Private companies - record and trends

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• Failures of privatisation

• Private companies behaviour

• Re-developing the public sector
Public sector dominates water operations, 2006

Public/private water operators: % of cities over 1m. Population (October 2006)

- **Total**: 90% Public, 10% Private
- **High income countries**: 86% Public, 14% Private
- **Total excluding high income countries**: 91% Public, 9% Private
- **Sub-saharan Africa**: 87% Public, 13% Private
- **South Asia**: 100% Public, 0% Private
- **Middle East/North Africa (MENA)**: 86% Public, 14% Private
- **Latin America (LAC)**: 87% Public, 13% Private
- **Europe & Central Asia**: 86% Public, 14% Private
- **East Asia**: 93% Public, 7% Private
Failures

• Failure to invest
  - Developing countries: little private investment
    • Water: connecting less than 1% of those needing connection
    • Sanitation: even less
  - In north: UK, USA water underinvestment

• Price rises
  - In south: unaffordable water, need for cross subsidy
    • Eg new public Buenos Aires company uses tax for 48% of revenue
  - In north: French private water more expensive than public

• Negative capacity building
  - No efficiency gains
  - Withdrawals from crises e.g. Mozambique
Water multinationals

- **Withdrawal**
  - Resistance, failure to make profits
  - Geographic: Retreat from developing countries, stay in Europe, China, USA, MENA
  - Sectoral: Retreat from concessions > BOTs, industrial, mgmnt contracts
  - Financial: withdrawal of equity (south, UK), replaced by local debt finance

- **Former private companies > public sector or private investors**
  - brought back into public sector or sold on to:
    - State (inc France); private equity ; local companies/investors

- **Three faces of private companies in water**
  - MNCs: Suez/Agbar, Veolia/FCC, Biwater
    - Focus on Europe, China, MENA, plus BOTs/management/industrial, desal
  - plus some southern companies, private and public: small impact
  - Private equity: The Jakarta concessions
MNCs: Veolia in Africa, Latin America, Asia:
- BOTs, industrial services, management contracts, ‘relic’ concessions

- Burkina Faso: management contract
- Niger: management/lease contract
- Gabon: concession, with IFC finance
- Namibia: BOT
- Angola: Industrial

- (via Proactiva)
- Mexico: concession Aguas Calientes
- Colombia: BOT, concession Monteria

- S Korea: BOTs and industrial
- Japan: BOT and industrial
- Philippines: industrial zones (Bonifacio/Clark)
- Malaysia: industrial
- India: BOT (+ problem pilot in Karnataka)
- Thailand: BOTs

- Armenia: management contract
- Russia: nothing yet

- Morocco: concessions Rabat, Tangier, Tetouan
- Oman, UAE: BOTs
Veolia: China, USA, Europe

• China:
  - Concessions for water distribution: Changzhou, Kunming, Lanzhou, Haikou, Pudong, Shenzhen
  - BOTs: water and wastewater: Tianjin, Chengdu, Baoji, Zuhai, LuGouQiao, Qingdao, Hohhot, Urumqui
  - Industrial services: eg Michelin Shanghai, Sinopec Beijing

• USA
  - BOTs water and wastewater, industrial
  - Operating concession: Indianapolis, plus some small

• Europe
  - Still active
Southern companies and private equity: small impact

- Ranhill Utilities (Malaysia): only treatment plant BOTs in Thailand, China
- Latinaguas (Argentina): one joint venture concession in Peru (Tumbes)
- Rand Water (South Africa): one joint venture mgmnt contract in Ghana (Accra)
- Kowaco (South Korea): Consultancy/engineering eg Iraq, Afghanistan; MoU with Mongolia
- Manila Water (Philippines): IPO
- Jakarta: both concessions now private equity owned, financed by local bonds.
Private strategies: global

• Different problems
  - BOTs, management matter, but not like concessions

• Aquafed activity

• Attempt to pervert WOPs initiative

• IFI/OECD/donor focus on full cost recovery

• Rebuilding public sector: with public finance
Public finance and public plans

- Key need is capital finance for extensions
  - Base on local/national assessments of needs and strategy
  - Charges may have function for operating costs

- Need to develop tax base and tax financing
  - Eg Buenos Aires 50% tax financed

- Borrowing and bonds
  - Municipal bonds. Attractively local
  - but weak credit rating, vulnerable to IFIs/companies eg IFC
  - Government bonds: broader base, better credit
    - Depends on national policy

- Affordability
  - Affordable for most developing countries i.e. less than 1% GDP

- So: need for alternative plans re needs + strategy for resources
  - Needs assessment + Capital finance (bonds, tax) + labour (PUPs)
Issues in Europe: Use of public sector finance

- **Shift from equity to debt in England:** use of index-linked bonds and EIB financing (e.g. United Utilities)
- **EIB’s support for project finance** (e.g. Arezzo, Italy)
- **EBRD’s support for Veolia’s expansion in Russia and Ukraine**
- **EBRD’s support for Suez and Veolia through Multi-Project Facilities**
- **Restricted access to public sector finance for public operators** (e.g. WIC in Scotland, state aid and EU)
Issues in Europe: Illegal behaviour of private operators

• **Anticompetitive behaviour**: Acea and Suez fined in Italy

• **Fraud and misleading information**: Severn Trent (Ofwat and Serious Fraud Office); Southern Water and Thames Water (Ofwat); Tendring Hundred

• **Yerevan, Armenia**: Whistleblower alleges embezzlement of public funds by WB fund and irregularities by Veolia (inflated costs)
Issues in Europe: Commercialisation of public operations

- **POEs adopting private sector-style practices due to pressure from public authorities:** Stockholm Vatten and focus on “demand driven” maintenance; Finnish operators and private finance; Scottish Water, retail competition and reduced cross-subsidies; Northern Ireland Water’s corporatisation and dividends; hidden dividends in Milan?

- **POEs behaving like MNCs:** SMAT Turin in Palermo; Sevilla’s EMASESA to focus on Spain, Latin America, Eastern Europe and Mediterranean countries
Implications of Financial Crisis

- New awareness of importance of public services?
- Credit frozen for all companies
- Government as ultimate borrower
- Cost of capital
- Infrastructure stimulus programmes
- IFI conditionalities
- WB says privatisation is dead, but in the field???
- WTO Doha?