

An Argument for Structuring Responsible Public-Private Partnerships (PPPs) to Deliver Quality Water in Developing Countries.

Although controversial, the issue of privatization of water is one of inescapable importance for our world today. Public private partnerships (PPPs) are a form of privatization that can add value in the developing world with cash infusions, knowledge, skills, training, and management. The key is creating a balanced partnership with local and national governments so that government retains ownership and control. Government needs to step up to become a quality partner. Contracts need to be structured to protect the public interest. International non-governmental organizations (NGOs) can help that process. *Common objections to PPPs, with a response to each objection, include:*

1: Water provision is a basic responsibility of government. Governments have a fundamental duty to see that basic services, such as water, sewerage, and energy are provided to their people. International lending agencies and development organizations once helped governments to provide these services, but now they encourage privatization as a new solution, often because of the lack of capital in the developing world.

Response: Governments must continue to own and control water sources on behalf of their citizens. They can exercise control through the contracting process to protect their interests. They may need help with developing good contracting procedures. This is a function that international organizations and NGOs could offer to the developing world.

2: Privatization may bypass under represented and under served communities. The poor will be unable to pay as much for water as residents in wealthier areas. Privatization can potentially worsen this neglect. Also, those in poor, peri-urban areas may gain squatter's rights if they get a water bill which makes local government unwilling to offer them a direct water source.

Response: Currently poor people pay up to 10 times more than rich because they have to buy their water or bring it from distant sources. PPPs tend to be used in urban areas; however, local private companies can be used in the more rural areas. Contracts can require that services be extended to more rural areas (especially with stand-pipes and common wells). Data show that the poor tend to pay their water bills reliably. Their biggest problem is paying the connection charge. Water bills should contain a low cost "subsistence" rate for low-income people.

3: Privatization will worsen economic inequities and affordability of water use. Privatization will lead to higher costs for water and water services. Lack of water subsidies can have disastrous results, especially when combined with pressures to recover costs.

Response: Contracts can create regulatory mechanisms to: protect the public interest from excessive charges; ensure that water service providers recover the full cost of providing the service; limit profit to the private company; ensure service levels promised are delivered; and, provide subsidies and cross subsidies as needed (use ascending block rates).

4: Public ownership of water and water rights need protection. Loss of local ownership of water systems can lead to neglect of the public interest.

Response: PPPs can be structured so that the local government continues to own the assets. Government should retain a strong oversight or regulatory role. Contracts should include performance standards that are audited and maintained. If a local or national government decides to use a PPP as a management tool, that government should initiate an oversight and regulatory process or include clear incentives and rules in the governing contract.

5: Agreements often fail to include public participation and contract monitoring oversight. Monitoring of public-private agreements are key public responsibilities. Weaknesses in monitoring progress can lead to ineffective service provision, discriminatory behavior, or violations of water quality protections.

Response: PPP contracts do need to be monitored. Countries may need training in how to regulate and monitor. This is a role that International Organizations or NGOs could undertake.

6. *Privatization can negatively impact ecosystems or downstream water users. Many privatization contracts include provisions to encourage the development of new water supplies. If privatization contracts do not also guarantee ecosystem water requirements, development of new supply options could undermine ecosystem health and well being.*

Response: Effective water law and regulatory mechanisms are necessary to provide an investment friendly environment. That law should include regulation of ecosystems and source water protection. Investing PPPs must respect and honor those laws.

7: *Privatization can create potential neglect of water use efficiency and conservation improvements. Efficiency programs can be ignored or even cancelled after responsibility for managing public systems is turned over to private entities. Improvements in efficiency may reduce water sales, and may lower revenues reducing the financial incentive to encourage conservation.*

Response: Conservation and efficiency programs are planning functions that can and should be retained by the local government. Contracts can be written with incentives to increase efficiency or to require increased levels of conservation. However, conservation will reduce the water user's bill and local governments should have a strong interest in working with local users to help them reduce their bills.

8: *Privatization will lessen protection of water quality. Private suppliers of water have few economic incentives to address long-term health problems associated with low levels of some pollutants. Private water suppliers have an incentive to understate or misrepresent to customers the size and potential impacts of problems that do occur.*

Response: Water quality protection is a national regulatory responsibility. Countries need good water law. This law should be reflected in a contract. A PPP can be fined or the contract broken if they do not meet water quality standards. Use of a PPP requires a strong regulatory climate.

9: *Privatization impacts dispute-resolution procedures. Public water companies are usually subject to political dispute-resolution processes involving local stakeholders. Privatized water systems are subject to legal processes that involve non-local stakeholders. There is increased potential for political conflicts over privatization agreements.*

Response: PPP contracts should include dispute resolution clauses. All stakeholders should have access to dispute resolution procedures. Accurate assessments should be made of the quality of the facilities at the beginning of contract negotiations if improvement in their performance is part of the contract negotiations. Contractors should not be encouraged to "low ball bid."

10: *Privatization may be irreversible, or nearly so. Transfer of control over a water system to private companies may result in the loss of internal skills and expertise. Many contracts are long term (10 to 20 years). Management expertise, engineering knowledge, and other assets in the public domain may be lost for good.*

Response: Contracts should be written so that every 8-10 years they are reviewed and possibly re-bid. Requirements can be made to hire local employees. Local companies can be developed in rural areas to learn all the skills and requirements of running a system. International NGOs can develop partnerships with local governments to train and develop local talent.

Summary: PPPs are a tool that can bring needed capital and know-how into developing areas. PPPs must be aligned with strong government agencies that can regulate and oversee the contracts and the projects. More international energy needs to be put into developing the governmental skills to make this a "balanced challenge." Calling PPPs "privatization" and negating their value is not useful. PPPs are simply a management tool that needs to be used well and effectively for the benefit of the public. Water is going to cost money. We all need to face up to the cost of providing this basic human service. Subsidies can be designed to give the poor a minimum service level; the wealthy and high users can pay more. PPPs need to limit expectations of return on investment to around 6-10%. PPPs need to work in partnership with international NGO's to bring training and skill development into the countries they work with.

Diana Gale
Evans School of Public Affairs

The Water Center

University of Washington ♦ Box 352100 ♦ Seattle, Washington 98195-2100
206.543.6920 ♦ cwvs@u.washington.edu ♦ <http://depts.washington.edu/cwvs>