

INTERNATIONAL CENTRE ON PUBLIC - PRIVATE PARTNERSHIPS (PPP)
IN WATER AND SANITATION

Note prepared by the UNECE International Centre of Excellence Secretariat

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1. The Sustainable development Goals (SDGs) and PPPs

In 2015 the Sustainable Development Goals will supersede the MDGS and set new ambitious targets, not least in the water sector for the worldwide eradication of poverty. In this sector one of the key targets will be universal access to safe and clean water for all. A huge investment will be required if such a commitment is to be achieved. The World Economic Forum, based on OECD data, forecasts spending on water and sanitation in the region of USD 30 trillion by 2030 for the necessary renewal and maintenance worldwide as well as build-up in response to urbanization and extension to people without access yet.

Governments by themselves will not be able to meet these targets and the role of private investment and Public Private Partnerships (PPPs) will be indispensable. PPPs in the water sector indeed can provide both the needed investments as well as deliver an efficient and accessible water service to all. The advantage of the PPP approach is providing a clear definition of service-level requirements and payments under a binding contract, thereby enabling water projects to become bankable or financially sustainable.¹ PPP efficiency gains can also help in addressing one of the worst problems in the water sector, namely the waste of water through substandard distribution.²

2. Need for support and guidance

However prescribing PPPs is far easier than implementing them. From the perspective of the private sector, private investors are cautious when it comes to large and long-term infrastructure investments that characterise PPP. In particular, they are concerned about political and regulatory risk, because an infrastructure asset typically has a lifetime much longer than a political cycle and the investors' revenues and cost base depend heavily on regulation. From the public sector side also there are challenges:

- *Policy dilemmas:* Government have to balance carefully the need to protect the public interest and citizens with the need to provide the necessary incentives to private investors (and adequate returns) in order for them to maintain or build new water systems
- *Absorptive capacity:* weak public sector management and administration
- *Project preparation:* Governments – local and national – often lack the skills in finance and contracts to make projects bankable.

For many countries, especially at the local levels, PPPs still represent a 'leap in the dark'.

¹ Today many of the world's most dynamic emerging economies are using PPPs in the water sector, not just in water provision but also expanding into sub-sectors such as irrigation, dam management or wastewater. PPPs are also developed with small-scale local private operators.

² As it concerns water used for agriculture, for example, it has been estimated that almost 50 per cent of water is wasted.

What is required to achieve the prospective SDGs – at a minimum – is concrete information on models, practices and procedures related to delivering water PPPs successfully. To generate such certainty, it is important to put this information into international standards or recommendations. Such standards should also be grounded on a thorough investigation of practical experiences with using PPPs – finding out what has worked or not worked, In addition there needs investigation into the new models – so called ‘pro poor’ PPP – that will be required if water is to be made accessible in some of the poorest countries on the planet.³

3. An International PPP Centre on water and sanitation

Following a joint World Bank - UNECE Conference on International PPPs in the water and sanitation sector (23–24 October 2014) with the involvement of the EBRD and the Islamic Development Bank the participants agreed to the establishment of an international centre on PPPs in Water and Sanitation with the participation of a group of member states, international financial institutions and the private sector to focus on the following:

- ***Finding the best PPP models:*** through the collection of data and case studies in different countries focusing on different sub sectors like municipal water
- ***Aligning best practices with the requirements for SDGs through international PPP standards:*** setting up project teams to develop specific standards
- ***Supporting National Implementation:*** these international PPP standards will provide the basis for strong evidence-based education and implementation practices based on successful PPP models that support the emerging SDGs and can be tailored in defined ways to meet national circumstances.

Pro tem the Centre – exclusively financed from extrabudgetary sources – will be established in Geneva under UNECE, operating as a cluster of different stakeholders. Specific countries will be invited to take over a specific thematic area or otherwise contribute.

4. Proposed cooperation with Parties to the Protocol on Water and Health

There are a number of different ways that the two bodies may cooperate in this initiative. For example, the Parties may wish to join the cluster of countries supporting the International PPP Centre on Water and Sanitation. It could be envisaged also that the next Meeting of the Parties of the Protocol on Water and Health could be organised jointly with the next annual international conference on PPPs in the water and sanitation sectors.

In terms of a more substantive cooperation, one very useful idea would be to jointly work to develop a standard on use of PPP in water and sanitation policy. This would set out the general parameters for cooperation between the public and private sectors and assist Governments develop their PPP policy. This document accordingly would address *inter alia* a number of issues that are set out in the Annex. As a first step in this process a joint Project team might be established to further elaborate the terms of reference of this project.

³ In some cases the traditional model will not be able to provide access to the poorest and most vulnerable as even very small cost payments are beyond the capacity of these groups to afford. Traditional PPPs often ignore these groups since supplying services to the poor can involve substantial business risk and new ‘pro-poor’ models might be required to be developed. Guidelines, PPP models and standards that could support the achievement of the emerging SDGs will be critical tools for implementation.

ANNEX

ISSUES THAT MAY BE ADDRESSED IN THE PREPARATION OF A STANDARD ON THE ROLE OF PPP IN WATER AND SANITATION POLICIES

- A. Policy and legislation: this theme will discuss the policy and legal context of the PPP programme, and how governments can ensure that the programme is legally constituted and consistent with other government policies.
- B. Economic context and affordability: this theme will cover issues which help ensure that the PPP programme is affordable and realistically deliverable within national and local governments' economic constraints.
- C. Planning, objectives and business cases: this theme will provide guidance on how the PPP programme is planned and objectives are set, and how business cases for individual projects are prepared, evaluated and approved.
- D. Training and resources: this theme will help identify the resources necessary to plan and implement a PPP programme, and the skills and training needed to make sure public and private sector participants can understand and manage risks effectively.
- E. Market assessment and engagement: successful PPP programmes realistically reflect the needs and capacity of the commercial sector, so this theme will provide guidance on engaging with the private sector market and structuring the programme accordingly
- F. Transparent procurement and management – Transparency during procurement, delivery and operation of PPP projects is a key factor in attracting investment and demonstrating value for money and this theme will identify governance measures that will support it.