



Draft for Discussion

**A Review of Reports by
Private-Sector-Participation Skeptics**

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1. Introduction

The Municipal Infrastructure Investment Unit (MIIU) of South Africa provides assistance to municipalities in South Africa to expand and improve municipal services through Municipal Service Partnerships (MSPs). Under the MSP framework, the public sector can enter into partnerships with other public sector entities, the community, or the private sector. Such partnerships with the private sector have been controversial in South Africa. The paper examines some of the issues at the center of the debate. This paper was funded by USAID through its support to the South African government on municipal infrastructure investment.

2. Methodology

Ten¹ groups have been identified as being very critical of PSPs. For practical purposes, these groups will be referred to in this report as “PSP-skeptics.” After reviewing the reports and campaign materials produced by these groups, it was decided to focus most of the research on the reports produced by Public Services International (PSI) and its research arm Public Service International Research Unit (PSIRU) because the reports produced by these two groups are the most comprehensive of all and are usually the source of information for the reports and campaign materials used by the other groups.

It was decided that while it was necessary to review the individual cases and claims that were used as a basis for these groups’ conclusions, this alone was not sufficient. It was also necessary to address the conclusions themselves. Hence, the report starts with a review of the PSP-skeptics’ conclusions, proceeds with a more in-depth review of three cases, and ends with concluding remarks. The three cases that have been selected are Buenos Aires, Cote d’Ivoire, and Guinea. They have been selected because they are the only in-depth reviews of PSP cases undertaken by PSP-skeptics (other than South African cases). Although mention of other PSPs can be found throughout the reports, the information is scanty. Effort has been made to verify and respond to the criticisms other PSPs as well, when possible. Due to limited space, this report cannot describe all of the features of case studies and limits itself to reviewing the criticisms. References that provide more detailed descriptions of the PSP contracts, performance of the private sector, and background to events are provided.

It is important to note that this report and its authors respect both the position and intention of the PSP skeptics in South Africa. Every effort has been made to sensitively evaluate the content and context of their perspectives on PSP. The authors also appreciate the legitimate political nature surrounding the controversy generated when change occurs in society; especially change affecting the long-held role that government has held in the national economy. Therefore, this response to the PSP-skeptics’ charges is based on a factual, analytical, and quantitative review of the global experience with PSP. Political philosophies regarding the role of the state intervening

¹ The groups are labor related and are: Congress of South African Trade Unions (COSATU), South African Municipal Workers Union (SAMWU), Public Services International Research Unit (PSIRU), Public Services International (PSI), Kingston Coalition Against Privatization, Water Pressure Group, International Labor Resource and Information Group (ILRIG), American Federation of State, County And Municipal Employees (AFSCME), Municipal Services Project, and Service Employees International Union (SEIU).



in the economy have been avoided, however, substantial economic theory and best practices are referenced.

3. Summary of PSP-skeptics' Criticisms

The following are key criticisms of PSP-skeptics and the response.

- *Privatization results in higher prices. Prices increase because private sector companies have to make profit and pay dividends to their shareholders. Prices also increase because municipalities want to pay their debts or improve their balance sheets. In Manila where prices were supposed to decrease, they were increased 2 years later.*

Privatization often results in higher prices not because private sector companies have to make profits and pay dividends, but because the prices were too low to begin with. Prices were not enough to cover costs of operating and maintaining the system let alone expanding the system and serving the unserved population. This practice has led to governments subsidizing consumers, most of whom can afford the service. This approach is not sustainable and governments all over the world are moving away from it. The phenomenon of rising prices is being seen as governments reform the sector and is independent of whether the reform is implemented by the public sector or by the private sector.

The private sector does have costs that the public sector does not have, mainly the costs to pay its shareholder and the higher costs of capital. However, these costs are more than made up with savings resulting from efficient operations.

Furthermore, there are examples where despite large investments and the need to make profit, prices have not increased but have gone down, such as in the cases of Buenos Aires and Manila. While prices in Buenos Aires have since increased, it is still lower than prices while under the public sector management even though eight years have passed since the start of the concession (details provided in case study below). In Manila, the subsequent price increase was inevitable, regardless of who was operating the system. The two private sector operators had taken over all of the public utility's significant debt (almost \$900 million) which were denominated in US dollars. When the Asian financial crisis hit and the peso devalued by more than 100 percent, the project could not absorb all of the foreign exchange losses from this inherited debt as well its own debt and had to pass on these costs on to the consumers. The contract, which did have some protection against currency devaluation, did not anticipate (and in fact, nobody did) the degree of devaluation that took place.

- *Private sector is not always more efficient. Comparison between public water utilities in Sweden and private water utilities in England of similar size show that the cost of private utilities is higher. Management contracts in three cases (Puerto Rico, Trinidad and Budapest) show that the private sector involvement through management contracts does not bring efficiency improvements (PSI, 2000). In France, a comparison between publicly and*



privately managed utilities show that privately managed utilities charge higher prices by 13% (Hall, 2001).

It will always be possible to find individual cases where the private sector is not more efficient. However, the evidence on the efficiency of private sector is extremely strong and compelling. In a comprehensive survey of **24 studies** that compared public and private performance in infrastructure in the past **30 years**, half of the studies found that the performance of the private sector was significantly superior to that of the public sector, seven found the difference small and ambiguous, and only five concluded that the public sector at a level superior to the private sector (Shirley, 2000).

In a study comparing the performance of fifty water companies in developing countries in Asia and Pacific—which is a more relevant comparison than a comparison of water companies in two developed countries²—it was found private water companies are more efficient (Estache, 1999).

In a very in-depth study comparing the performance of the water supply system before and after PSP in 4 cities (Buenos Aires, Argentina; Conarky, Guinea; Mexico City, Mexico, and Cote d’Ivoire, Mary Walsh found that efficiency, measured as labor productivity and operating cost as percentage of operating revenues, increased in three cases: Buenos Aires, Cote d’Ivoire, and Guinea.

Evidence from developed countries would be interesting to review because the public sector in developed countries is already relatively efficient and therefore one would assume that efficiency improvements from private sector involvement would not be significant. However, the evidence does not support this assumption and is to the contrary. Trent University economist Harry Kitchen reviewed three U.S. studies from the late 1970s. One study of 112 water suppliers found public firms to be 40 percent less productive than their private counterparts. When one of the public suppliers became private, the output per employee increased by 25 percent. Conversely, when one of the private suppliers became public, the output per employee declined by 40 percent. A second study of 143 water suppliers found costs to be 15 percent higher for public firms. A third study found public modes to be 20 percent more expensive (Brubaker, 2001).

The Reason Foundation has repeatedly found private firms in the U.S. to be considerably more efficient than their public counterparts. A 1992 study concluded that contracting out water services achieved operating cost savings of between 20 and 50 percent. Examples included 40 percent savings on wastewater treatment in New Orleans and 30 percent savings on wastewater treatment in Schenectady. In a 1996 study comparing the performance of ten government-owned California water companies with that of the state’s three largest investor-owned water companies, the Reason Foundation calculated that annual operating expenses per connection averaged US\$330 for the former and US\$273 for the latter. Proportionally, the government-owned companies hired more than twice as many employees and spent

² The Asia Pacific study took into account factors that highly influence cost such as the source of water whereas the England/Sweden study did not. Sources of water determine quality of water and therefore treatment costs and also pumping costs.



almost three times as much of their operating revenues on salaries. Furthermore, they spent almost twice as much on maintenance to produce a product of the same quality. When subsidies were accounted for, water from public operations cost 28 percent more than water from private operations. Another Reason report documented savings in other jurisdictions, including those of 43 percent from the competitive contracting of operations of a water purification plant in Houston (Brubaker, 2001).

In France, the Ministry of Health compared the levels of compliance of publicly and privately operated water supply systems serving more than 5,000 people with the European standards. This showed that the private sector had a compliance rate 17% better than the public sector. In addition, the trends for compliance are continuously improving in the private sector operations, and declining in the public sector. (Ministère de l'Emploi et de la Solidarité, 1998)

Furthermore, the cases cited above as examples of inefficient private management while at times partially true, are often incorrect, do not present the full story, and can be misleading. In the case of Trinidad, for example, the PSP-skeptics report that the management contract failed to meet the objectives of the contract which were: to improve reliability; upgrade the infrastructure; and make the utility financially viable at the end of the three-year contract. They further maintain that the deficit for 1998 actually increased over 1997 to \$378.5 million. The management contract also failed to deliver on the other objectives, despite cutting hundred of jobs and introducing controversial metering proposals. Due to these failures, the government rejected the private sector's proposal to extend the contract and the utility was taken back as a public sector responsibility.

The reality is that the government of Trinidad had always envisioned a management contract to be the first phase of private sector involvement to be followed by a longer-term concession if the experience in the first phase of private sector participation proves to be satisfactory. When the 3-year management contract ended, the government of Trinidad concluded that the required improvement in water and sewerage services could only be achieved through a deepening of private sector involvement with long term contracts using concessions (as opposed to management contracts) with international operators and leading local companies. The operator's proposal for *transitory* management (not for the concession) was rejected because there was concern of giving this private sector company unfair advantage in the bidding of the second phase of private sector involvement.

Contrary to the PSP-skeptics report, at the end of the management contract, the private sector did reach all of its targets³ and pulled the utility out of financial difficulties into an operating profit, which the government gave tribute to⁴. While it is true that the government took over, it took over for the transitory period only and is now in the process of bidding for a long-term operator. All in all, the involvement of the private sector for improving service

³ Payment to operator was based on a base fee and a success fee based on the accomplishment of the designated performance indicators, which were improvements in unaccounted for water, plant downtime, employee numbers, and billing and collection. The private operator achieved all of these technical targets and received 100% of its success fee (correspondence with former managers of the Severn Trent management contract).

⁴ Trinidad Express Business, March 27, 1999.



delivery has been a positive one for Trinidad as demonstrated by the bidding for a long-term operator for the water sector and recently by the replication of the management contract model in the Trinidad's postal service.

The PSP-skeptics' report is incorrect on a number of other fronts as well and demonstrates that the PSP-skeptics are ill informed of the actual contract. For example, it mentions a controversial metering proposal, whereas metering was never part of the management contract. It mentions that one of the objectives of the contract was to upgrade the infrastructure whereas upgrade was to be undertaken by the public utility since the contract with the private operator was a management contract. Furthermore, the job cuts were welcomed by the Government and the population. One of the major problems of the old public utility was recognized by all to be massive overstaffing, caused by earlier administrations' featherbedding and cronyism. This massive overstaffing was seen to be a major cause of the continual previous major deficits, which had to be supported by subsidies of millions of dollars from the public purse over many years. Labor accepted the necessity of these cuts, and indeed the local union representative was one of the people to take up the redundancy package.

- *Privatization reduces employment to create profits for the company.*

One main reason why the private sector is brought into delivery of public services, other than its access to capital, is its ability to find areas of efficiency improvements. Both the public and the private sector benefit from these efficiency improvements: the public in terms of lower tariffs or less subsidies and the private sector in terms of profits. In developing countries, labor is typically an area where there are very large inefficiencies. If the goal is improved services to the public, then efficiency in labor productivity is inevitable, whether the reforms are to be introduced by the private or public sector. In cases where reform is implemented by the public sector—something which labor groups have been promoting as an alternative to the private sector—labor productivity improvements, including labor reduction is often part of the reform package⁵.

Furthermore, increasing attention is being given to ensure that adverse impact of labor reduction is minimized. In fact, employment reductions in the water sector are not as severe as other infrastructure sectors such as electricity and gas sectors (ILO, 1999). In the Casablanca concession, one of the contractual conditions was that the concessionaire employs 100% of the employees of the former public authority. This condition has been respected. In the Selangor concession in Malaysia, former workers are given construction contracts and workers who choose to stay are given ownership shares in the company. In Argentina, employees are given significant stakes in ownership and former employees lucrative, yet small, sub-contracts. In Indonesia, labor reduction has been minimal and the approach to increasing labor productivity was to maintain the size of the labor force as the system expands.

⁵ Examples of countries/cities who have implemented successful public reform in the water sector and included labor lay-offs are: Honduras; Sao Paulo, Brazil; and Santiago, Chile.



- *Regulation which is supposed to prevent abuses by private monopolies is made ineffective by lack of public access to information on the private sector. Regulators do not have power to insist on financial disclosure. In the Philippines the regulator is in an even weaker position because its decisions can be appealed in an international arbitration court.*

Well designed regulatory frameworks, which include the establishment of independent regulatory bodies, the development of sound contractual enforcement procedures, and the establishment of norms and standards governing the types of information reporting required of both public and private utilities discourage, and indeed, sanction abuse by service providers. Public access to information regarding utility performance can be transparently compelled if, and only if, it is part of the contracts and regulations negotiated between Governments and service providers. It is incorrect to assert that regulators do not have the ability to insist on financial disclosure. To the contrary, the standards of disclosure required by private service providers can be far more rigorous than typical standards of disclosure required by publicly owned enterprises. For example, monthly, quarterly and annual audits can be performed and tariff rate applications can be contingent upon the fulfillment by utilities in meeting those information disclosures. This represents an enormously powerful enforcement tool that empowers national and local governments. Independent regulation creates the authority and ability to use such tools and avoid the types of vacuums that exist in sectors or industries that have weak or absent regulation.

Moreover, governments, if well advised, can establish more effective bidding and procurement procedures status quo anti, whereby all pre-qualified firms agree in advance to meet such standards as a method of encouraging greater information sharing. Equally important is the capacity and operations of government, preferably local, in the monitoring and reporting of such information and performance standards. If governments are effective in contract monitoring, and the standards for meeting performance standards and information disclosure are rigid (but not onerous), experience shows that compliance by private service providers are is greater than the compliance of publicly owned enterprises. Compare the experience of the water boards in South Africa, Transnet, or even well managed enterprises such as Telkom. What standards are in place to ensure that public enterprises do not abuse market position or meet performance standards? Regrettably, until recently, those standards and requirements for public enterprises in South Africa, have either not been in place or have been ignored. Unfortunately, many cases exist where public water enterprises exceed borrowing limits (representing unfounded liabilities and claims on foreign exchange reserves), invest in non-financially viable non-core activities, or make other investment and operating decisions outside of the purview of the public “watchdog” or regulator. In the case of PSP, government can rely on transparent and enforceable contractual provisions to demand compliance.

Public enterprises operating in monopoly environments are generally not accountable to consumers, shareholders, or even the government, their ultimate shareholder. Recent legislation in South Africa such as the Public Financial Management Act (2000), attempt to redress this problem, but not in the water sector. Appeals to national or international appeal bodies, which are transparent, fair, and agreed upon within contractual documents, do not replace local authority nor or are they forced upon governments. Rather, they are part of a



“menu of options” for investors and governments to agree on methods to avoid costly litigation, political intervention, or non-performance events that either private firms or governments trigger. Ultimately good governance, and the institutions required to affect it, will always be the responsibility of government and the constituents they represent.

- *Privatized water concessions undermine democracy because they have frequently been negotiated with undemocratic political leaders (Jakarta, Casablanca) and are agreed in secret, without accountability to local leaders (UK, France), (PSIRU, March 2000)*

If implemented under the specter of competition, PSP arrangements are by their very nature democratic. They are democratic because competition during the bidding allows government, consumers, labor, and other stakeholders to evaluate the relative benefits of various bidders costs and quality of service comparatively (amongst competing bids) and against the status quo (between the bidder and current service provider). They are additionally democratic when labor and the public, through employee ownership schemes and public share offerings are able to participate in the ownership of the utility, and when consumers are able, through regulation, to have a voice in how the utility can and should change corporate behavior.

Under public ownership and monopoly conditions, stakeholders have no choice of service, are unable to influence the behavior and performance of the enterprise, labor have little or no opportunity for ownership or meaningful management role, and consumers are unable to compel utilities to improve quality of service. In the United States and Australia, it took the introduction of competition to press publicly owned utilities to commercialize and improve quality of service. The specter of competition makes labor, consumers, and the public demand higher levels of service, greater value for money, and better returns on public and taxpayer supported funds.

Privatized water concessions awarded in authoritarian regimes such as Indonesia, don't discredit the concept of private sector participation. On the contrary, they discredit the concept of undemocratic, authoritarian regimes where the lack of transparency and rule of law allow national and local governments to award contracts without competition, absent of financial controls, and with no legal accountability. In Indonesia, the problem of collusion and nepotism dominates the award of public as well as privatized projects. A leading Indonesian economist estimates that 30% of funds for public projects are corrupted. In democratic countries, market based approaches and private sector participation schemes flourish for the obvious reasons that they make economic sense, can be implemented with competition, free up public funds for other purposes, improve quality, and in some cases, represent sound investments that investors and consumers support and want to own (Ironically in many developing countries the most widely held and traded stock is the formerly publicly owned utility).

Regulators can and should use enforcement measures to penalize non-performance to protect the consumer. If service providers are not performing, or are in breach of contract, including the treatment of unionized or non-unionized employees, regulators and monitors can terminate the contract, collect liquidated damages, and rebid the contract to other willing and qualified parties. That is one of the characteristics of free markets. In non-democratic



systems, those mechanisms for control and accountability do not exist, thus abuse of public funds and trust is rampant. Not just in the award of non-competitive concessions to the private sector, but in the operations and performance of public enterprises that are supposed to provide services to the public.

Accountability to local leaders is achieved through the process of decentralization and legal inclusion. In centralized countries, such as Indonesia and Egypt, traditionally, national ministries responsible for water service, construction standards, and financing public works, would dictate to local governments and utilities on the type of plant they needed, how it would be designed and operated, what type of specifications were required, who was going to build it, and what the tariff would be. Long before PSP was introduced, local leaders complained about the lack of inclusion and oversight over their own affairs. Of course subsidized tariffs made the lack of autonomy more palatable but no more acceptable. Once PSP was introduced, local leaders and utilities were compelled to voice their concerns to national Ministries demanding a role in the identification of the project, the potential approach, the quality of the service required, the acceptability of the tariff vis-à-vis value for money, and the manner in which the service provider would be regulated and monitored. Now, Egyptian local utilities are the party to the contracts between PSP operators and are directly responsible for the monitoring and oversight of such contracts.

Local accountability and oversight is part of the process of decentralization. Decentralization is stimulated through, among other forces, efforts to improve utility performance through competition and PSP. Local accountability and input is part of the rationale behind sectoral reform and is more prevalent in democratic, elected regimes, but is not the responsibility of the private sector.

- *The benefits of privatization are supposed to be brought about through competition. In reality there is little competition and what is in place is collusion world wide between a limited number of companies. These MNCs often operate jointly and restrict works contracts to their own subsidiaries. In the UK, concessions were never tendered, in France there is organized competition, in and in developing countries there were negotiated deals.*

Global competition for transparent competitive tenders in the water sector is fierce. It is only less competitive when investors question the integrity of the process, or if the project is viewed as having excessive financial risks or poor prospects. It is true, that the depth of private consortia engaged in the water business is not comparable to other industries such as telecommunications, energy, and transportation. However, that fact should not affect the competitive outcome and benefit of a well-structured project in a stable country where rules and procedures for procurement are followed precisely. This is especially true in an industry where the methodology for bidding requires the short-listing of no more than five or six qualified international bidders.

Recent transactions in the Middle-east and North America demonstrate that competition and value are maximized when sponsoring governments prepare bid documents that clearly prohibit firms with joint ownership and or anti-competitive backgrounds from bidding, and require evidence of good standing from prior transactions or contracts. The recent contractual



award for the City of Seattle's major water and wastewater plant had over 30 consortia bid for the short-listing and five major consortia, all scrupulously evaluated, qualify. The recent award of the concession for the Gulf of Suez BOT in Egypt, was awarded to the Canadian firm SNC-Lavalin, after 47 bidders attempted to make the short list, and five (U.S., French, British, Canadian, and Egyptian) qualified.

Collusion and anti-competitive behavior must be regulated by each government's own laws on procurement, competition policy, and financial reporting. Those countries that do not have legislation or fail to enforce such legislation do so at their peril. Those countries that have laws that require competitive bidding, disallow cross-ownership or anti-competitive behavior, and criminalize bribes, corruption, and unethical practices (for both public and private transactions), are usually countries with high-levels of private sector development, efficient industries, access to long-term finance, outstanding labor conditions, and higher levels of customer satisfaction and payment.

- *The common scheme in PPPs (esp. central Europe and Santiago, Chile) where the public guarantees profit yet the private controls management is unfair.*

Actually, guaranteeing profit is a very unusual practice in PSP transactions. In fact, guaranteeing profit on publicly funded, turkey contracts for publicly owned enterprises (the antithesis of PSP) has been much more common and predictably financially disastrous. International best practices demonstrate that governments should neither limit nor guarantee profit. Rather, governments should "cap" prices, allow the private sector reasonable, incentive-based returns, and adjust those caps and returns periodically based on both exogenous factors and the performance of the contractors. In instances where rate of return regulation is used, regulators allow utilities to achieve a fixed rate of return on their own investment capital, if and only if certain performance standards are achieved. Even then private utilities must apply for rate increases and they must be justified in order to be approved.

Any operator risking millions of dollars of private debt and equity on a PSP project will require full-commercial freedom to operate according to their industry leading standards. If not allowed full commercial freedom to manage according to the terms of their contract, most PSP operators (and their shareholders) would demand that the firm not risk a single dollar in such in an environment. Rather, it would be far more prudent to require that government guarantee all of the payment for services under traditional "turnkey" arrangements, exactly the type of operations that have resulted in government deficits, under investment, lack of maintenance, low wages, high subsidies, poor performance and water quality, and an underserved population.

In many instances, governments will provide performance guarantees or sovereign guarantees to cover certain commercial risks. These guarantees do not include profit. They guarantee that government will purchase bulk water, follow the terms of their contract, provide access to land, make foreign exchange available, etc. These performance guarantees are often required, more due to the fact that government is neither willing to reduce subsidies (introduce cost recovery), nor allow operators to cut off service to customers unwilling or



unable to pay. If governments were in a position to finance 100% of all capital investment and operations and maintenance as well as keep tariffs at less than the cost of service for all of the population, then private sector finance nor expertise in management would not be required. In a perfect world, that would be fair but still unsustainable.

- *The public sector option has some clear and obvious advantages:*
 - *Accountability: the water company is responsible to the public authority, and that authority is responsible to its electorate for providing the service.*

Water companies for the most part are *not* accountable to its public sector owner. Water companies are not regulated nor obliged to meet service targets and standards. When they perform poorly, there are few mechanisms to make them accountable, such as by terminating the managers. As to the accountability of the public sector owners to its electorate, only recently with the advent of decentralization and democratization, have these public sectors in developing countries become more accountable to its electorates—but this is a recent phenomenon.

On accountability of utilities due to public ownership, a key government official in the preparation of the Manila concession writes:

Being owned by government is a nebulous concept and to the ordinary MWSS (the Manila public sector water company) employee, it meant that there was no owner. There was a general attitude among the employees of trying to extract as many benefits as possible from the company with as little effort as possible. In board meetings, the best-prepared presentations were those that involved requests for increase in benefits. Other presentations, including those for critical projects, were often poorly prepared. (Dumoll, 2000).

Even in developed countries problems of accountability by the public sector can be found. A report for the Joint Economic Committee states that constrained by rigid rules and procedures and given little discretion to operate creatively, even well trained workers can make but poor use of their knowledge. They are neither rewarded for increased efficiency nor punished for poor performance. (Brubaker, 2001)

- *Transparency: accounts must be publicly available and clear, not withheld on grounds of commercial confidentiality – as happens in the UK – or obscured by confusion over who is paying for what, as happens in France.*

Each country has different laws requiring disclosure for private companies. In the case of publicly traded or listed companies, disclosure and transparency should be comprehensive and total. Many countries have laws such as the Freedom of Information Act in the United States that requires all public agencies or publicly funded activities to disclose records and documents on a variety of matters to any member of the public. Business records or contracts between public and private parties should be



within the public domain but that is a matter of local not international law. If governments want private firms to reveal non proprietary information or information that would not violate privacy or intellectual property rights, governments and their constituents should pass legislation requiring full disclosure for both public and private corporations. In the United States, Canada, and elsewhere, any contract between governments and private firms are part of the public domain and every corporation is required to complete an annual audit and to file taxes. Any publicly traded firm must comply with far stricter disclosure requirements in order to meet financial reporting and regulatory acts.

- *Public service: water and sewerage are amongst the most basic public services – they should be run by an organization responsible to all citizens, not just shareholders.*

Water and wastewater are indeed public services and they can and are run by organizations responsible to all citizens. They can be run by public enterprises, by private enterprises, and by non-governmental enterprises. They can be run efficiently and inefficiently by all of the above. Public enterprises are no more accountable to citizens than private enterprises. In fact, in many countries, private enterprises are more accountable because governments have the legal right to revoke licenses, terminate concessions, compel performance, and prosecute and imprison management for acts of fraud or while-collar crime. Citizens have legal recourse to bring shareholder suits, product liability and negligence lawsuits, and compel better service through organizations such as “better business bureaus”, independent regulatory bodies, and the Minister himself.

In many countries, public enterprises (supposedly more accountable to citizens) are not regulated, do not comply with health and safety standards for employees or consumers, do not operate commercially, do not meet environmental standards, do not produce auditable financial statements and records, and usually do not meet the basic service delivery standards expected of existing consumers let alone new consumers waiting for connections.

While there are cases where public enterprises can operate efficiently, it does not mean that they are more accountable. While there are cases where non-governmental organizations operate efficiently and due to their nature as community based organizations, are accountable; they have no financial capability to invest in new services. There are also cases where the private sector operates more efficiently but with higher tariffs, or more efficiently but with lower tariffs; the record shows that either the service is being delivered as contractually agreed or the contract is terminated. One should bear in mind, for every dollar that governments can avoid spending on water infrastructure that the private sector is willing to invest in providing “basic water service”, an additional dollar or more is liberated for government to spend on other basic services such as health, education, and social security.

- *Cost: public sector companies do not have to make profits to pay dividends to private shareholders – so they can always be cheaper.*



This point has already been responded to. See the first point on page 1.

- *Public provision of services is the majority practice everywhere. In the European Union, only in France, England and Wales is water privatization the norm. Since 1992, there has been little growth in privatization, except in Spain.*

It is true that public provision is the majority practice, however, this is not a good enough reason to remain with public provision blindly, without considering the potential benefits of private provision. Had this argument been accepted in the 1970s when similar arguments were being made about the telecommunication sector—that telecommunication is a public good and that the public sector should remain responsible for its provision—the developed and developing worlds would not see the leaps in technology, service, employment, and quality of life that has resulted from increased access and lower prices of telecommunication services from private sector participation in the last three decades.

Furthermore, it is incorrect to say that there has been little growth in privatization globally or in developing countries. Looking only at the water and sanitation sector, the amount of private investment has been growing steadily in the last decade with an average growth of 22% since 1995⁶ (World Bank's PPI database). If one were to count the *number* of projects, which would include all types of PSP projects, such as management projects where there is no private investment, then the average growth is 35%.

Moreover, the so-called norm of public sector provision has not always been the norm. In the US, until the beginning of the 19th century, private companies served 94% of the population and only later that the public sector stepped in to serve unprofitable areas. In Alexandria, Egypt, and elsewhere, viable private companies have delivered water service until the state nationalized these companies in the 1950s. At the end of the day, the driving force surrounding the move back towards private participation in infrastructure services is not just the well documented poor performance of public utilities, rather it is the lack of financial capability and resources in the public sector to meet not only new investment needs but even the cost of operations and maintenance. Thus, most experts agree, the shift towards more and more private sector participation in water services is increasing and driven by consumers.

- *Public sector owned operations can and do raise investment finance, from all the same sources used by private sector water companies. These include local banks; international banks; government funds; international institutions such as the World Bank, EBRD, Asian Development Bank, etc; institutional investors, and bond markets. In New Zealand, some cities have better credit rating than the private sector.*

The majority of local governments and utilities in developing countries do not have the same range of financing sources that private sector companies have. While it is true that they have access to government funds, multi lateral lenders, and local bank, their access to equity and

⁶ If the high growth of private sector investment in the early 1990s is included, then the number is much higher.



bond markets is very limited⁷. These local governments cannot access bond markets because they have a poor credit rating⁸, in some cases, a system for credit rating of local government is not even in place. Furthermore, in many countries, the bond market itself is still in infancy stage. Even creditworthy cities in the U.S. and New Zealand realized long ago that it is wiser to allow the private sector to finance certain capital projects so that the creditworthiness of the city can be used to raise finance for other essential activities.

This is not to say that local government and utilities should not develop capacities to access alternatives sources of finance, such as bond markets. It is unlikely that PSPs can meet all the infrastructure finance needs, therefore countries should develop capacities to access to bond markets in *parallel* with PSPs. Bear in mind, each time a city or government-owned utility borrows to finance infrastructure, it represents a claim on revenues and on foreign exchange. Thus, those local governments or agencies that borrow beyond their financial limits, affect the financial position of the entire public sector, and in some cases, limit access to financial markets and may weaken national currencies. The Indonesian and Korean economies were brought to their knees, in part, due to the enormous debt owed by government owned or government guaranteed enterprises. Once those liabilities become exposed and those enterprises were unable to service their debt, lenders stopped lending, currencies depreciated, and equity markets collapsed. The development of local capital markets, including bond markets, should be a priority so that local governments can use both PSP and government financed approaches.

- *Private sector reluctance to extend water and sanitation access to the poor.*

It is important to bear in mind that decades of public management have very little to show in terms of extending services to the poor. A representative sample of 15 low and middle-income countries show that amongst the poorest 25% of the population, more than 80% do not have access to piped water (Tynan, 2000). The public sector has failed to extend services to the poor due to a combination of inefficiencies, absence of cost recovery policies, and well intentioned, but misdirected subsidies.

When governments decide redress this failure and reform the sector, either through public or private management, it usually adopts long overdue cost recovery policies, however it often neglects to adopt pro-poor policies and provide safety nets for the poor. Recently, there has been increasing awareness, that to increase services to the poor, it is governments who need to adopt pro-poor policies, whether delivery is to be undertaken by the public sector or the private sector. In the case of PSPs, it is the task of the government to define these policies, make the necessary regulatory changes, and built them in the contract with the private sector with appropriate incentives and disincentives for the private sector to meet these objectives. Some of the pro-poor policies include for example, reducing costs to serve poorer

⁷ Countries that have nascent municipal bond markets include: Czech Republic, Poland, Russia, South Africa, Turkey, and Philippines.

⁸ Causes of poor credit rating of local governments in developing countries are typically: poor repayment history, whether to central government or other financial institutions, lack of standard accounting procedures that prevent credit rating, poor transparency and disclosure practices, and low and unpredictable own-source-revenue.



neighborhoods by adapting technical standards, including non-exclusive clauses that allow small providers to serve poorer neighborhoods, allowing phased payments of connection fees, addressing land tenure issues, and providing direct, well targeted subsidies to the poor. Both the public and the private sector do not perform well in extending services to the poor if pro-poor policies are not translated into well-designed regulations and programs.

Despite the absence of pro-poor policies, several PSPs have implemented programs to increase access of the poor. In La Paz, Buenos Aires, and Manila, technical standards for high quality connections were adapted so that water connection costs were reduced by 2/3rd and sewer connection costs were reduced by 3/4ths. In Manila, special schemes⁹ to expand services to the informal slum areas previously served by private vendors have reduced a typical poor household's water bill by two-thirds and greatly improved the quality and continuity of supply. These programs have been so popular that more than 40% of new connections in the west side of the Manila concession is now serving low income areas (Maynilad Water Services Inc.,??). In contrast, expansion of services to these same slum areas under public management was not possible because it was an acknowledgment of the legality of their settlement.

In Chile, pro-poor policies had been adapted prior to the concession agreement. The concessionaire provides subsidies to low-income households, who meet eligibility requirement and are registered under the subsidy program, and is later reimbursed by the municipalities. This subsidy program ensured that the poor did not suffer when tariffs had to be increased to cost recovery levels. In Buenos Aires, a series of programs (described in section 4 below) were implemented that more than doubled access of low-income groups.

- *Multinationals use water profits to subsidize other global investments*

All corporations use profits to return value to their shareholders in the form of dividends or to finance new activities such as research and development, expansion of service, hire more staff, distribute bonuses, acquire new businesses, or keep cash reserves for changing market conditions. Most companies in the utility business including water are committed to long-term financial arrangements for 10-30 years where the majority of revenues (after paying operating expenses) go to retire the interest on debt (referred to as debt-serving ratio) for at least 10 or more years until servicing the principal of debt can commence. Once marginally profitable, then and only then can private water companies begin to pay taxes (taxes are based on revenues and profits), retire more debt and debt service, and generate enough internal cash flow to finance new investments in service expansion, additional staff, new technologies, etc. After many, many years, once profitable, world-class companies begin to provide returns to equity investors in the form of dividends and returns on equity. If companies are fortunate to have surplus profits after meeting all financial obligations including operations, taxes, debt service, and profit dividends/remittances it is very unusual

⁹ Known as *Bayan Tubig*. These programs typically include technical adaptation such as laying pipes above ground, that reduce construction cost and make access in narrow slum areas easier, and payment of connection of fees in installments.



that profits would go to “subsidize” other global investments. Those “profits” may go to strengthen the balance sheet of the company which may make it more attractive in the capital markets to raise debt and equity or more financially capable to raise capital for new water investments in other areas of the world. If so, that would be a positive thing for countries and industries seeking new investment.

Consider the equally common opposite of the example. In a concession that may extend for 20-30 years, what types of risk may affect a firm’s profitability over that time horizon? What about those companies which lose money over the life of the concession? How are those funds made up for on the balance sheet? They come out of the value of the shareholder’s equity. The risks of corporate finance are such that any long-term investment must be viewed and financed over the long run. Subsidizing global investments is as poor an economic choice as subsidizing middle and high-income rate payers. Eventually, it will erode the financial stability and creditworthiness of a country or a company. The investors in the Buenos Aires concession, one that is being criticized for seeking “excessive” profits, are now, after Argentina’s economy has collapsed, facing enormous losses and extremely bleak prospects for the future in spite of their performance in quality and expansion of service. They are nevertheless continuing to provide the service to the public.

4. Buenos Aires

Some of the criticisms of the anti-PSP groups on the Buenos Aires concession are partially true, in particular the criticisms relating to the independence of the regulator, the lack of public consultation in the decision to involve the private sector, the tariff structure and adjustment process that results in ad-hoc and lumpy price increases, and the slow improvements in sewerage coverage and treatment. Note that most of these problems stem from poor design and regulation by the government. More details on these problems can be found in a joint study by the World Bank and Universidad del Pacific.

Many of the other criticisms, however, are either incorrect, inaccurate, exaggerated or take no account of the way the situation has evolved since the contract was drawn up. Furthermore, the most important fact is ignored: the population of Buenos Aires is enjoying significant benefits that they would not have enjoyed if the service had continued to be managed by the public utility. The following paragraphs describe the key criticisms, the results of the review, and the findings of an analysis of benefits of public vs. private operation undertaken by Alcazar (2000).

Efficiency. PSP skeptics argue that the Buenos Aires concession has not brought efficiency improvements because tariff that decrease by 27% at the start of the concession has increased by 20%. The rationale is that reduction in tariff indicates cost savings and therefore improved efficiency. Conversely, the absence of tariff reduction or the reversal of tariff reduction indicates that there has been no efficiency gain or the efficiency gain has been lost.

First of all, comparing tariffs as a measure of efficiency is not always appropriate in systems where public delivery of services is being subsidized and private delivery is not. If widely used



measures of efficiency were used, then the private sector in Buenos Aires has brought significant and difficult to contest improvements:

- Unaccounted-for-water which had remained steady at 45% for many years before the concession, decreased to 34% after the concession.
- Costs dropped through savings in labor, chemical usage, and electricity. In the case of labor, the utility was terribly overstaffed with 8 workers per thousand connections, compared, for example, to 2 in Santiago, an efficient utility in the region. This ratio dropped to 1.5 after the concession.
- As a result of decreasing costs and increasing revenues, operating expenses as a percent of operating revenues dropped from 99% before the concession to 61% after the concession.
- Responsiveness to complaints improved remarkably. Before the concession, response time to complaints was 144 hours for water and 240 hours for sewerage. After the concession, response time was 48 and 30 hours respectively.
- Water supply has improved materially in both the regularity of supply and in the quality of water supplied. The percentage of samples falling below standard on an annualized basis was reduced substantially after only one year of private sector operation. For example turbidity failures dropped from 50% to 13%, chlorine failures from 31% to 6% and bacteriological failures from 8% to 4%. Improvements in subsequent years have continued

Tariffs. A series of tariff increases did occur after the start of the concession as reported by the PSP-skeptics. However, the first and largest tariff increase (13%) resulted from additional investment requested by the government for service in a community from a relocated highway project and for stormwater management. These investments were additional to the contractually agreed investment plan. Other, smaller increases resulted from an increase in the government's VAT, an increase in production costs that that was allowed under a predetermined cost escalation formula, and an increase to meet the targets of the second, five-year investment plan. There were controversies surrounding the tariff increase processes and they were due to various factors: disagreements between representatives of the different levels of government in the regulatory body; the intervention by the Federal Government in the regulator's decisions; a complicated tariff escalation process that is difficult to understand; an unaffordable connection charge and subsequent changes to make it more affordable; and changes in sewerage investment priorities. Despite the increases and controversies, the current price (January 2002), eight years later and after significant service expansion and efficiency improvements, remains the same in real terms as the price at the beginning of the concession.

Profits. The PSP-skeptics maintain that the private sector in Buenos Aires has been making profits "up to three times what water companies make in the UK on average. Profits for the private sector were between 21 to 29% of revenues in the last three years, while in the UK the average profit rate was 9.3 to 9.6%." First of all, these figures should not be compared against each other. The figure quoted as the private sector's profit is the *return on revenue* while the figure quoted as the UK industry standard is the *return on capital*.



Secondly, if comparisons were made using comparable basis, then the concessionaire's profits are well within market rates and industry standards. The Buenos Aires concession is regulated on a "cost of capital" basis combined with efficiency targets that are based on an efficient virtual company and comparative competition. Using this basis, the cost of capital is 11.7% which represents a cost of debt of 13% and remuneration of equity of 16% (Ferro, 2000). This cost of debt was set to be comparable to the yield of the Argentinean bond which is to say that this would have been the cost had the government accessed capital markets. The remuneration on equity was set based on a range of factors including the average remuneration of US stock markets and T-bonds, country risk factor, and a UK-based risk factor for the water sector.

Thirdly, it is useful to bear in mind that in England and Wales, and in some other countries, such as Chile, new investments belong to the concessionaire whereas in Buenos Aires, investments belong to the government. This makes direct comparisons of profits between Buenos Aires and UK not a straightforward matter.

Capital investment. Increased investment has been the most dramatic effect of the concession. Average annual investment rates after the concession was 2.4 times that of the public utility in its last decade of operation. The PSP-skeptics argue that high capital investment is due to higher surcharges and higher debt burdens that the public company could have managed. This is not altogether true. Investment was financed largely through internal savings and debt (Alcazar, 2000)—two sources of finance that the public sector could not have generated. Internal savings were possible because operating revenues increased and costs decreased. Operating revenue increased mainly because of improved billing and collection. Costs decreased because of reduction in labor costs and chemical and electricity usage mentioned above. Looking at past performances, there are no indications that the public sector could have generated these internal savings.

As to debt, the private operator increased its debt:equity ratio from 1.17 in 1993 to 2.37 in 1996 by issuing short-term commercial paper and long term borrowing from IFC. In contrast, the public utility was allowed to borrow only twice between 1980 and 1993.

Sewerage coverage and sewage treatment. PSP-skeptics' criticism is that the private operator failed to reach the targets for sewerage coverage and sewage treatment and that raw sewage being dumped into the Rio del Plata through a 2.5 km outfall with serious environmental implications. While it is true that the concessionaire failed to meet sewerage and sewage treatment targets (target for sewerage coverage was 64% and actual coverage was 61%; target for sewage treatment was 7% and actual treatment was 5%), this failure should be seen within the infrastructure conditions at the time and the fact that aggressive investment plans for the second five-year plan will bring the concessionaire back on target. Unlike water, at the time the concessionaire took over the system, the sewerage system had no main trunks in place, which meant that increasing sewerage coverage (e.g., tertiary sewage collection) could not take place immediately. Furthermore, while dumping raw sewage into a water body is not a preferable solution anywhere, hydrodynamic studies show that Rio de Plata (which is twice as large as the English channel) has an enormous capacity to absorb pollution and that the discharge of the sewage at the Rio de Plata has had no discernible effect on the environment. This is one reason why the modest sewage treatment that did take place in the first five-year plan focused on



upgrading of treatment plants that discharged sewage to the more fragile inland basins. The second five-year plan will inject \$427 million, which constitutes 70% of total investment for the sewerage program¹⁰, and bring sewerage coverage to 73%, which is in compliance with the concession agreement for that time frame.

Distribution of benefits and service to the poor. The PSP-skeptics argue that international and national groups have gained while poor groups have lost. An analysis of the gains of private operation over public operation and its distribution by the World Bank and by the Universidad del Pacific, Peru, show that this statement is incorrect. Foreign investors have enjoyed only 21% of total benefits, domestic investors 4%, while domestic consumers have enjoyed a whopping 80% (see Box.1 below).

Furthermore, while gains might have benefited high and medium consumers disproportionately, it would be a gross overstatement to say that poor groups have lost. Several measures have or are being taken to address the issue of affordability by the poor that are showing good results. First, an expensive infrastructure charge of \$600 (for water) and \$1,000 (for sewerage) for new customers who were mainly poor was replaced with a \$120 charge. These charges were set up by the Government's consultant and were intended to cover the cost of expanding the secondary network and the cost of connection. In addition a new tariff mechanism, the SUMA was introduced. This new charge is a mechanism of cross-subsidy that spreads the cost to everyone and makes the cost affordable to the poor. With replacement of the infrastructure charge with the universal charge, the tariff for new customers came down by 73% while the tariff for connected customers increased by 36%. This change reduced the percentage of income that poor households paid for their water bill. Before the introduction of SUMA, 20% of the poorest household had to pay 13% of their income for the water and sanitation bill and after SUMA, this figure was 5%. Second, a social fund of 4 million Pesos is being set up to support the poor families who still cannot afford the \$120 charge.

Third, a series of other programs are being implemented that have improved access by the poor. For example, in poor, but well-organized, communities, labor is bartered in exchange for a connection to the network. All in all, these programs and changes have more than doubled the access of poor income groups, from 20% in 1993 to 55% in 1995 (Suez, 2001).

¹⁰ Extracted from the regulator's website: www.etoss.org.ar



Box 1. This analysis of benefits compares the achievements of the private company with a realistic projection of the achievements of the public company using pre-PSP trends.

In this case, consumers saw the largest benefit due to increased coverage and reduction in tariffs. This figure does include the benefit of a more continuous supply, but does not include the health benefits of access to water which if quantified would be very significant. The Government loses slightly because it receives less rent as a shareholder of the private company than it does as the owner of the public company.

Benefits of Concession and its Distribution

	Total Gain (millions 1992 US\$)
Government	(137.96)
Domestic investors	66.76
Foreign investors	349.60
Workers	49.52
Competitors	2.27
Consumers	1,326.58
Per capita	176
TOTAL	1,656.77

Source: Abdala, 2000.

5. Cote d'Ivoire

It is interesting that this case is chosen by PSP skeptics to demonstrate failures of PSP¹¹ because this case is often cited as a successful case of PSP. A World Bank assessment (Menard, 2000) concludes “this PSP has been largely successful and that all stakeholders—private users, government officials, international organizations, and the private operator agree that, with a few reservations, the arrangement has worked well.” The Cote d'Ivoire model, which was first implemented in 1959 and then extended in 1998, has been used as a model and is being replicated throughout Africa and other regions of the world.

Some of the criticisms and conclusions by PSP skeptics are true and are also identified in the above-mentioned World Bank assessment. One criticism is that the use of lease-type PSP only improves some aspects of the water supply system. This is true in Cote d'Ivoire and is true elsewhere too. Limited private sector involvement brings limited rewards. In this case, the private sector is not responsible for investment and is not exposed to investment risk.

However, many of the other criticisms are simply not true. For example, PSP-skeptics state that high prices and disconnections mean that poorest segments of society are likely to be the main losers from the privatization process and that where this increases the use of unsafe water sources, the consequences will be disastrous for public health. We have found little evidence to corroborate this statement. On the issue of prices, first, while they might be high compared to prices in Asia and Latin America, they are low for the region. Second, after the 1988 negotiation, there was a significant drop in prices. Domestic tariff was reduced by 20% and industrial tariff was reduced by 23%. Prices have since then continued to fall.

On the issue of disconnection, we have not been able to find evidence to support this. Since the extension of the contract with the private sector in 1998, coverage has continued to increase,

¹¹ Based on Baylis, 2001.



from about 73% in 1998 to 83% in 1996, despite reduction in revenue due to non-payment by the public sector. Furthermore, the current tariffs seem acceptable to the majority of the consumers as demonstrated by the collection rate of 97-95%¹².

On the other hand, PSP skeptics have downplayed or ignored the benefits. An assessment of the private sector's operation by the World Bank states that the operator is efficiently managed and provides first class service to consumers. In addition to falling prices and high coverage mentioned above, unaccounted for water, at 16%, is low by both regional and even international standards. Water quality is high and is of drinking water quality. Labor productivity is high with less than 4 workers per 1000 connections.

6. Guinea

Even though the PSP in Guinea was modeled after the Cote d'Ivoire PSP, the results have been modest. A weak institutional environment, in particular weak administrative capacity and the lack of an independent agency, has been cited as the main reason of this modest result.

All of the problems reported by the PSP-skeptics are true and are based on a World Bank assessment (Menard, 2000). To iterate briefly, these problems include high prices, and improved, but slower than expected improvements in coverage expansion, billing and collection. UFW remained high at 50%, due to a combination of old systems and difficulty with prosecuting people with illegal connections. The benefits, on the other hand, are increased labor productivity and significant improvements in water quality.

What the PSP skeptics did not mention in the report was the extremely poor state of the public agency and the water system before PSP was implemented. The public agency was very inefficient. It was overstaffed with 34 workers per 1000 connections (compared to 9.8 at pre-PSP Cote d'Ivoire). Less than 12% of customers paid their bill. Residents had to line up for hours to get water at standpipes. Tariffs were extremely low, much lower than other countries in the region. Tariffs covered only 14% of costs and this was assuming higher payment by customers. If payment rate was accounted, the cost recovery level was probably even lower. All of this led to the continuous deterioration of the infrastructure and insolvency of the public agency.

What the PSP skeptics also did not mention was that the World Bank concluded that despite the problems, the population of Guinea still benefited from the PSP. An analysis of net benefits between private management and public management had the PSP not taken place shows that the total gain more than doubled (126%). Price increases were offset by savings in cost and by increase in coverage. Furthermore, it was the consumers who enjoyed most of this gain. The impact of improved public health has not been included in this analysis and if it were, the gains would be much higher.

¹² This is figure is for household and industrial consumers. Payment by the public sector has been notoriously bad and is due to a clause that prohibits service cut-offs for non-payment.



Table 1. Analysis of Benefits

	Total Gain (Millions 1996 US\$)	Per capita gain (1996 US\$)	Gain (as percent of pre- PSP output)
TOTAL	33.2	6.12	126.6%
Total Domestic	29.3	5.41	111.9%
Government	9.8	1.81	37.4%
Consumers	19.5	3.6	74.5%
Foreign buyers	3.9	0.71	14.7%

Source: Mernard, 2000.

7. Concluding Remarks

PSP in infrastructure development, finance, and operations is a global phenomenon. PSP has been successfully introduced in many sectors and in many countries ranging from highly developed, market economies such as the U.S., U.K. and Australia, to formerly socially and centrally planned economies such as Vietnam, Albania, and the People's Republic of China. The PSP experience in water and wastewater infrastructure is a more recent trend and has been characterized by a range of success as well as failures. While there have been failures, the PSP-skeptics' reports are most often than not incomplete, incorrect, or ignore the unforeseen changes that took place after the contract. Most importantly (and unfortunately) they have ignored the significant benefits in service improvements and welfare to the population that would not have occurred had the PSP not taken place.

The PSP-skeptics' observations and concerns raised in this paper are typical of PSP-skeptics in most countries. Many of the cases and lessons learned that are cited in this brief report and others demonstrate that PSP, when well planned, structured, and regulated is a viable and efficient tool for improving service delivery. It can also enable a more rational use of limited financial resources. PSP-skeptics are correct in asserting that PSP inappropriately applied in countries with weak legal and regulatory systems or without the involvement of local stakeholders will be hard pressed to succeed. In those cases, it is truism to say that private monopolies are not much better than public monopolies.

However, ample evidence suggests that countries with independent regulatory authorities, and clear legal procedures for procurement and monitoring of PSP projects can yield substantial benefits by mobilizing the management and financial resources of the private sector. Most of the PSP skeptics question the motives of the private sector in delivering water services or blame the private sector for organizing itself to run a business efficiently. The reality is that most of the concerns raised by the PSP skeptics have to do with governments' failure to develop and enforce sound legal and regulatory systems needed for efficient deliver of water services by either private or public providers. Without effective legal and regulatory oversight and procedures, governments, especially at the local level will fail to adequately deliver, finance, and operate water and wastewater systems. Some of the concerns raised by the PSP skeptics, are legitimate



and important. In many respects, they represent the goals that consumers and policy makers should establish when evaluating the performance of government in its meeting its responsibility to deliver services. Using those standards, one can see how the private sector could be managed more effectively as a resource by the public sector to meet some or all of the goals of the sector.

Water and wastewater infrastructure investment needs in South Africa are enormous. There is simply not enough funding by the public sector to meet current, let alone future demand for services. The fact that the private sector will play a role in the development, financing, and operation of the sector, and will create thousands of new jobs along the way is inevitable. It is up to all stakeholders, including policy-makers to determine what that role will be by learning from the lessons of global best practices and tailoring that experience to the South African realities. To stand in the way of this progress is to deny improved services to many of the most needy members of the community.



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Municipal Infrastructure Investment Unit (MIIU) Technical Support Project

South Africa, 1998 to Present

PADCO is providing long- and short-term technical assistance to the MIIU to support the creation of a sustainable framework for private infrastructure investment in the Republic of South Africa. The objective is to increase the use of credit/investment to enable local government agencies to provide much-needed infrastructure services to their rapidly growing constituencies. A principal component of PADCO's assignment is to assist the MIIU's Project Preparation Unit in identifying infrastructure projects throughout the country that qualify for financing from the Preparation Fund. The MIIU provides grant funding and technical assistance to South African municipalities for feasibility studies that assess whether a public-public or public-private partnership might provide the capital required for municipal service infrastructures. If the feasibility study indicates that such a partnership appears viable, the MIIU also provides grant funding and technical assistance for competitive procurement of services and other implementation activities.

After more than three years of operation, 18 municipal service partnerships have been completed and approximately 45 active projects are pending. The unit has received more than 150 expressions of interest from local governments. The R16 million (about US\$2.3 million) in MIIU grants so far will generate more than R5.6 billion (about US\$800 million) in private sector investments over the terms of the various projects.



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