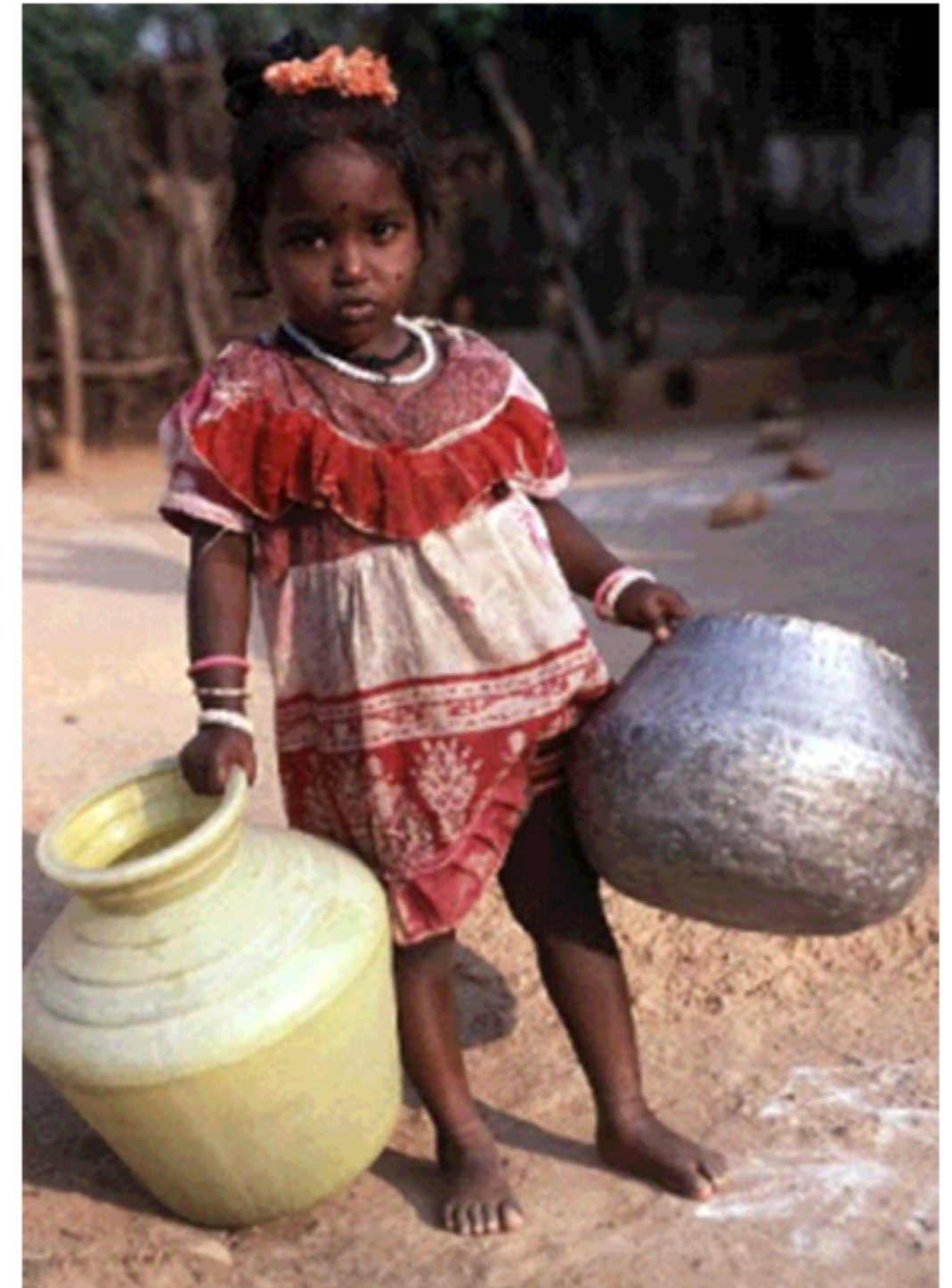
The total cost of financing this increase in access to water and sanitation is estimated to be US\$25 billion per year. Many governments and local authorities in the developing world simply cannot afford to pay for these interventions. Therefore, the question of whether the private sector could play a key role in helping to reach the targets is being debated.

Advocates of PSP argue that in an environment of relatively free markets, the private sector could invest in the water and sanitation sector and deliver the reforms and efficiencies that are urgently needed in service delivery. As a consequence, coverage could increase at potentially lower costs.

However, PSP is being challenged by anti-globalisation activists, who believe it is likely to result in unaffordable tariff increases, the neglect of poorer settlements and the prospect of monopolies crowding out small service providers. They criticise 'win-win' deals that have gone sour as a result of unexpected contingencies like massive currency devaluations, and the low levels of funds that have been invested in the poorest countries. There are also concerns that the global private water business is increasingly being concentrated in just a few corporations.

### The current role of the private sector

To clarify terms, we understand privatisation to mean the transfer of ownership of an industry's infrastructure and property from the public to private sector. We use the term private sector participation (PSP) to refer to situations in which the private sector is contracted to do a job or deliver a service. England, Belize and some Polish cities are the only places in which



WaterAid/Caroline Fern

*A child dies every 15 seconds from water related diseases.*

privatisation of the water and sanitation sector has occurred. Elsewhere, PSP in the form of concessions, leases and management and service contracts has been introduced. It is PSP, rather than privatisation, that is generally being promoted as a solution for developing countries.

The private global water business reaches only about 5% of the world's population. The two biggest companies, Vivendi and Ondeo, that control nearly 70% of this market report having around 210 million customers between them in over 100 countries.

This business has barely reached into Sub-Saharan Africa, probably because of the lack of viable commercial opportunities. Despite a number of relatively high-profile cases such as the tenders put up in Ghana or the contracts awarded in South Africa, until 2000 less than 1% of total private global investment in the water sector has been made in Africa. The biggest chunks of private sector investment have

### WaterAid - water for life

WaterAid is the UK's only major charity dedicated exclusively to the provision of safe water, effective sanitation and hygiene education to the world's poorest people.



gone to middle-income countries in East Asia and Latin America.

Even in the markets deemed the most commercially viable [North America and Western Europe], the public sector predominates. In America, over 90% of the 34,461 water systems (valued at US\$23.9 billion) and 15,300 wastewater facilities (valued at US\$ 30.8 billion) remain overwhelmingly public institutions. In Western Europe, it is only in England and France where the private operation of water and sanitation systems predominates.

Donors and lending institutions have advocated reforms to attract big water and sanitation players to the poorer countries, but it is not an easy task. On one hand, they are unable to convince private investors to go where they are needed most. On the other, they are attacked for imposing themselves on poor countries and are suspected of pushing for corporate dominance.

Meanwhile, in developing countries a different kind of private sector exists. There are street entrepreneurs who distribute water where public utilities fail, and seasonal, under-equipped family-based outfits in rural areas that bid to construct wells, boreholes and spring protections funded by donors. No systematic studies have been made on how much of the world is covered by this informal private sector. On aggregate, it is safe to assume it serves more people than the multinational companies do, and that it is more likely to be delivering services to both richer and poorer sectors of society.

### WaterAid's recommendations on PSP

WaterAid believes that the development and delivery of water supply and sanitation services remain a national government responsibility. Their ability and capacity to manage these must be supported and strengthened.

Due to the huge number of poor people currently living without access to water and sanitation, there is an urgent need to increase the capacity of the sector. This will entail new organisations entering the sector and building the capacity of organisations currently delivering water and sanitation services. There is no need to exclude the private sector from this process. The key issue is to coordinate the activities of national governments, local governments, civil society, communities, multinational companies and small scale entrepreneurs, all of whom can play a role in service delivery.

National governments must formulate the overall plan for their country's water and sanitation sector and set standards of service. However, lenders and donors generally feel more secure in lending funds to projects where multinational private operators are in charge. The choice of option should be left for the governments of poor countries themselves to take.

The choice between public or private ownership or management should be based on whichever is most likely to increase poor people's access to affordable, safe and sustainable water and sanitation services. This may entail using more basic forms of technology that benefit greater numbers of people, rather than investing in more expen-

sive technologies which benefit fewer, better off people. This decision should be taken on a case-by-case basis around the country, rather than implementing a one-size-fits-all policy.

If a government wishes to engage multi-national companies, and is successful in securing a contract with them, it is essential that contracts are structured in a transparent way and that adequate monitoring mechanisms are in place. Civil society and communities should be consulted on the contract, particularly on price setting and determining priorities for investment. Communities should be helped to better articulate and negotiate their interests, to avoid them being just passive recipients of services that may be inappropriate.

Where a government opts to engage small-scale entrepreneurs, it should enable them to access credit. The government may also choose to put in place schemes run by the users or by cooperatives, in which case these bodies also need appropriate support.

Where governments decide that local governments or non-governmental organisations are best placed to deliver services, capacity-building programmes and funds should be made available to help them perform this role.

### Conclusion

WaterAid believes that it is up to national governments to formulate plans for their country's water and sanitation sector. They have a portfolio of options to consider, including reforming public sector institutions and engaging the private sector. PSP is an appropriate choice under certain conditions. Used badly, PSP can undermine public capacity-building. Applied without consideration of the local context, it can trample upon people's rights, or simply fail to deliver. However, used well, with sufficient regulation and consultation with communities, PSP has the potential of being a practical tool that governments can use to improve the delivery of services; something they may not be able to afford to do alone.

### References:

WaterAid (November 2001). "Financing Water and Sanitation: Key Issues for Increasing Resources to the Sector" by Shailaja Annamraju, Belinda Calaguas and Eric Gutierrez. *WaterAid Briefing Paper*. WaterAid: London.

UNDP (2002). *Human Development Report: 2002*. UNDP: London.

WaterAid and Tearfund (on-going) case studies on private sector participation in water and sanitation in: Dar es Salaam, Tanzania; Niassa Province, Mozambique; Mukono, Kabora, Mpigi and Wakiso Districts in Uganda; Eight rural districts in Ghana; San Fernando, Moreno and La Plata in Buenos Aires, Argentina; El Piru and Huicholes in Mexico City, Mexico; Darangan, New Bulatukan and Magdalena in the Philippines; Kathmandu, Nepal; Porto Alegre City, Brazil; Manila, Philippines; Accra, Ghana; South Africa; Washington D.C.; England and Wales

For further information contact:  
WaterAid, Prince Consort House,  
27-29 Albert Embankment, London SE1 7UB  
Tel: +44 (0)20 7793 4500  
www.wateraid.org.uk Charity registration no. 288701