



 IWRM TOOL - B2.02

Private sector water service providers



Summary

Private sector involvement in the provision of water and sanitation services can take various forms, from private public partnership agreements to fully private ventures. In most cases, it is seen as a solution against the inefficiencies of public sector water utilities. This tool provides an overview of different types of private sector involvement and lists key considerations for a more successful involvement of the private sector.

Factors for Private Sector Involvement

Private sector engagement in the field of water supply services is a result of several factors. First, there is a crisis narrative around water issues, which creates a call for change and the need to involve new actors beyond government entities ([UN Global Compact, 2010](#)). This idea is closely related to corporate stewardship ([Tool C5.05](#)) and the fact that enterprises have a shared responsibility in addressing environmental issues. Second, involving the private sectors can also be seen as a direct response to the inefficient performance of the public sector water providers ([Tool B2.01](#)). Indeed, throughout the 1980s and 1990, privatisation in the water supply and sanitation sector was increasingly labelled as the solution to the failure of state enterprises ([Rees, 1998](#)).

The privatisation “revolution” of public services was conceived by Margaret Thatcher, British Prime Minister, and followed by other nations as the world embarked in neoliberalism. In many developing nations that was also a reaction to failed reforms of the public sector ([World Bank, 2006](#)). Moreover, international lending institutions, such as the [World Bank](#) and the [International Monetary Fund](#), made development loans contingent upon

the adoption of privatisation policies ([Greiner, 2020](#)).

Classifying Private Sector Engagement

It is important to distinguish between various meanings of private sector involvement. The term “privatisation” would refer to the full hand-over of assets. “Private sector participation” reflects the role of the private sector in delivering services when some responsibilities and risks are shifted to the private sector. The term “public-private partnership” (PPP) equally recognises the roles of both public and private sector in service provision highlighting the need for partnership. The various types of private sector involvement in the water supply sector can be classified as following according to the [World Bank](#):

- Divestiture or outright sale: transfer of all public assets through sales, in which case, the private sector obtains full responsibility of the water supply network facilities and operations.
- Build-operate-own (BOO)/build-operate-own-transfer (BOOT): private company has the ownership (until transfer in case of BOOT), private company finances and builds the facility (infrastructure project), private company operates the facility on a concession or operation and maintenance are outsourced to another private company (in case of BOO).
- Concession/build-operate-transfer (BOT): output focused projects with assets remaining in public ownership and the use of the system being transferred to private operators. In concession, based on results, the private operator pays net of fee for use of existing assets. BOT projects are generally greenfield and are used to develop a discrete asset.
- Joint venture: shared ownership between the private and public sector as a result of a contracting authority requiring to have an equity stake in the project or an existing public utility selling a stake in the utility to a private company.
- Lease/affermage: arrangement under which the private operator is responsible for operation and maintenance, as well as for current financing but not for capital financing.
- Service/management contract: certain services or operation and maintenance for specific services are outsourced to a private operator with the government retaining general control and supervision.

The classification above mainly concerns urban piped water services. Apart from those, there are also small-scale private service providers (SPSPs) who provide water through trucks, jerry cans, bottles, etc. In some parts of Latin America, Africa, and South Asia urban

dwellers still rely on these services compensating for or supplementing the limitations of the public sector. They have usually been called “gap fillers” in countries with low-quality water services, “pioneers” as those developing systems in areas where there is no public service and “sub-concessionaires” buying water from the utility and selling it to the customers. SPSPs are found all across the Global South with documented examples in Thailand, Angola, Nigeria, Sudan, Jordan, Uzbekistan, Colombia, and Paraguay ([Kariuki and Schwartz, 2005](#)).

Key Considerations for Private Sector Engagement

- **Regulatory and institutional framework:** The regulatory mechanisms should ensure that the contractual agreements between the government and the private provider are respected and that disputes are resolved in a fair and equal manner ([Gunatilake and Carangal San-Jose, 2008](#)). Regulatory entities have been created in many countries to act as mediators between the service provider and the policy-making body. For instance, during the implementation of PPP in Metro Manila, the concession agreement created a regulatory office to monitor the performance of the concessionaires ([Rivera, 2014](#)).
- **Mobilisation of private capital:** Inappropriate allocation of risk between partners and the use of inappropriate types of PPP arrangements have raised concerns about private sector participation when in practice, private companies should add financial credibility to projects ([Rees, Winpenny and Hall, 2008](#)). Blended finance methods ([Tool D2.05](#)) of using concessional capital, mostly public or philanthropic, can help derisk and “crowd-in” private investment towards water and sanitation service provision.
- **Inadequate competition:** Taking into account the historically monopolistic nature of water and sanitation services it is not feasible to turn the industry into a fully competitive market, which can hinder the economies of scale ([Pérard, 2009](#)), especially given high fixed costs ([Kirkpatrick, Parker and Zhang, 2006](#)). Thus, there is a need for innovative approaches to create competition.
- **Pricing issues:** Privatisation of water services has often led to increases in the water tariffs as companies aim to cover O&M costs and make marginal profits ([Gunatilake and Carangal San-Jose, 2008](#)). In the process of engaging the private sector, it is vitally important to ensure that water services will remain affordable, particularly for the poor ([Kirkpatrick, Parker and Zhang, 2006](#)). The “water wars” in Cochabamba, Bolivia, well illustrates how a mishandled move towards privatisation can cause protests over drastic and short notice increases over water tariffs. Chile has learned from its neighbours mistake and designed special subsidy system that is used to protect the most vulnerable or poor households ([Simmons, 2016](#)).

Thematic Tagging

Private Sector , Urban , Water services

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