



Thematic week: Water and sanitation services

Thematic axis: Regulatory and institutional framework

Title: **Managing freshwater better.
Private operators' contribution to public policies**

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Abstract

Private operators are tools that governments can use to implement their water policies. As practitioners they are aware of the numerous issues that relate to freshwater management. They draw attention to key global challenges. Depending on the location, these are: to cope with the increasing water scarcity that results from growing demands; to bridge the divide between people who benefit from public water networks and those who do not; to improve water supply and sanitation services; to control wastewater pollution better; and to improve water governance. Where they are hired by governments, private operators contribute to solving these issues. Gerard Payen identifies essential elements of water policies that must be addressed to solve these challenges on a large scale. For example, equity should be used more as a criterion in allocating water resources. The expansion of water networks to all un-served people requires more projects with more ambition. All management options should be considered and governments should select those most able to deliver the expected results on a case-by-case basis. Integrated Sanitation Management (ISM) should be developed to address all sanitation issues simultaneously, including considering wastewater as a resource.

Keywords

Equity, Management options, Integrated Sanitation Management, Sustainable Cost-Recovery, Private water operators.

1. Introduction

Since this session is about water policies, I would like to offer you the experience of private water operators. AquaFed, the Federation of Private Water Operators represents water operators of all sizes, from most countries and all business models. They are practitioners that implement water policies as directed and controlled by governments. Therefore, they know the needs and also the reasons for successes or failures of public water policies.

To be successful, water policies must be made by government at the appropriate level. Governments need to face the complex realities of water with realism not ideology. Their policies also need implementation. For water and sanitation this requires competent and empowered operators that can be from either the public or private sector. In the main public and private operators face exactly the same challenges and require the same kind of political support.

2. Key management challenges

There are many issues related to freshwater. I will focus on the main management challenges that should be at the core of all water policies at local level, at national level and at global level.

The main challenges are the following:

- to manage increasing water scarcity,
- to provide access to safe water and sanitation to those who still do not benefit from public services,
- to deliver services that users consider to be satisfactory,
- to control man-made pollution,
- to ensure satisfactory governance and meet societal expectations.

The related issues differ from one place to another as freshwater challenges are mostly local. However, private operators recommend that national and local governments pay attention to all these challenges and take appropriate decisions. I will make a few suggestions about the way related water policies can be addressed.

3. Increasing water scarcity

Human activities continuously demand more water. Farmers need to irrigate more to produce more food. Industries need water for their economic development. Power producers also need water. Population growth and changes in way of life also require more water. The result is increasing demand for water that leads to scarcity in both developing and developed countries. In some locations water scarcity is worsened by climate change. This increases the intensity and frequency of droughts and the irregularity of rainfall.

In many parts of the world the difference between available water resources and the amount of water that is used is decreasing.

The OECD recently estimated that an additional 1 billion people will suffer from water scarcity between now and 2030 because of increasing demands. This estimate has been made without taking into consideration any potential effects of climate change.

This increasing water scarcity makes it necessary for governments to intervene more and more in the allocation of water resources. They must try to mobilise more water and to convince users to optimise their uses of water. Conflicts of use are inevitably increasing. This is why public authorities should

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find ways to regulate water demands, making policy decisions about the most effective allocation of available resources. They then need to enforce this allocation fairly.

The needs of the population are usually perceived as having first priority. In this period of food crisis, the need to grow more food crops has become obvious so that the agricultural demand for water for increasing irrigation is stronger. However, the industrial needs should not be neglected as the economy is vital for all countries.

This is why equity must be maintained in the decision-making process regarding the allocation of water resources between different (and often competing) users.

► Organise equitable allocation of water resources

In the last UN Commission on Sustainable Development in May 2008 in New York, I have had the honour to represent the Business and Industry Major Group. We declared to governments.

“Increasing Water scarcity in many countries makes it necessary to ensure that available water resources are allocated equitably between the various categories of users: population, industries, agriculture, power generation”

4. Access to safe water and sanitation for those who do not benefit yet from public services

Taken globally, the level of access to water and sanitation is very unsatisfactory. The States of the United Nations recognised this at the Millennium Summit and again at the Johannesburg Summit on sustainable development. However progress is slow. Unless there is a major step change in progress it is now certain that the sanitation target adopted at Johannesburg in 2002 will be missed by a very large margin. This failure is unacceptable. Knowing that the 2015 target is only to meet half of the need and that it aims at providing only one of the sanitation components that people require, much more must be done. To overcome this, governments need to create more projects.

It is in this context that private operators join with many other stakeholders to stress the importance of implementation of the Right to Water and Sanitation. Acknowledging the right to water and sanitation, as the Asian Heads of State did recently at the Beppu Summit, is an important step in governments recognising that they must organise the delivery of these essential services to their populations. In particular it is a way of increasing the political commitment to water and sanitation that is essential to making meaningful progress.

4.1 More ambition in developing drinking water projects

In developed countries almost everybody has piped water at home and accepts it as an essential service. But in developing countries urban dwellers expect a better level of access to water than is currently called for through the water MDGs. Today, 3 billion people have no access to tap water at home or nearby. This means more than 1 out of every 2 families in developing countries. They dream of not having to queue to fetch water and of not having to carry water to their homes every day.

It is urgent to extend drinking water and sanitation networks in all urbanized areas in order to turn the human right to water into a reality for all (at an affordable price). In rural areas, efforts must be stepped up to develop access to water and cut down the distances that people, often women or girls, have to carry water every day.

The number of drinking water and sanitation projects worldwide is totally insufficient to meet the needs: a renewed effort is needed urgently.

► More projects to develop access to water with more ambitious targets

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People expect a better level of access to water than is currently measured to monitor the water MDG. They dream of not having to queue to fetch water and of not having to carry water home every day. In developed countries almost everybody has piped water at home and accepts it as an essential service. But in developing countries more than 1 out of every 2 families (3 billion people) do not have tapwater at home or even nearby. Water sources are often far away, forcing people to suffer the daily burden of fetching all the water they need.

Business and industry statement by AquaFed at UN-CSD16, New York, May 2008

4.2 More ambition in developing sanitation

Given the serious shortfall, much more ambitious goals are necessary to make sure that all humans' sanitation needs are met. People need more than just toilets. They also need their solid and liquid waste to be removed from their homes and they need to be protected from contamination by their neighbours. This requires the collection, transport, treatment and safe disposal of these wastes. In many parts of the world, pollution needs to be removed from these waste waters to protect the environment the people living downstream.

These challenges are not well monitored by the world community. The Johannesburg Plan of Implementation targets basic sanitation, i.e. access to private toilets and removal of domestic waste water from the household. In practice, only access to toilets is measured and monitored. For this indicator alone the target will probably be missed by far.

► **More projects to develop sanitation with more ambitious targets**

It is urgent to develop more sanitation projects with more ambitious targets. People need their solid and liquid waste to be removed from their homes. They also need to be protected from contamination by neighbours. Their waste waters need to be collected. In many parts of the world, pollution needs to be removed from these waste waters to protect the environment and the people living downstream.

Business and industry statement by AquaFed at UN-CSD16, New York, 12 May 2008

Development of access to water		
Examples of achievements of PPP contracts		
Argentina	Aguas Argentinas, Buenos Aires	The private water operator provided access to water to 2.1 million people .
Philippines	Manila Water and Maynilad, East and West parts of Manila	3.4 million people have gained access to water.
Gabon	SEEG	200,000 people have been connected to water.
Indonesia	Palyja, West Jakarta	over 1 million people gained access to water.
Senegal	SDE	over 1.6 million people have been connected to drinking water networks

Table 1. Private operators contribute to developing access to water

4.3 A real contribution by private operators:

The governments of several countries or cities have decided to use private sector operators to help them meet these goals. When directed to expand public water networks, these operators have performed this task well, as the table 1 above shows. Moreover the rate of progress that they have achieved has often been more rapid than that of other service suppliers in the countries concerned.

5. Satisfactory delivery of water services to users

5.1 Quality, availability, reliability and continuity of services

People need access to safe water. However, many people who are considered as having access to water are not in a satisfactory situation. If the water is not safe or is only safe irregularly, if access is not convenient, for example if they have to queue every time they fetch water, if no water is running in the pipes for most of the day or of the week, access to water and sanitation falls far short of the reasonable ambitions of most people. It is also insufficient to ensure proper levels of public health, is inadequate to support full economic activity and limits the level of lifestyle that could be enjoyed by much of the world's population.

For these reasons it is important that governments have policies to ensure quality, availability, reliability, and continuity of the water and sanitation services that are provided to their people. Delivering these policy objectives requires committed competent and properly resourced operators.

► **Ensure quality, availability, reliability, continuity of services**

Contribution of private water operators

When hired by public authorities, private operators contribute to improve the level of quality of water services. For example, the following table 2 shows achievements of several PPP contracts in significantly improving the continuity of water supply.

Daily time of water supply before and after the PPP contract (hours)			
Contract		Before	After
Amman	Jordan	4	9
Antalya	Turkey	19	23
Barranquilla	Colombia	19	23
Cartagena	Colombia	17	24
Gaza	Palestine	—	8
Senegal	Senegal	16	22
Zambia	Zambia	13	18

Table 2: Improving service continuity

In large cities such as Guayaquil (Ecuador) or East Manila (Philippines), the improvements have been spectacular with water supply in the pipes nearly reaching 24 hours a day in most areas.

5.2 Sustainable Cost-Recovery

Public service operators, whether they be public sector, private sector or community-based, can only sustain their services if the economic realities are reflected properly in the frameworks under which they operate. Realistic economic policy is essential and must go hand-in-hand with the social and environmental ones.

An important and central element of the economics of water service provision is that the operation must have adequate revenue flows to cover costs. Recognising the difficulty of this challenge, the concept of "Sustainable Cost Recovery" has been developed.

Sustainable cost recovery is based on three essential elements:

- Long-term cost-recovery policy that anticipates the needs of the service. The real costs of providing the service, including operational costs, maintenance, investment new capital works and financing charges must be met. This can be done through a combination of user fees and long-term pre-committed budget subsidies.
- Subsidies from public budgets that are secured well in advance. Stable revenues are thus provided, allowing the operator to make the investments necessary to extend and maintain the service. In this context, subsidies from taxation must be predictable and fixed in advance to allow long term planning and efficient investment. Post-loss subsidies do not provide any incentive for efficiency and do not ensure the sustainability of the service.
- Revenues from users as a group with cross-subsidisation to ensure affordability. Targeted subsidies that aim at supporting those users that really need assistance are used to ensure affordability for the less well off.

Sustainable Cost-Recovery ensures affordability of water services and provides predictable revenue flows allowing the utility to anticipate and to invest. Unfortunately, in many locations such a concept is not applied, which results in low investment and high cost of water for very poor people.

► Water policies to organise Sustainable Cost-Recovery

5.3 Efficiency and cost optimisation

Implementing sustainable cost recovery is one way to ensure effective delivery of services. However this alone is not sufficient. Service deliverers of all kinds also need to concentrate on efficient operation and optimisation of costs. People deserve such cost-optimisation. This requires high levels of managerial and technical competence and know-how.

► Management of water services to ensure efficiency and cost-optimisation in order to serve the population better

5.4 Users' expectations

The requirements and expectations of water and sanitation service users evolve over time and as conditions affecting them change. It is very important for both policymakers and operators to consult with users and understand what their expectations are. A common difficulty for operators of all forms is that they have short term political or ideological constraints imposed on them. These rarely reflect the real interests, concerns or requirements of the service users.

Consultation with customers has played an important role in enabling operators in cities like Casablanca to make significant improvements in standards of service delivered. In this city, surveys allowed the operator to fine tune the priorities in the improvement program and the customer satisfaction grew very quickly from 50% to over 85%,

► Listen to users' expectations

5. Controlling man-made pollution

5.1 Removing man-made pollution from water after use to protect people and ecosystems

The level of pollution of water caused by human activity continues to rise in most parts of the world. It comes in many forms from agriculture, industry and communities. Ecosystems and populations have to be protected against this pollution. This requires policies, enforcement, practical measures and infrastructure. In developed countries most waste water flows are treated and most of the pollution is removed before it is discharged into rivers or into the sea. In developing countries, waste water treatment plants are far less numerous and significant waste water flows go directly to nature. This harms the environment but also populations living downstream. With growing urban populations this is increasingly an issue since more and more surface waters are polluted by human activities upstream.

Removing man-made pollution from wastewater to protect people and ecosystems is possible, even in developing countries. However this objective can only be met if a policy framework sets clear rules. A good example is the Water Framework Directive of the European Union that targets good ecological status of rivers by 2027. Targets should be set up where they are absent today, including at global level. Targets need to be set for the level and nature of pollution that can be accepted, and also for the timeframe under which anti-pollution measures should be completed. It should be remembered that even if anti-pollution measures can be expensive, they are less costly in the long run than the economic costs, social burdens and environmental damage that pollution causes.

► In order to protect people and ecosystems adopt targets for removing man-made pollution from wastewater

5.2 Integrated Sanitation Management

As stated above, sanitation includes several components that must be addressed simultaneously. Used water and related wastes need collection, transport, treatment and safe disposal. Particularly in the urban context, this requires an integrated approach to the whole pollution chain from its sources to its ultimate state. We have coined the term "Integrated Sanitation Management" for this to convey the need to think beyond the provision of toilets alone as a solution. This approach requires both policy direction and practical application. It also requires policies and actions that go beyond the water sector and provide rules and guidance for product formulation, urban planning, agricultural activities and many more.

Another aspect is that used and waste water should be looked on as a resource. Waste water can be recycled to alleviate water scarcity. It can be used to provide water supply for many different uses as well as to maintain the environment. In Singapore, waste water is de-polluted then recycled as NewWater to feed industries and to contribute to drinking water supply.

Public opinion shares the pessimistic view that freshwater is a limited resource that is becoming scarce. In reality, in most locations, water scarcity results mainly from increasing demands. Water policies should integrate water and sanitation sectors to get the maximum benefit of freshwater as a renewable and recyclable resource. Integrated Sanitation Management (ISM) is necessary to manage water after use, man-made pollution, waste water flows and water reuse in a context of growing water stress and increasing environmental challenges in many countries.

► Develop Integrated Sanitation Management

Contribution of private operators to sanitation policies

There are many examples of the progress achieved in removing pollution from waste water by private operators. A striking one is that since private operators started to manage water supply and sanitation in Chilean cities in 1988 under the control of the country government, the proportion of urban wastewater that is treated (and from which pollution is removed) has been increased from only 16% to 84% today.

6. Governance and societal expectations

It is frequently said (and with much justification) that the real problem with water today is a problem of "governance". Water governance is defined by the political, social, economic and administrative systems that are in place, and which directly or indirectly affect the use, development and management of water resources and the delivery of water service delivery at different levels of society¹. It is ultimately a product of the way policy makers, public officials and their agents perform their tasks and also what society as a whole accepts.

6.1 Management options

A public authority that is responsible for the delivery of water and sanitation services has firstly to set up a water policy and related goals. Then it must organise the service in a way that ensure that its policy goals are achieved and expectations of users are satisfied. Several options are available for organising the service. The International Water Association, which is the global network of water professionals, has recognised 4 main types of management (see figure 1 below).

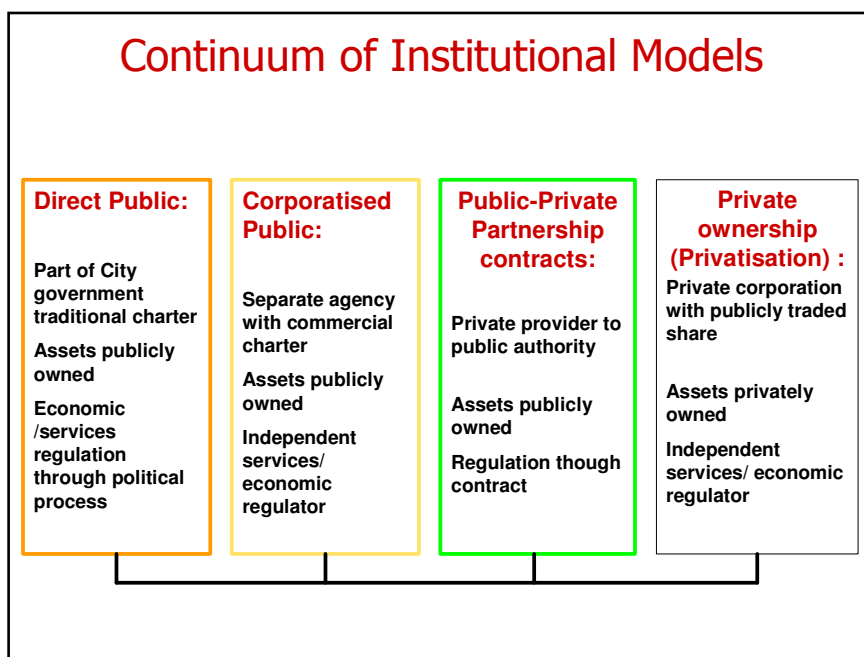


Figure 1. The 4 main management options

¹ The UNDP Water Governance Facility at SIWI - <http://www.watergovernance.org/aboutwatergovernance/whatiswatergovernance.html>

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There are two types of **public operation**:

- direct management by the public authority with its own internal means,
- management by a public operator that may be owned by the authority but that has an autonomous legal status and its own accounts. This type is often named “corporatisation” since the public operator is organised as if it is a private corporation.

and two categories of **private operation**:

- a Public Private Partnership (PPP) contract between the public authority and a private company (in such cases, the asset ownership remains with the authority),
- a regulated license awarded to a private company that owns the infrastructure and other assets that it uses to provide the service.

For example, in France, two of these four management options are the most popular. The figure 2 below shows their respective magnitude in terms of economic weight.

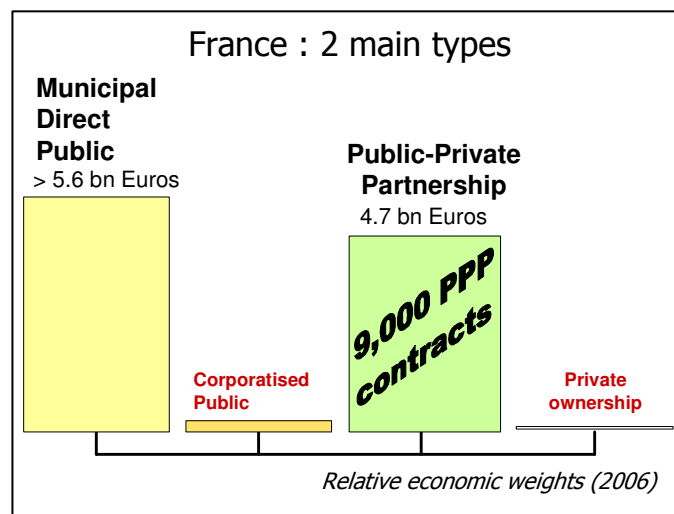


Figure 2. Management options used in France

In Chile, England and Wales, the private ownership model alone is used. In Australia, the trend is for corporatised public entities. In the USA all 4 models are used. This shows that governments have many options to consider. When their national law makes all these options available, this allow them to make the best choice on and to select the option that is the most able to deliver the expected results. Unfortunately, in many countries the choice is restricted because the lawmakers have not considered all possibilities.

When policy makers are faced with the need to reform water and sanitation service delivery, which is something that they should review from time to time, they should consider all the options carefully. They should not just accept the status quo. Nor should they make unsubstantiated decisions based on political expediency or ideology. They should explore all management options and select the one most able to deliver the expected results on a case-by-case basis.

- Explore **all management options** and select the one most able to deliver the expected results on a case-by-case basis

Water usually being a local authority issue, it is as well to remember that Local Authority representatives underlined their "right to choose" the most appropriate management approach for their own situation, in their statement at the fourth World Water Forum in Mexico in 2006. They

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recognised the need to keep all options available. They also recognised that all operators (public or private) are tools to implement their public policies. They need to be able to decide according to the probability of the chosen approach meeting the policy goals they have set.

“Local authorities play a fundamental role in the management of water resources and in the organisation of public water and sanitation services. Their role should be recognised and strengthened. Local authorities should be able to choose freely between various management models.”

Local governments' declaration, Mexico World Water Forum, 2006

6.2 Targeting results and cost-effectiveness

In making their choice of management option, policy makers should firstly target the results they want to achieve before the means they want to use. They should not make their decision to please any particular interest groups.

Only fair competition can ensure cost-optimisation and stimulate a continual search for efficiency. Benchmarking can only rarely achieve these objectives and then only in limited circumstances.

All water utilities have specific constraints which make it difficult to compare their performance. Even when water utilities share many similarities comparing their respective performance is useful but it cannot ensure that the best performer of the group is a top performer. Selection by competition is a more efficient way to ensure optimisation. However, this is only the case when the competition is fair, which means that bids are compared according to the benefits they provide to end-users without any privilege given to any specific bidder.

Creating controversy over public versus private management is a waste of time and energy. This is not the issue. Both are necessary. They can be complementary and each can stimulate the performance of the other. The real challenge is to succeed in providing the expected results.

6.3 Governments to support their operators, public or private

To very large extent public sector and private sector service operators suffer from exactly the same problems (unrealistic economics, inconsistent planning, low levels of political support, etc.) It is these problems that should be resolved. The formal discussions that take place in the development community about the conditions necessary to improve the levels of participation and investment by the private sector have the benefit of drawing attention to many of the institutional and governance issues that affect the whole sector. Overcoming these institutional hurdles benefits the whole sector.

Almost all the hurdles that face public service operators are similar for public and private operators. Policy makers need to recognise that for services to be delivered effectively and sustainably they must set a stable framework for their operators. These operators:

- must be given clear targets.
Transparency is important for everyone. This can be achieved by setting clear water policy and by the "Contractualisation" of the relationships between the public authority and its operators, public or private.
- need adequate tariff policies and structures to be able to make investments
In particular, subsidising water rates should not lower the capacity of the operator to expand water services to un-served people
- need to answer users' expectations.
Include the population in a consultation process that supports decisions. See paragraph 4.4 above
- need continuous political support
Government and operator succeed together or fail together

- ▶ Governments need to be aware that most hurdles they have to overcome present the same challenges for public and private operators.

“The preconditions for success in delivering water and sanitation services are virtually the same for public or private service operators.”

AquaFed at UN-CSD16, New York, 2008

7. Conclusion

In summary, there are three key messages that I would like to convey to policy makers. These are based on the practical experience and observations of private water operators

- ▶ **Public water policies need to be developed to address all Water Supply and Sanitation challenges simultaneously. Many of the issues are interdependent and can only be resolved through an integrated approach, in particular Integrated Sanitation Management should to be developed.**
- ▶ **Many more projects with much more ambition are necessary to satisfy the pressing needs of the world's people.**
- ▶ **Select the means and management options for water service delivery according to the expected results on a case-by-case basis.**

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