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Private Sector Participation in Water Supply and Sanitation in Eastern Europe, Caucasus and Central Asia: Proceedings from a Regional Meeting

Executive Summary

Information document submitted by
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EXECUTIVE SUMMARY

This publication reviews the experience with private sector participation in the development and operation of water supply and sanitation systems in Eastern Europe, Caucasus and Central Asia (EECCA). This work was undertaken at the request of national governments in the region, in the context of the OECD/EAP Task Force.

The *OECD Principles for Private Sector Participation in Water Infrastructure: Checklist for Public Action* is used as a reference. The Checklist was developed by the OECD in 2009, to help governments and other stakeholders assess and manage the implications of involving private actors in the development and management of water and sanitation infrastructure. It provides a coherent catalogue of policy directions for consideration by governments. It has been used in a variety of contexts, including Egypt, Lebanon, and the Russian Federation.

The publication presents the main findings of the EECCA review and the proceedings from a regional meeting organised in Moscow in January 2010 to discuss this and related issues.

The full version of this document can be downloaded from www.oecd.org/env/eap

Background

In 2000, Ministers of Finance, Economy and Environment from Eastern Europe, Caucasus, and Central Asia (EECCA) countries met in Almaty to discuss the critical situation in the WSS sector. They adopted the *Guiding Principles for Reform of the Urban Water Supply and Sanitation Sector in the NIS* to guide the reform efforts that were urgently needed. The *Guiding Principles* did not advocate either publicly- or privately-operated utilities, but rather stressed the importance of establishing an effective, efficient and transparent institutional framework (for more details see appended annotation).

Since the Almaty Ministerial consultations, the WSS infrastructure in most EECCA countries has deteriorated considerably. At the same time, enhanced public administration, improved regulatory frameworks, and improved revenue collection have created conditions that could allow a more effective management of the water sector.

A majority of EECCA countries have sought the involvement of the private sector to reverse the trend and upgrade and develop their water and sanitation infrastructure, as well as to improve the effectiveness and efficiency of the water sector.

However, some of the sector particularities, such as high capital intensity, large initial outlays, long payback periods, immobility and invisibility of assets, and low rates of return generate considerable risks for private sector actors. These particularities constitute important constraints on private sector participation (PSP) in the water sector, especially when combined with high political risks, poor information base for decision-making and unsupportive investment environment.

In 2009, the OECD has developed a practical guidance to help governments and other stakeholders to assess and manage the implications of involving private actors in the development and management of water and sanitation infrastructure. The resulting *OECD Principles for Private Sector Participation in Water Infrastructure: Checklist for Public Action* provide a coherent catalogue of policy directions for consideration by governments. The *Checklist* addresses the double challenge of enhancing the enabling regulatory environment for water infrastructure investment, and making public-private co-operation work.

Other partners, foremost the World Bank, UNECE and the EBRD, have also developed various tools to support private sector participation (PSP) in WSS. In order to further develop local capacity, several EECCA countries have established Centers for public-private partnership (PPP), promoting good practices in implementing PPP projects in various sectors, including WSS.

Policy Dialogues on Private Sector Participation in Water Supply and Sanitation

Since 2000, a stream of regional policy dialogue meetings on private sector participation in water supply and sanitation have been organised jointly by OECD/EAP Task Force and the World Bank as part of their work on water in EECCA. These meetings were held in Paris in 2002, Vienna in 2003, Moscow in 2004, and Yerevan in 2005 (a round-table on PSP was organised in the framework of the 2005 Ministerial conference on WSS in EECCA).

More recently, drawing on the aforementioned *Guiding Principles* and *the Checklist*, the OECD/EAP Task Force reviewed the major trends, bottlenecks and opportunities for private sector participation in operating and developing water supply and sanitation systems in EECCA. The focus was on countries with a practical experience in private sector participation.

A regional policy dialogue meeting was organised in Moscow in January 2010 to discuss these trends and to explore opportunities to make the best use of private sector participation in water supply and sanitation in EECCA. The report and the discussions at the meeting fed into the Policy Dialogue on private sector participation in water supply and sanitation in Russia.

A regional meeting on PSP in WSS in EECCA in Moscow, in January 2010

The 1.5-day regional meeting was organised and sponsored jointly by the World Bank (WB), the Organisation for Economic Cooperation and Development (OECD) and their Russian partners, foremost, the Ministry of Regional Development (Minregion) and the Russian Development Bank (*Vnesheconombank*, or *VEB*), with support from other sponsors: the European Bank for Reconstruction and Development (EBRD) and joint-stock company (JSC) “*Evraziyskiy*” (one of the largest domestic water operators in Russia). It was held in cooperation with the European Union Water Initiative (EUWI).

The main objective of the regional meeting was to facilitate a policy dialogue amongst EECCA countries on how to promote more effective policy and regulatory environments for PSP in the water sector in different domestic contexts, should they see PPP as a valuable option to improve water supply and sanitation services in their specific country context. Building on country reviews of their general framework for private sector participation in water supply and sanitation, the meeting aimed to draw the attention of the key stakeholders, foremost policy-makers, to the international good practices and tools developed by the OECD, the World Bank and other institutions to overcome the challenges faced by, and make the most of, PSP in WSS.

Target audience and invitees were mainly national and local level policy makers from the EECCA region (typically, from Ministries, national development institutions and municipalities involved in PSP in WSS). The list of participants also comprised private operators (POs, both domestic and international), non-governmental organisations (NGOs) active in the WSS sector in the region, and representatives from international institutions (OECD, World Bank, EBRD, UNDP, UNECE), as well as from some OECD countries (e.g. France) – the List of Participants is posted on the web-page dedicated to the meeting.

The meeting was organised in two parts:

- Part I: Setting the scene. Recent trends in PSP in WSS in the region were presented and discussed, along with the OECD *Checklist for Public Action for PSP in Water Infrastructure*. This part of the meeting included a special session on Russia.
- Part II: Round table discussion. The discussion focused on some of the specific governance issues in the sector that tend to affect PSP.

The publication includes meeting agenda and final versions of key background documents prepared by the OECD, as well as references to other background documents and presentations made at the meeting. Additional information, including background reports and presentations, is available at the web-page dedicated to the meeting:

http://www.oecd.org/document/46/0,3343,en_2649_34343_44459502_1_1_1_1,00.html.

Main conclusions from the review and regional meeting

The review indicated that EECCA countries may be divided into four groups in terms of their experience with PSP in WSS:

- Countries with supportive institutions and vast positive practical experience (Armenia and Russia). Private sector participation in the WSS sector has become large-scale, and a well-established practice. Various approaches have been tried and the experience is considered positive.
- Countries with supportive institutions but uneven or very recent and limited practical experience (Georgia, Kazakhstan and Ukraine). Important efforts have been made to create conditions for attracting private business to the WSS sector. However experience with PSP is mixed: it is highly controversial (Kazakhstan) and shows limited success in individual cases (Georgia, Ukraine). PSP is at an early and uncertain stage.
- Countries with certain pre-requisites for private sector participation (Kyrgyzstan, Moldova, Tajikistan and Uzbekistan). In these countries, some prerequisites for attracting private operators in the WSS sector have been met, but there is no, or very little, practical experience of privately managed water utilities yet. Progress is mainly linked to decentralization of WSS organizations' management and the transfer of management functions to regional and municipal levels.
- Countries with poor conditions for private sector participation (Azerbaijan, Belarus and Turkmenistan). The national government is fully responsible for managing and/or regulating the sector. In such a context, there is little chance of PSP without radical institutional changes in the sector.

The review also showed that, in most EECCA countries, private sector participation for water supply and sanitation is confronted with the following difficulties: the lack of a clear vision on the role of PSP in WSS, combined with usually unreasonably high expectations regarding PSP; maladapted institutions (fragmented water and sanitation services), laws and regulations (e.g. concession laws, ownership rights, responsibilities); inappropriate water tariffs, tariff structures, and tariff setting mechanisms; political risks and interference; misperceptions in the public opinion.

Discussions at the regional meeting in January 2010 focused on these and related challenges. Policy recommendations and suggestions for further work on the topic derived from these discussions. They are reflected in the publication.