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***“Private Sector Participation in Water and Sanitation Services,  
A powerful tool for Public Authorities to  
implement Universal Access Policies”***

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## **1 About AquaFed**

AquaFed is the International Federation of Private Water Operators. Membership of the Federation is open to companies of all sizes and from all countries. The Federation aims to contribute to solving water challenges by making Private Sector know-how and experience available to the international community. It brings together more than 200 water companies that serve people in 38 countries.

The Federation represents operators working in the field that range from very small local businesses, through mid-size companies to some of the largest international operators. A high proportion of the companies that are members of AquaFed are operating in the developing world. AquaFed's members operate through contracts or licenses with local authorities.

For further information about AquaFed, please visit our web site at [www.aquafed.org](http://www.aquafed.org).

## 2 Private operators' experience

2.1 The Federation is participating in the UNCTAD meeting as representative of companies who are operators of access to water and sanitation services. Every day, these **private water operators contribute to achieving universal access to Water & Sanitation** under the supervision of public authorities in many places, both from developed and developing countries. They operate, maintain and expand water systems. They also offer solutions where public networks are not available. We want to make their experience in the field available to international institutions.

2.2 There is a very **large panorama** of public and private operators. These range from very small water services providers that operate locally, to midsize country-level operators, to international companies that operate across the globe. Furthermore, our members have very different modus operandi as they face radically different regulatory frameworks and work under local conditions that vary substantially (freshwater availability, rapid demographic growth, different status of networks, different levels and speeds of urbanisation ...).

2.3 With the support of public authorities, Private Sector achievements have changed and continue to improve the lives of millions of people around the globe. There are numerous lessons to be learnt from the private sector participation (PSP) success stories of the last decade. The private sector option for universal access to water services is an instrument that can deliver impressive results.

## 3 A sense of urgency

3.1 Given the dramatic situation of the world's poor and the current delays afflicting both the water and sanitation Millennium Development Goals, policy-makers cannot accept the current status quo.<sup>1</sup> They must accelerate "access to water" projects to achieve the water and sanitation MDGs. Policies for universal access must go far beyond the MDG timeframe for a 50% reduction of the proportion of those without access. The world's policy leaders urgently need to **deploy all available options and tools** to achieve these targets. Today, so many people are waiting for a satisfactory access to water that all energies must be mobilised.

3.2 Policy-makers cannot permit themselves to exclude any of the available options and to ignore the option of private sector participation to extending basic services. This has been understood by many local governments. Last March, in the Mexico World Water Forum, **Local Authorities** have stressed their "freedom to choose" their policy options on a case by case basis. They want to consider the different models available to implement their water policies, through public, private or mixed systems.

3.3 The Human Development Report 2006 that has just been released by UNDP has studied current challenges and blockages in developing universal access to water services. The authors have concluded that:

*The debate over the relative merits of public and private sector performance has been a distraction from the inadequate performance of both public and private water providers in overcoming the global water deficit.*

*Decisions about the appropriate public-private mix have to be taken case by case on local values and conditions. The challenge for all providers, public and private, is to extend access and overcome the price disadvantage faced by poor household (HDR2006 page 99)*

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<sup>1</sup> Currently, and after so many efforts, there are still more than 1 billion people without access to water, and more than 2 billion people without access to sanitation. Source: UNICEF-WHO.

## 4 Cross-cutting lessons (across services sectors)

4.1 Various policies involving public, private or mixed actors may all deliver results so long as these policies are **well-targeted and** that they are accompanied by the **necessary means** (financial, institutional, operational, political).

4.2 **Private sector operators** should be regarded **as powerful tools for public authorities** to achieve efficient and rapid implementation of their policies. This means that private operators can deliver essential services and even contribute to develop universal access provided that responsible public authorities request them to do so, are constructive partners and set the targets to be achieved. The efficiency of the private sector tool does not only derive from the skills of the private partner. It is also a direct result of having a contract that includes clear targets and commitments from both parties.

4.3 Efficient “universal access” policies require clear allocation of tasks between the various contributors. In particular, this means that governments should carefully design their respective tasks. UN-Habitat and UNITAR have produced very interesting guidelines for basic services. They highlight the need to clarify the role, responsibilities, duties and rights of the various actors in national institutions, laws and regulations<sup>2</sup>. The Human development report 2006 highlights the need to ring-fence public operators and to separate the regulatory authority from the service provider, be they public or private<sup>3</sup>.

4.4 The populations that will benefit from extended access to services must be **consulted** in order to have a clear view of their demands and the rhythm/speed with which extension of the services can/should be achieved. Failure to carefully involve the populations and failure to incorporate their real needs will lead to failure of the extension projects and may deliver undesirable results (see below for equity issues). **Involving** the populations, through door-by-door consultations, and associating them in the works needed for service extension, will lead to greater **“ownership”** of the projects: they will then defend the project rather than oppose it. Examples abound of projects where failure to inform, consult and associate/involve the populations led to serious delays in the execution of the works (theft, robbery, insecurity, neighbourhood opposition, hostility to local authority and/or operator).

4.5 The **issue of (cross)-subsidies with a goal of achieving universal access** is evolving rapidly: it is increasingly understood that subsidizing consumption of services can have adverse effects. The benefits are enjoyed by those who already have access to the service, while the “unserved” people who are in the most need do not benefit from these subsidies because they have no service at all.

4.6 Another lesson is the interaction between the various basic services. In particular, **developing access to water and sanitation services, contributes massively to the other MDGs**. Numerous studies in recent years confirm that the extension of water and sanitation services to populations impacts the life of the beneficiaries so much that these efforts and investments contribute greatly to the extension of other services such as healthcare and education. As such, it is now understood that focusing on the water MDGs, has enormous impacts on the achieving of the other MDGs.

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<sup>2</sup> UN-Habitat and UNITAR “Access to basic services for all, General principles and financing”:

*“For the actors to assume fully their role, it is necessary to clarify their role, responsibilities, duties and rights in national institutions, laws and regulations.”*

<sup>3</sup> HDR2006 page 91: *“Successful public utilities typically operate in a public policy environment that meets four key conditions:*

- *Ring-fencing and financial autonomy to guard against political interference in the allocation of resources, ...*
- *Separation of the regulator and the service provider,...*

*These conditions are as relevant to the governance framework for private companies as they are for public utilities.”*

## 5 Specificities and differences (among services sectors).

Although there are many similarities between different basic services, it is important to remember their respective specificities

5.1 Scale differences. Not all basic services share the same constraints. Physical and institutional specificities may need very different policies. For example, it is appropriate to organise local services like water supply and sanitation at the local level while energy networks must be regulated at a larger scale. This is because it is very expensive to transport water while electrical power can be easily transported over thousands of kilometers.

5.2 Levels of service. Some basic services are black and white: you are reached by the cellphone network or you are out of reach. Water services are very different since they can be gradually improved. In areas where there is no public service, a first improvement can be to dig a well where the population can come and fetch water; a further improvement can be to create a water network that feeds collective standpipes that are closer to the population. Then, the network can be augmented to create a tap for each household. These various levels of service must be carefully considered when developing access. For a project to be perceived as successful by the population, there are indeed equity and efficiency issues which must be factored in. For example, a number of NGOs have reported that in some African villages where one single pump was installed this improvement of access led to increased segregation within the community with very adverse effects on social cohesion.

Decision makers must avoid striving for perfection but rather consider the different levels of access provision appropriate and in line with expressed expectations by the unserved populations: it may very well be that the policy choices of installing 1 faucet per 5 families are more “equitable” and efficient (and rapid) than aiming at providing piped water 24h/day to all households, with an unbearable financial cost for the authorities and the users. In the light of universal access policies, the focus must be on rapid and massive improvement to the whole population of the area rather than on perfect-running Western-style infrastructure, which may need to be at a later stage of the process. This **step-by-step** approach proves to give the best results, balancing equity and efficiency issues.

## 6 Some key success factors for Universal Access Policies

Many factors contribute to the success of a universal access policy. I can only mention some of them.

6.1 **Dialogue with populations and community participation** to identify the needs and to appreciate their variety. A universal access policy stands and falls through community ownership and involvement. The people must own the projects, not in terms of legal ownership, but in the political sense. Universal access policies must include a very precise understanding by the political authorities of the needs of the populations to be reached. For local services, this is essential to enable projects to adapt technical solutions to the demand. A government that wants to connect one million people to water supply and sanitation must go and consult these people in their various settlements to find what their real needs and motivations are.<sup>4</sup>

6.2 **Political will at all levels:** Access policies must be clearly expressed and pursued at the various levels of government (national, regional, local). These policies never succeed by chance. They must include realistic objectives, well-defined targets, realistic and appropriate financing means. A monitoring component must also be included.

In the case of water supply and sanitation, more than 1 billion people still don't have access to drinking water and over 2 billion still don't have access to sanitation. This is mainly the result of political priorities that do not target the unserved population.

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<sup>4</sup> Personally, I know a place where there was a street that was officially connected to the water network. In practice there was a water faucet for every 10 houses. What happened? The one closest to the faucet padlocked it. He paid the normal price for consumption and charged his own customers 10 times those prices. In terms of universal access, what can we learn? The street is connected, but there are still huge demands, and that's not even speaking of equity issues.

In many cases, operators, public or private, never receive the mission of universal access because the authorities do not convey it. You cannot request an operator to deliver something that you haven't requested him to do without the appropriate enabling environment.

**6.3 Contractualisation goes a long way.** Performance-based contracts or licenses from the point of view of private operators lead to improved policies. The real-world distinction between those who have the political responsibility for universal access policies and the instruments that are being used (public, private or community operators) leads to better understanding of operational, political and oversight roles (an independent 3<sup>rd</sup> party regulator is also needed whatever the type of operator). The notion of a “contract” between those who ask, and those who perform, calls automatically for the notion of “respect for the contract”. Operators and authorities will work better together if they share the same ambition for success. This concept can equally be applied to public and private sector<sup>5</sup>.

**6.4 Political will to succeed in partnership** with the operator. When a public authority uses an external operator, public or private, to implement its access policy the targets are only achieved if both partners play their role. As there is always a role to be played by the authority, the operator cannot deliver the expected results without the continuous support of the responsible authority.

**6.5** Some kind of **competition** is clearly a key factor for success because it is the only way to ensure that the money that is made available for universal access policies is used in an optimized way, even if the money comes from international development aid (grants...). When available, open and fair competition is the best guarantor of “best value for money”. It enables the achievement of the largest extension of networks within a given financial capacity.

For water services which have different constraints and regulatory systems in different places, benchmarking tools are only conclusive for entities that operate in similar conditions and environments. Benchmarking is therefore only a tool to improve performance up to a limit, but it does not guarantee the optimization of the value for money.

**6.6 Results-based policy.** The success of a Universal Access policy cannot be measured in dollars or in volumes. A clear policy component for Universal Access is to target the people needing access and to number those who gain access. In this respect, Output Based Aid (OBA) mechanisms are excellent tools. The philosophy behind the OBA concept is that partnerships for extension of services (such as PPPs) must be results-based. All stakeholders have the duty to achieve new connections and to extend the service. In an OBA-based international donor arrangement, the (public or private) operator is only paid if he connects additional people to the system. The operator is paid a sum per new connection.

## 7 The impact of “privatisation” and trade liberalisation.

**7.1** Privatisation is not the right word to use in the access to water and sanitation context. The majority of contracts in developing countries have nothing to do with full divestiture or transfer of ownership. They are rather of the Public-Private Partnership type.<sup>6</sup>

**7.2** The impact of Private Sector Participation (PSP) on Universal Access policies has been significant over the last decades. Millions of people have been connected to water and sanitation services as a direct result of partnerships between public authorities and private operators of services. Where the private sector has been called in, they have delivered impressive results. AquaFed's members have a strong track record

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<sup>5</sup> Experience shows that, if performance is poor, it is easier to fire an operator for non-compliance to the contract than an in-house official.

<sup>6</sup> HDR2006, page 91: “*The diversity in public-private partnerships cautions against lumping all private sector involvement under the general heading of “privatization”.*”

As a matter of fact, one of AquaFed's members has already measured its contribution in terms of extending service to unserved populations, as part of an MDG monitoring programme. The results are impressive:

- over the past 12 years, with the support of public authorities they have provided access to drinking water to nearly 10 million people in emerging countries, including 8 million people via private connections and 1.8 million via public standpipes.
- around the world, the communities where they are working in partnership are on their way to meeting or exceeding their own contribution to the Millennium Development Goal for Water.

7.3 Other impacts of PSP include for example the impact of PSP on child mortality as was shown by independent research in Argentina.

7.4 GATS or no GATS, private operators have concluded many contracts in the past, and it is a dynamic market. Year after year, irrespective of the progress of trade negotiations, in many countries all over the world, the private sector has been called upon, in its variety of sizes and modus operandi. The tendency today is towards more local operators.

## 8 Conclusion

8.1 Those who are waiting to be provided access to water and sanitation and other basic services have a clear need for experiences and support from all backgrounds: public, private, NGOs, mixed. The world's policy leaders and responsible authorities cannot ignore the impressive results of private operators as tools for public Universal Access policies that come in many forms.

8.2 Governments and public authorities have a duty to define clear objectives in terms of the development of access. They have to organise the necessary means to enable the implementation of these policies. These means are not merely financial. They must include a determined policy commitment in all aspects of services provision.

8.3 AquaFed supports the Local Governments of the world in their declaration that they want to keep all their water management options open, in a non-dogmatic style. These governments must define what they need, what their targets are and how they want to implement their policy choices. There is no single golden bullet but a wide variety of systems are necessary to address the wide variety of local challenges.