

## Water business

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The private water sector is larger than many people think, with thousands of businesses working every day, for the most part, to implement government policies. Are those businesses doing enough and how might they do more?

The challenges involving clean water and sanitation have to be addressed locally or regionally at the watershed level. Transporting fresh water is just too costly for any other option. And yet, with achievements falling short of the mark and difficulties intensifying in a great many places, international organisations and intergovernmental conferences are growing increasingly concerned about water and wastewater issues.

AquaFed—the International Federation of Private Water Operators—was set up in 2005 to facilitate dialogue between the international community and companies in the water industry. It brings together over 200 water service providers operating in 38 countries worldwide. Its members are eager to play an active role in meeting common challenges by making their experience in the field available to international organisations. Because water supply and wastewater treatment are public services that inevitably give rise to multifaceted policy debates, AquaFed members are also keen to enhance understanding of what private companies actually do, and of what governments can ask of them.

There is a vast number of private operators involved in the area of water, some with international stature, such as RWE Thames Water or Aguas de Barcelona. Large companies are only the tip of the iceberg, though. Local operators, while less well-known internationally, are more numerous. The World Bank has identified some 10,000 small enterprises in developing countries. Between the two extremes lies a full spectrum of local businesses of all sizes. The smallest among them manage the water supply of a few hundred people in a single place, while the largest handle water or wastewater for a population of millions spread over multiple locations.

Even if projects involving water are complex and take a long time to develop, there is strong demand in what is now a very dynamic sector. Each year governments commission private operators to handle some parts of water management tasks in new urban areas. This has happened recently in many areas of China, as well as in Tenerife in Spain, Selangor in Malaysia, and Algiers in Algeria, etc. In Ghana, the winner of an international tender for a public-private water management partnership was a Dutch firm that conducts business as a private operator, even though the structure of these markets is not cast in stone; it is evolving dynamically with regular new business creations, shareholder turnover and new stock market listings. Among the major local businesses that have been set up or expanded are Manila Water in the Philippines, Puncak Niaga in Malaysia and Aguas Nuevas in Chile. Firms that were once owned by international shareholders have become predominantly local in their shareholder base; LYDEC in Morocco, Tallinna Vesi in Estonia, and ESSBIO in Chile, are some examples.

In the case of the strongest companies, this gradual development of local businesses can spawn new international players. Manila Water has now moved into the Chinese and Indian markets, and Aqualia of Spain has just gained a foothold in Italy.

Today, delivering safe drinking water to the entire world population is still one of humanity's greatest challenges. It is rightly the focus of one of the UN's Millennium Development Goals. Despite all the advances in the field, more than a billion people still have no satisfactory access to drinking water. There are not enough water access projects to reduce this backlog. Current progress is just able to keep pace with population growth.

What is needed urgently is to devise public policies that target the groups in need of improved access, to develop more water access projects and to speed up the actual implementation of current programmes.

Against this background, arguments over the respective merits of the public and private sectors are meaningless. There is an emergency on, and the status quo is unacceptable. Those who are waiting for access to water need all the stakeholders to become involved, both public and private.

Businesses are keen to take up this challenge, not least because developing access to water is central to their mission. Each day they enable more people to access water or sanitation services and effectively exercise their right to access to water. In countries where governments have commissioned them to develop public water services, local private businesses have been able to improve the access to water of millions of people: 400,000 in La Paz/ El Alto; 200,000 in Gabon; several million people in South Africa, etc. I for one will never forget the beaming smiles on the faces of people in a shantytown near Manila the day they saw drinking water flowing to their homes for the first time.

Properly designed, public-private partnerships are an excellent means of implementing public policy on access to water, with the local operator becoming an instrument for executing government policy. Experience has shown that as long as the partners keep sight of a common goal and overcome any obstacles together, results will come. Most difficulties have arisen in cities where the government has changed its water policy or could not deliver on its share of the partnership. Today's private operators have learned to approach this kind of risk with caution.

How to finance access to water for everyone is still an unresolved question. The report, *Financing Water for All*, widely referred to as the "Camdessus Report", estimates that to achieve the Millennium Development Goals would entail a doubling of all existing financial flows that contribute to water infrastructure investments. (This is a rough estimate, the precise figures are unknown.) This simple message—a doubling in financial flows!—has yet to be grasped.

The fact of the matter is that a distinction needs to be made between short-term financing, such as public or private loans or private financial investment, and long-term funding, provided by users, taxpayers or grants. Insofar as loans and investments must eventually be repaid by the revenues of the water utility, short-term financing cannot double unless long-term funding grows as well. Where grants are not available, water

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rates and taxes must be set at levels that allow the necessary increase of short-term finance. This is not related to the presence or the absence of a private operator.

This fact has been understood in China, where the central government decided to increase the water rates in most large cities a few years ago in order to finance investment programmes. However, it has not been understood everywhere. Those who know that international public aid will never account for more than just a fraction of what is required to supply everyone with safe water make stirring appeals at international meetings for additional financing from private banks and investors. They will be listened to only if governments can deliver a vital prerequisite: confidence that their projects will be capable of ultimately repaying debt and providing returns on investment. That confidence depends largely on their ability to mobilise payments from water users as a group (individually users may benefit from cross-subsidies that aim at making water rates fair and affordable) and from taxpayers. It also depends on the country's political and legal climate, which needs to be stable and predictable.

Allowing all to benefit from a satisfactory access to safe water and sanitation is a global challenge that requires the involvement of all stakeholders. Businesses have played an important role in helping to improve access to safe water for many people over the last decade or more. Given the right conditions, that role could, and should, continue to make a significant contribution.

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