

Going beyond regulation: Social Policy and Private Sector Involvement in Water Supply

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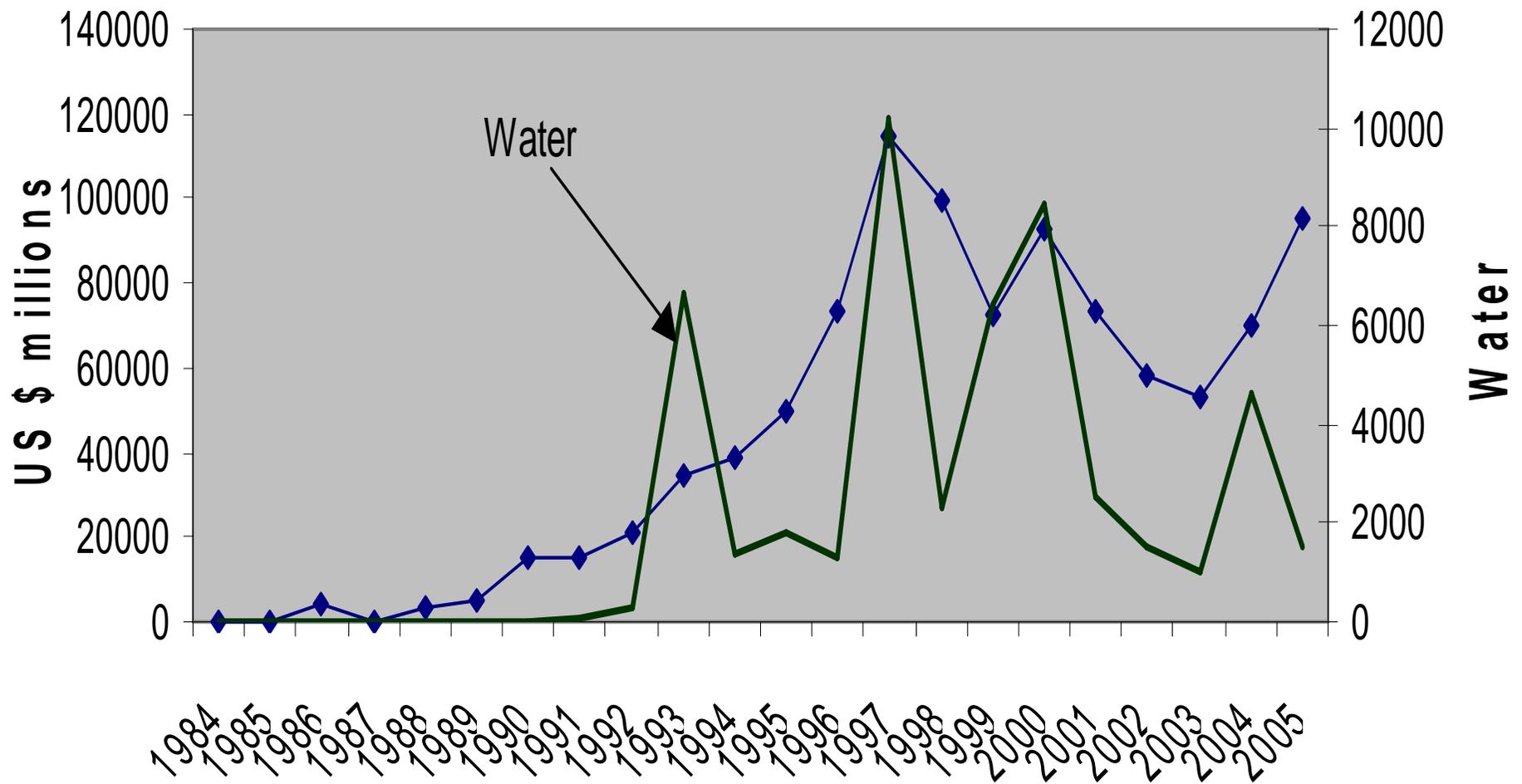
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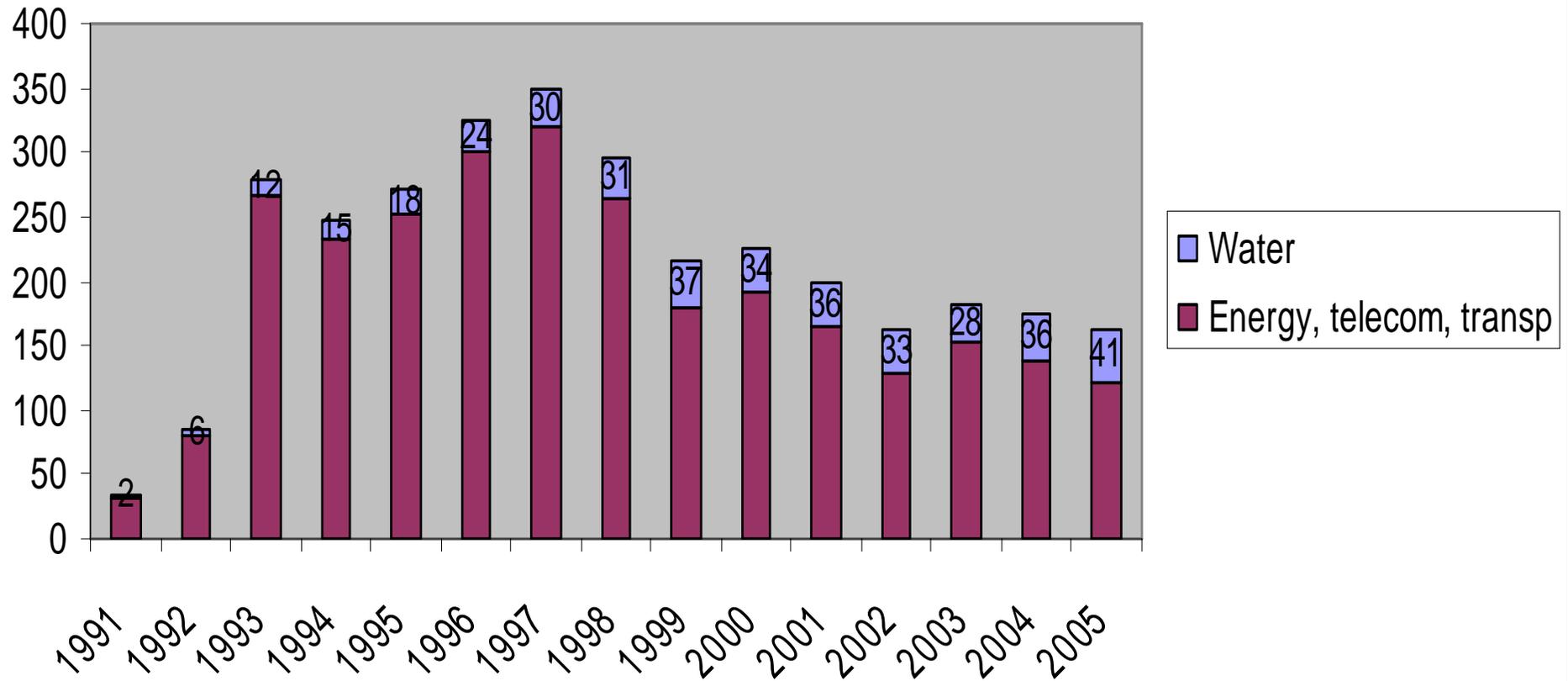
Challenges for water sector

- *Infrastructure:*
 - reducing leakages, replacement/expansion of networks, technological innovation
- *Financial:*
 - sustainable and equitable tariffs, efficient revenue collection, investment
- *Environment and health:*
 - public health needs, conservation, environmental management
- *Socio-political:*
 - having affordable price, transparency, accountability, expansion of coverage
- *Managerial:*
 - improving efficiency and productivity, capacity building, efficient procurement.
- **Solution: Reform water sector through PSP**

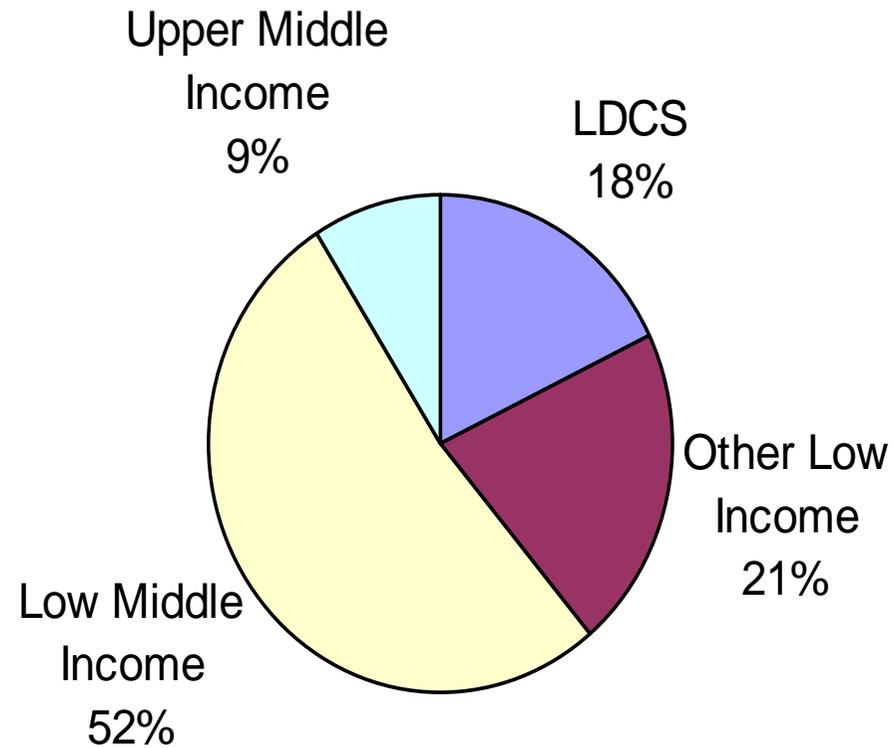
Total private investment in infrastructure



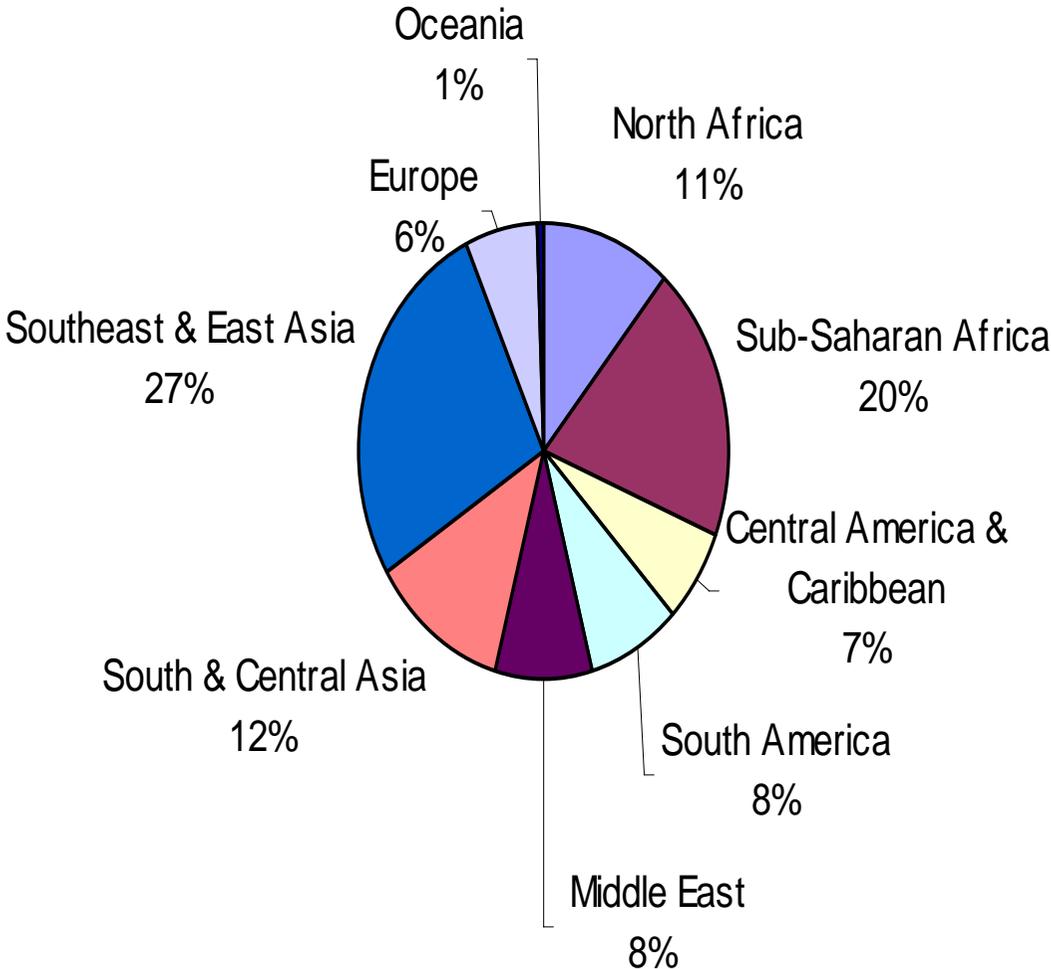
Number of projects



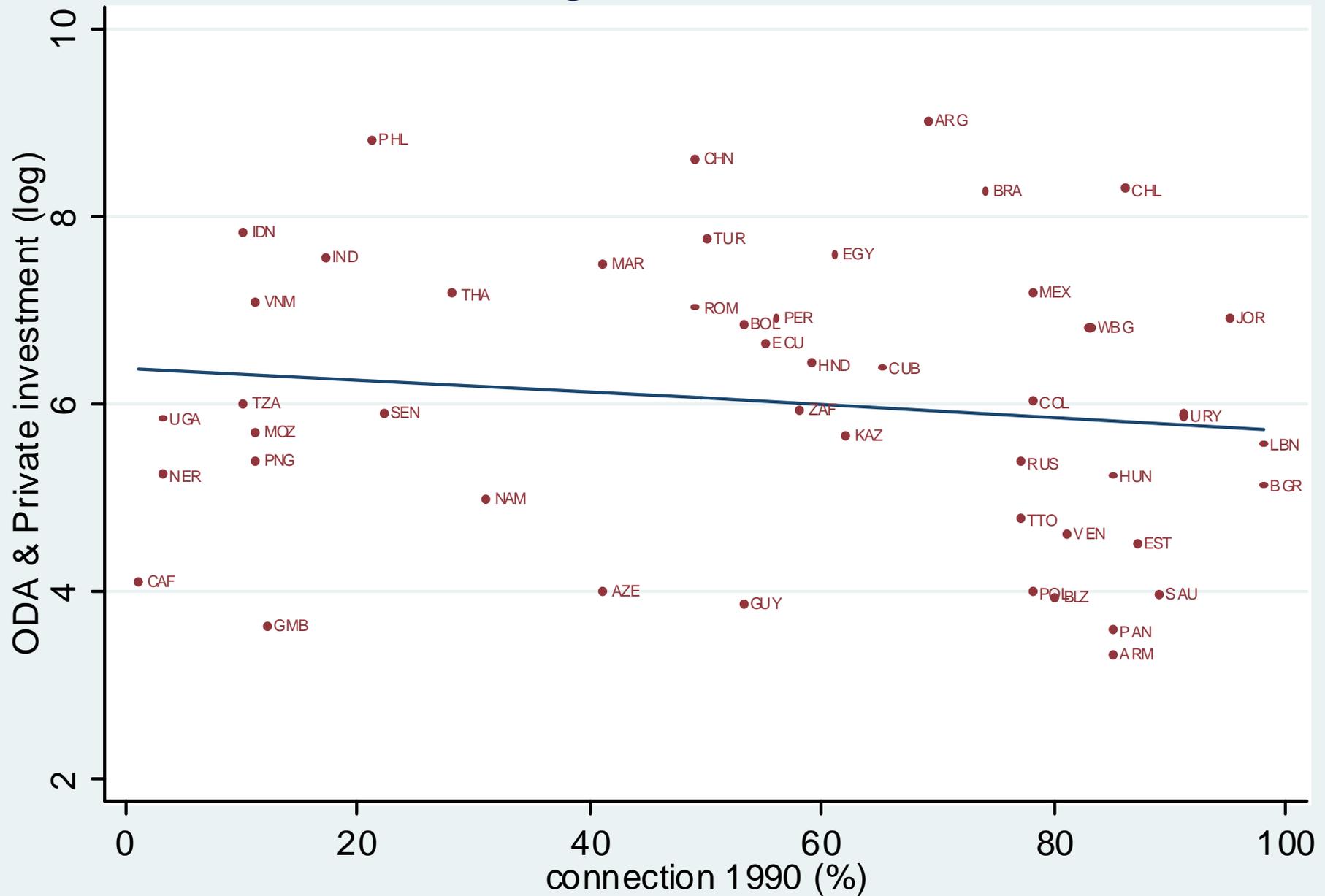
Distribution of ODA in water & sanitation 1990-2003



Regional distribution of water aid 1990-2003



Funding & connection rates

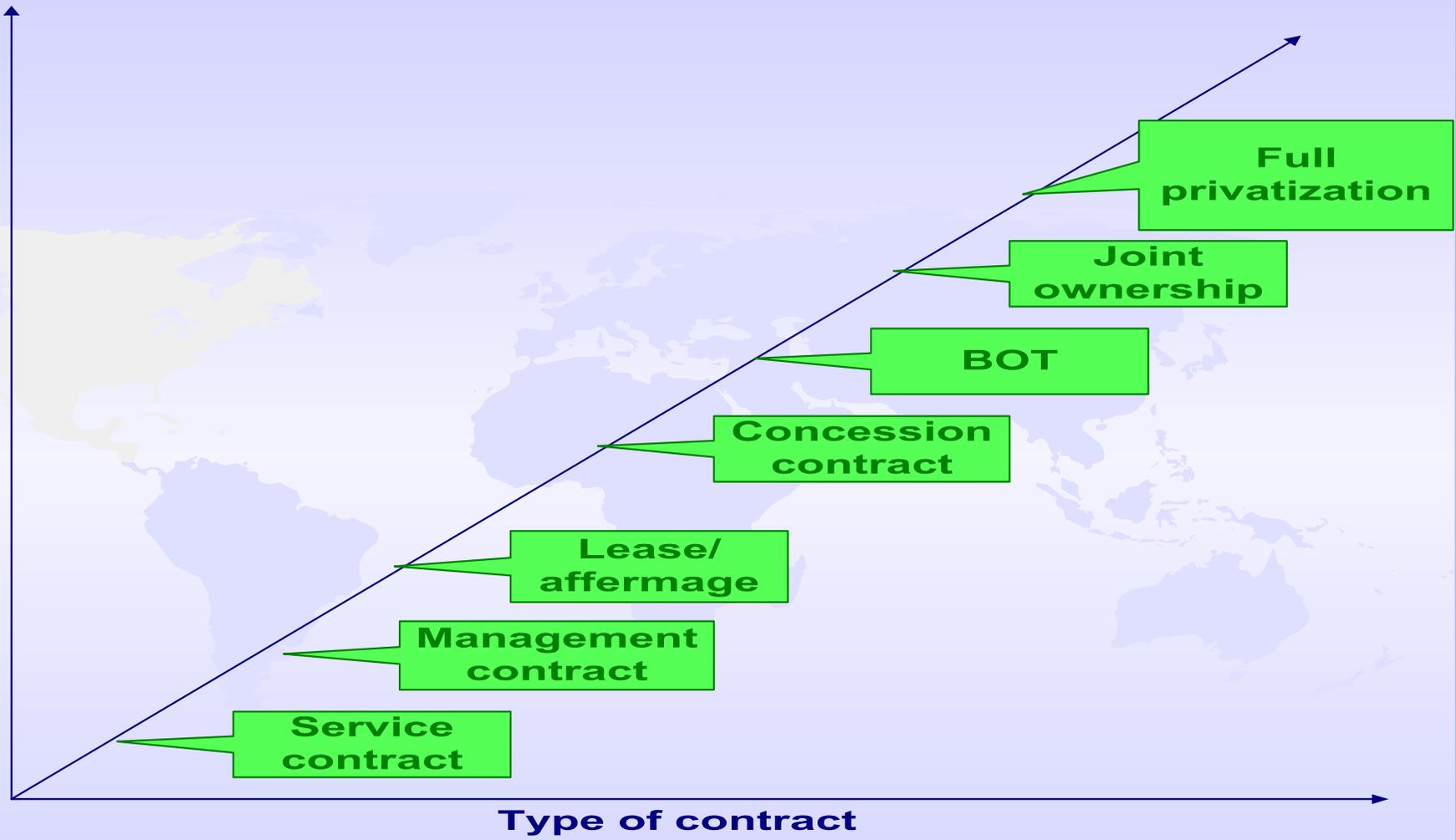


PSP worldwide

- PSP introduced in different regions for different reasons:
 - **Asia:** to reduce budgetary deficits, increase economic growth, develop capital markets and improve services.
 - **Latin America:** excessive political interference in public utilities and corrupt government.
 - **Africa:** due to financial burden and to increase access to water for the poor.
 - **Central & Eastern Europe:** ideological grounds, shift from communism to market economy.
 - **Europe:** except France & UK, water is mainly supplied by the public sector
 - **USA & Canada:** PSP remains limited

Different forms of PS participation in water supply

Option	Owner	Finance	Operat
Service contract (Mexico City, Santiago-Chile, Madras)	Public	Public	Public then some private
Management contract (Cartagena-Colombia, Gdansk-Poland, Johannesburg, Mali, Burkina Faso)	Public	Public	Private
Lease contract or <i>affermage</i> (Côte d'Ivoire, Guinea, Czech Republic)	Public	Public	Private
Concession (Buenos Aires-Argentina, Manila, Cancun-Mexico, Jakarta, France, Colombia, Brazil, Hungary, Malaysia)	Public	Private	Private
BOT (Mendoza-Argentina, Izmit-Turkey, Natal-South Africa, Malaysia)	Private then public	Private	Private
Reverse BOOT	Public then private	Public	Private
Joint ownership	Private and public	Private and public	Private and public
Sale or full divestiture (England & Wales, Malaysia)	Private	Private	Private



Context

- Intense and heated debate ongoing on the appropriate roles for PS in water supply (debate polarized around ideological grounds)
- Soul-searching by donors
- Old wine in new bottle
 - PSP, PPP, market reform

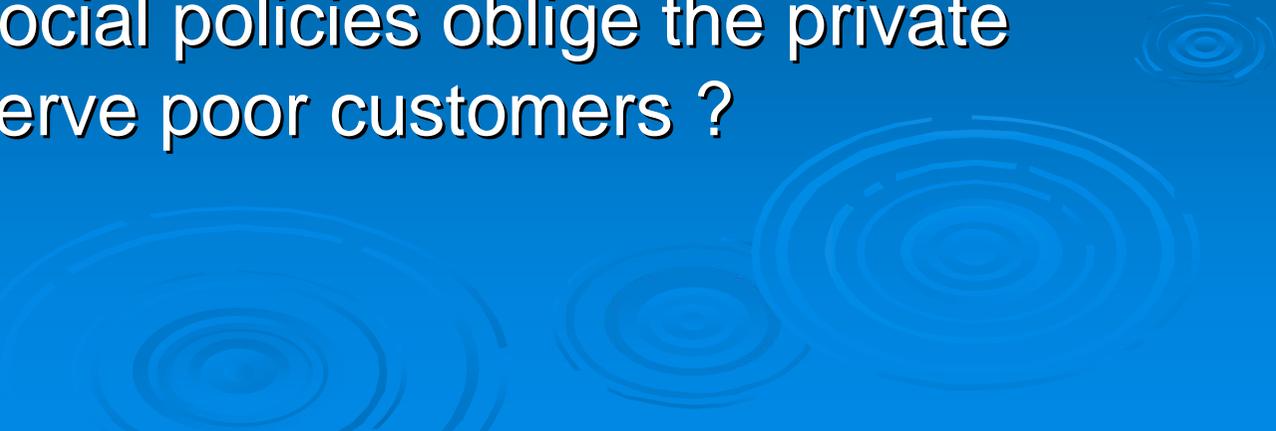
Previous findings

- UNRISD's project on Commercialization, privatization and Universal Access
 - Argentina, Bolivia, Chile, Finland, India, Philippines, & South Africa
 - Targets not met
 - regulation is failing
 - Argentina, Philippines, South Africa, (Hungary)
 - Fear of PS
 - Bolivia, India
 - Not transparent and population not consulted
 - Bolivia, India

New research

- Takes the inquiry further & investigate how PS deals with the poor (access, affordability)
- Brazil, Burkina Faso; Colombia; England and Wales (& Scotland); France; Hungary; and Malaysia
- Explore social policies & regulation and their results
- Are governments/IO adopting appropriate policies for water supply

Questions

- How do social policies address issues of affordability and access?
 - What is the role of tariffs
 - social tariffs, increasing block tariffs, metering
 - How are policies designed to help the poor (minimum service levels, subsidies)?
 - Are the poor able to benefit from the social policies in place?
 - How can social policies oblige the private sector to serve poor customers ?
- 



Main findings - France

- Private sector supplies 80% of the population.
- In 2001 4.31% of households in France (representing 1.16 million households) still used over 3% of income on water bills.
 - 3 million people are late in paying their water bills and around 700,000 households request to reschedule their water bills.
- Only an *ex-post* financial aid is available for qualified low-income households to help them pay their water bills (the *ex-post* choice might be explained by the prominent size of the private sector).
- During the past two decades, water prices increased twice as fast as the consumer price index.
- Water tariffs are 33% higher in areas where the private sector operates compared to the regions supplied by the public companies.



Main findings – Great Britain

- Pioneer of private sector involvement in the water sector.
- In 1988, the poorest were using 3.5% of their gross household income for water bills compared to 0.4% for the richest, 4% in 1997 for the poor. The 2002-03 figures show that this burden for the poorest has started to decrease whereas it increases for the middle class.
- With a public management in Scotland, there is more emphasis given to social equity concerns. Indeed, effective regulation (an independent economic regulatory body) and appropriate social policies seem to cushion the adverse effects of privatization.



Main findings – Colombia

- Similar in Latin American countries
 - PSP started since 1994
- 68% of the poorest have access to piped water compared to around 96% of the richest.
 - poorest are paying more in terms of their share of expenditure
- PSP had a neutral or positive effect on water and sewerage connection rates for poor households and a significant effect on continuity of service.
 - large subsidy scheme
- This system is progressive and has a significant impact on poverty since most of the poor receive some benefits (low errors of exclusion).
 - As such, it is more akin to a universal subsidy scheme than a focused social program.



Main findings – Brazil

- 2% of water companies are in private hands supplying 25% of the population.
- Increase in coverage from 60% in 1970 to 86% in 1990 was achieved by heavy public investments, especially through two institutions. priority to access rather than to issues of affordability
- Only 50% of the poorest households had access to water supply in 1995 and 68% 2003
 - Water and sewage bills are much more burdensome for low-income families than high-income families.
- Affordability problem is generally dealt with the tariff structure and all companies (public or private) practice social tariffs such as increasing block tariff and use other ex-post measures designed to help the poor households.



Main findings – Malaysia

- PS supplies water to 64% of the population.
- Only 56% of the poorest had access to water in 1994 reaching 74% and in 1999.
 - Water affordability big problem
- PSP does not seem to have improved access to water, and it did not necessarily worsened water affordability
 - it has not brought in additional investments to increase coverage nor has it increased efficiency).
 - Most of the companies are highly deficient since they are not able to recover their operating costs (problem of non-revenue waters).
- Because of strict policies and political sensitivity regarding tariff increase, there does not seem to be an association between PSP and higher tariffs or affordability problems



Main findings – Hungary

- Hungary is representative of the transition economies
- Today about 40% of the water is distributed by private companies/joint ventures; and about 20% of the water companies are privatized.
- 20% of the poorest still do not have access to piped water
- No affordability problem due to Social policies for keeping tariffs low, subsidies
- PSP did not led to price increase.
 - due to strict political control of prices, or due to the practices of the water companies that seek compensation from fixed management fees, increasing efficiency, or by choosing regions with low cost of production (cherry picking).



Main findings – Burkina Faso

- Burkina Faso typical of African country
 - less than half of the people have access to safe drinking water.
 - The other half either buys water from private vendors at exorbitant prices or consumes unsafe water from rivers and other sources. The time spent on fetching water has also decreased as a result of putting to use more water fountains
- Loan imposed PSP
 - service contract prioritize economic efficiency
- the share of expenditure used for water increased for the poorest quintile but decreased for the richest income groups.
- The conclusion is that although coverage seems to increase for all groups, the commercialization objective pursued by the private sector has been detrimental in terms of affordability, especially to the poorest populations.

Modeling PSP impact on poor

Country	Access	Affordability
France		-
Great Britain		=
Hungary
Colombia	+	-/+
Brazil	+	-
Malaysia	-	+*
Burkina Faso	+	-



Conclusions

- Previous research shows, regulation is often ineffective in developing countries
- We argued that social policies should be given priority over strict “regulation”
- Private sector tries to dismantle existing social policies or resists to social policies
 - Has negative impact on affordability

Policy implications - General

- Our findings, growing number of failures of large-scale privatization, and increasing public pressure against privatisation
 - rethink the strategy of private sector participation in water supply. Was it oversold?
 - Any reform intending to increase coverage (either through commercialization, PSP, additional investment or increasing efficiency) should be accompanied by appropriate social policies (and not the usual regulation only)

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