Public-Private Partnerships for Urban Water Utilities

A Review of Experiences in Developing Countries, by Philippe MARIN in order of the PPIAF, Public-Private Infrastructure Advisory Facility. World Blank, February 2009.Â

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Public-Private Partnerships for Urban Water Utilities: A Review of Experiences in Developing Countries

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This book analyzes the access, service quality, operational efficiency, and tariff levels of more than 65 large water PPP projects (representing more than 100 million people) over 15 years in different regions. Its goal is to contribute to a better understanding of how to tackle the many challenges of providing water and sanitation services to urban populations in the developing world.The book is directed at policy makers in governments as well as donors and other stakeholders.

This report shows that despite difficulties in several countries, water PPP has largely passed the test of time. The urban population served by private water operators in the developing world has been growing every year since 1990, reaching about 160 million people by 2007. The positive record on service and efficiency improvements reaffirms the value of PPPs, even though the level of private financing did not match initial expectations. Over time, a more realistic market has developed, with a growing number of private investors from developing countries and with contract designs based on a more pragmatic allocation of risks between partners. What emerges from examining the available empirical evidence is that well-designed partnerships between the public and the private sectors are a valid option to turn around poorly performing water utilities in developing countries.

The water sector has many features that set it apart from other infrastructure sectors. This book suggests that a careful consideration of these specificities is important for successfully involving private operators. In the challenging environment of many developing countries, the main focus of water PPP should not be about attracting direct private investment, but rather about using private operators to improve service quality and efficiency. This approach fosters a virtuous circle whereby the utility improves its financial situation and gradually becomes able to finance a larger share of its investment needs. Although concessions have worked in a few places, contractual arrangements that combine private operation with public financing of investment appear to be the most sustainable option in many countries. An obvious implication for governments and donors is that they need to remain heavily engaged in the water sector, especially in the poorest countries.

These findings are important. When money - public and private - is scarce, improvements in service and efficiency are essential, leading to a better functioning of water utilities and eventually to improved creditworthiness, which is even more true at a time of global financial crisis. Welldesigned

public-private partnerships can help. Decision makers in developing countries need to have various options to tackle the many challenges of water utilities. This report confirms that PPPs can be one of them.

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