Private companies – record and trends

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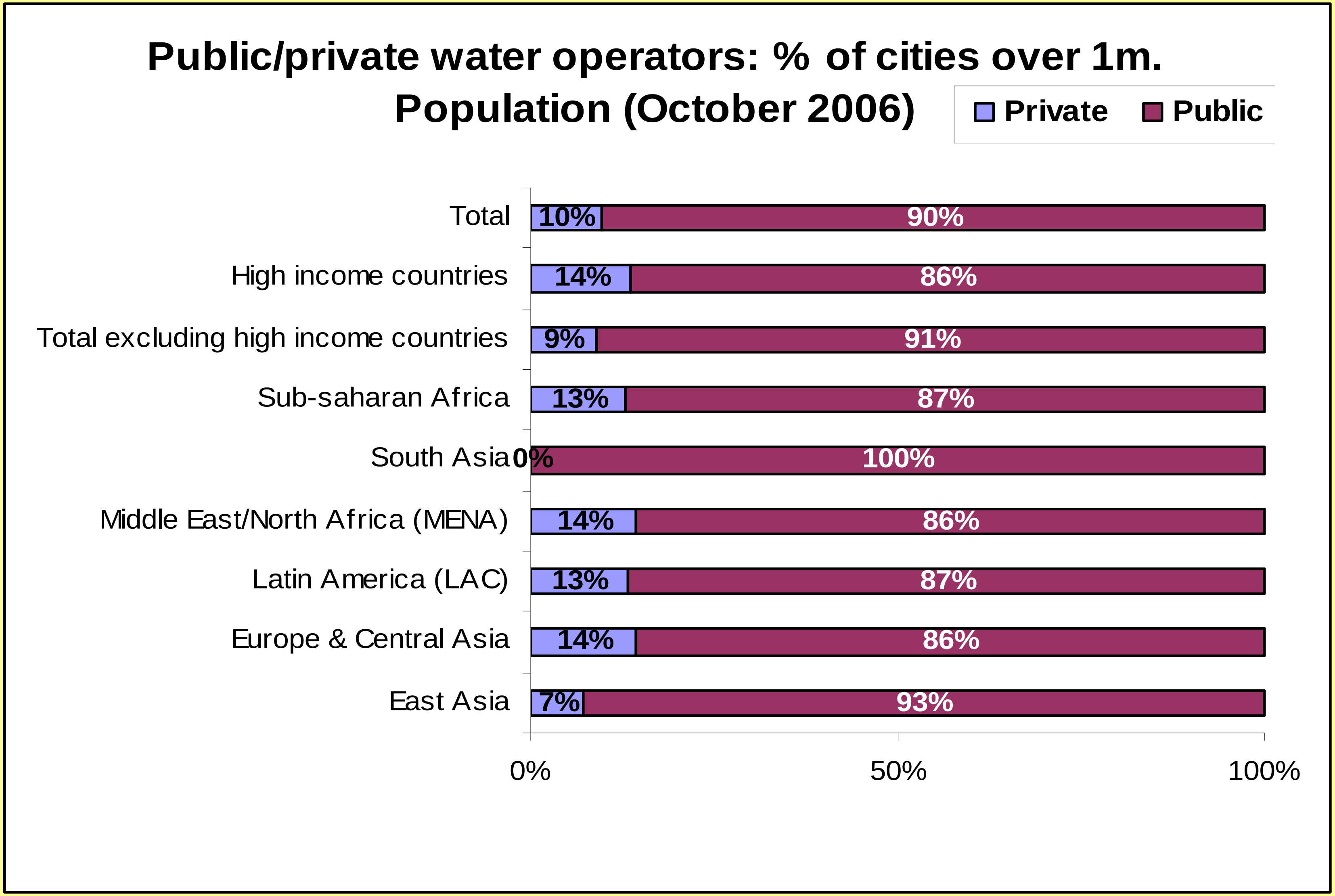
- Failures of privatisation
- Private companies behaviour
- Re-developing the public sector

Public sector dominates water operations, 2006



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, Shenzen
  - 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?