



Conference Report

Workshop on Public-Private Partnership in the Water Sector: The Case of the Middle East and North Africa Region

Cairo, Egypt, 1-3 November 2002

The water availability conditions of the MENA region are already critical, both in terms of quantity and quality. The region has one of the highest population growth rates in the world. In addition, rapid urbanisation, increasing human activities, and inadequate water quality management practices are making an already serious water situation increasingly worse. Continuation of the existing business as usual practices and policies can only deteriorate the water conditions further. Thus, new and innovative approaches are necessary to improve the water management practices of the future, if the existing water resources are to be used rationally and efficiently over a long-term basis.

One of the potential solutions could be the increasing involvement of the private sector to provide water services for domestic, industrial and agricultural uses and to generate hydroelectric power. Conceptually, the private sector can play important roles in:

- improving very substantially the existing technical and financial management of urban water and wastewater sector; and
- attracting new investment for the water sector as a whole, which public sector is no longer in a position to supply fully in a timely manner.

Currently, on a global basis, less than 6 percent of the urban dwellers are receiving their water and wastewater services from the private sector. The percentage is likely to be much lower in the MENA region. It is estimated that during the past 10 years private investment in the water sector in developing countries has increased from virtually nothing to about a cumulated \$30 billion. On the basis of the current trends, this figure is likely to expand very significantly in the coming years.

It should be noted that while the overall records of the involvement of the private sector in the MENA region have been good, there have been some failures as well. For example, in a country like Morocco, the experiences thus far with the private sector involvement in Casablanca have been quite positive. Based on the current results, it is becoming increasingly evident that neither the public sector nor the private sector alone can solve all the water problems of the developing world for urban, industrial, agricultural and hydropower-related uses promptly and cost-effectively. Both the sectors have their strengths and weaknesses, which may vary from one location to another, and also over time because of changing conditions. Thus, most probably the optimal solution of the future is likely to be in terms of public-private partnerships, where both the sectors can work together within a properly defined framework, within which they can play their roles efficiently, transparently, fairly and responsibly.

In order to assess the current status of the public-private partnerships in the MENA region, and also to find out the current views and perceptions of the public sector, private sector, academics and NGOs, on

this overall subject *InWEnt* (Capacity Building International) of the German Ministry for Economic Cooperation and Development, and the Third World Centre for Water Management, Mexico, with the support of the Ministry of Water Resources and Irrigation of Egypt, organised a workshop on Public-Private Partnership in the Water Sector for the Middle East and North African countries, Cairo, 1-3 November, 2002.

The main objective of this workshop was how best to promote efficient and sustainable water management in the Middle East and the North African countries through public-private partnership on all issues associated with the water development and management processes and practices. In addition, the Workshop was expected to synthesise the current knowledge and experiences in this area, which could then be used to build capacity and strengthen the human resources development of the water professionals of the region. In order to assess the present situation, case studies were specifically commissioned from the leading experts from the public and the private sectors and the academia from countries like Egypt, Jordan, Morocco, Saudi Arabia and Yemen. The foci of the case studies ranged from water supply and sanitation to the financing of infrastructures, groundwater management, cost recovery for water supply and irrigation services, institutional reforms to allow private sector participation, commercialisation, capital investment programmes, and other related issues.

The importance of all types of appropriate partnerships between the public and the private sectors was recognised, as well as their complementary roles. For example, in a partnership between the private and the public sectors for water supply and sanitation services, the public sector could be seen as the entity responsible for the planning and the regulation of a private sector entity, whose main roles could be in terms of operation and management of the services. It was agreed that the private sector should provide water of appropriate quantity and quality, and wastewater services not only to the urban population who can pay for them, but also to the poor at affordable prices.

Based on the evidence available so far from the MENA region, it could be said in general that the private sector could provide new investment capitals, good managerial, technical and financial expertise in operating and maintaining the systems, rapid adoption of new technologies, reduction in public subsidies, improvements in water supply, sanitation and storm-water disposal practices, development of functional information systems, improvement in institution capacities, provide better interactions with the customers, etc. The alternatives for private sector participation in infrastructures could range from government retaining full responsibility for their operation, maintenance, capital investment, financing and commercial risks, to the private sector assuming much of these responsibilities. The private sector is also expected to make the consumers more aware of the value of water and wastewater collection, treatment and disposal.

Based on the case studies prepared for the Workshop, when the private companies take over the operation of a public utility, the main problems they face include high unaccounted for water (often over 40%), low water rates, low collection of water rates, poor management of assets, over-staffed institutions with low efficiency and moral, inadequate availability of investment capital.

Among the indicators that could be used to measure the efficiencies of the private sector companies are the number of the users served, decrease in the quantity of unaccounted for water, number of hours per day during which water is available, proper billing system for all consumers, increase in collection of water rates, and new investments for the system.

Water pricing was considered to be a sensitive issue. A good pricing structure is essential so that the people who can afford to pay for the water pay a fair prices, and the poor should have adequate access to the service, provided at affordable rates. Concurrently, the entire process should be profitable for the companies so that they can receive an adequate return on their investments. However, because of the

political, social and economic implications, development of a proper and fair water tariff, which will be acceptable to all parties, often becomes a somewhat complicated task.

National experiences – It was noted that the public sectors in the MENA region are at a significant disadvantage when negotiating concessions with international private sector companies. Public sector generally has limited experience in the area of negotiations since it is a comparatively new development. In contrast, the major international private sector companies have considerable expertise, knowledge and skills (technical and legal) in such negotiations, since they have conducted similar negotiations many times earlier in different parts of the world. Thus, there is often a mismatch of negotiating knowledge and skills between the public and the private sector companies, which do not generally result in a level playing field. Since private sector investments are expected to increase significantly in the future, it is essential that a critical mass of public sector negotiators be trained in each MENA country so that there can be fair negotiations between the two groups, which could result in win-win situations for all concerned.

In the case of Saudi Arabia, partnerships between the private and the public sectors are very important for the future of the country. It has been estimated that the investments needed for water development up to the year 2022 are 423 billions Saudi Rials (181 billions for desalination; 133 billions for collection and treatment of wastewater; 68 billions for groundwater management; and 41 billions for distribution networks). Hence, the participation of the private sector is essential to bring in new investment, improve operating and management efficiencies of the water systems, and introduce new technologies.

In Morocco, up to now four big cities (Casablanca, Rabat, Tangier and Tetouan) are under the management of private sector companies for the provision of water supply, sanitation and electricity. Traditionally, water supply services in the urban sector of Morocco have been good in terms of quantity and quality because of the excellent performance of the National Office for Potable Water (ONEP). However, an important issue is that concomitant progress has not been made in the country in the areas of sanitation and wastewater, where ONEP had no mandate until November 2002. Recourse to concessions was dictated by a double objective: first to ensure the means of financing the investment programmes necessary for the levelling and the development of the three fields of activity (water, electricity and sanitation) and then to guarantee the transfer of technology, the know-how and expertise to improve the management and the quality of the services.

In Casablanca, LYDEC has been awarded a 30-year delegated management contract with no transfer of assets. LYDEC consists of Suez Lyonnaise des Eaux (35%), ELYO (24%), EDF International (18%), ENDESA International (18%), and AGBAR (5%). There was no competitive bidding for this contract because it was considered that Lyonnaise des Eaux had the necessary expertise to provide the best quality service. The contract is expected to be reviewed every 5 years and may be modified as considered appropriate.

Casablanca has been considered to be a successful case of private sector involvement by the users, primarily because of improvements in the service, which includes a 24-hours service, formulation of accurate billing, procedures, better sanitation, improved attention at consumers, etc. This perception of improved services prevails, in spite of the fact that the water prices had to be increased three times during the first year. During the last 5 years, the number of connections for water supply has increased by 27.5%, and 20.2% in terms of electricity. The investment made for sanitation between 1997 and 2001 has been 97,000,000 Euros.

In February 2001, Amendis won a 25 year-concession for the cities of Tangier and Tetouan. Amendis is owned 51% of Vivendi Environment, 17% by Hydroquebec International, 16% by ONA, and the balance by SOMED.

According to the World Bank, in January 2002, the Government of Morocco initiated the first ever public-private partnership project in the irrigation sector in the country. It consists of two projects for the construction of a transmission pipeline and a distribution network, with an estimated combined investment of more than US \$150 million. The first pilot project is located in the Guerdane perimeter (Souss Massa valley) and will provide an additional 45 Mm³ of water per year to citrus farmers affected by the overexploitation of the aquifer. It will be structured around a BOT scheme, with significant public subsidies in order to keep water tariffs affordable for the farmers. The second pilot project is located in the rain-fed agricultural area of Gharb region.

In terms of capacity building at the national level, ISCAE (Institut Supérieur de Commerce et d'Administration des Entreprises) in Morocco has started a training course in collaboration with ESSEC, Paris, and with the support of Vivendi Universal. The objective of this programme is to develop skilled professionals in all the areas of private sector involvement in terms of negotiations, concessions, regulations, etc.

In Jordan, there is at present a major water and wastewater management contract for Amman that was awarded directly. The private operator responsible is LEMA, owned 75% by Ondeo, and 25% by Montgomery Watson. It is a 4-year management contract which started in July 1999 with the World Bank funding. The contract includes management, operation, incentive and investment fees, and seconded civil servants. Among the objectives of the contract are to decrease the unaccounted for water to 25% during the lifetime of the contract, improve the reliability of water supply to the users, repair and replacement the water meters, and improvements in customer services. A project management unit has been established to monitor progress and regulate the performance of the private operator.

Since training is an important consideration, this contract provides for 18,000 hrs/year of staff training, mainly in the areas of technical activities, information systems, customer services, and language. The training programmes are discussed with the regulator unit and are then adapted accordingly.

This management contract is the first step to consider private sector participation in Jordan. Based on the results of this effort, Jordan is expected to formulate the best form of private sector participation in the water sector, including for irrigation.

The Jordan Valley Authority (JVA) is responsible for irrigation and integrated development of the Valley. Currently, there is a 35,000 ha-project, with appropriate infrastructures, and 10,000 farm units. JVA is aware of the need for change and formation of a new strategy, and benefits of private and the public sectors participation, which could contribute to its improved management and operation. JVA is in the process of formulating a management contract for irrigation systems, defining the rights and obligations of the contractor, deciding on the standards for systems operations, and selecting criteria to measure the performances. A management contract is likely to be the best option under the existing legislations.

In Yemen, there has been a gradual evolution from a focus on infrastructural development to management and institutional development, capacity building and participation of the private sector in water management. Not surprisingly, initially, there was resistance to implement institutional reforms, restrictions in terms of providing incentives, and difficulties to apply tariffs which would allow cost-recovery. The water authority has been decentralised, except for the recruitment of high-level staff. Currently, 16 of the 32 branches are autonomous, with their own board of directors, and participation of the private sector. Yemen is now in the preparatory phase for including the services of private companies in the water sector.

While in several MENA countries the international companies have to work jointly with the local counterparts, it is not a mandatory requirement in Yemen because the local capacity still needs to be developed. The conditions required by the donors include cost recovery only on operation and maintenance, and 3% of future investment costs.

For Egypt, the case studies focused mainly on private participation in the irrigation sector. The legal framework has been amended to liberalise the agricultural sector, decentralise the water sector, including the participation of the private sector, and promote cost recovery. So far, private sector has had limited involvements in terms of water users associations and water board projects.

Cost recovery in the country is now possible for irrigation projects, sub-surface drainage, new lands, and mega projects like the Toshka. Since the operation and maintenance activities of irrigation projects are expensive, it is necessary to encourage the farmers to pay at least part of these costs. The cost-recovery based on consumption of water for different crops has been accepted more easily. However, achieving cost recovery based on the volumetric uses of water has proved to be difficult, mainly due to its economic and social impacts on the users.

The Workshop also discussed the significant declines in the costs of desalination in recent years, reuse of brackish water for irrigation, use of fossil groundwater, and the roles private sector can play in all these areas.

It was agreed that if the countries are to benefit from an efficient partnership between the public and the private sectors, there are some issues that have to be addressed on a priority basis, among which are formulation of sound national water policies, development of proper legal, regulatory, and institutional frameworks, and capacity building. In fact, the knowledge and expertise on financing, negotiations, formulation, and implementation of contracts, as well as setting of proper tariffs, are necessary in order to obtain the best performances both from the public and the private systems. There is also a need to formulate cost-effective, fair and quick dispute resolution mechanisms, including international arbitration when necessary.

The participants agreed that the main objective should be to improve the efficiency of the water sector, and not specifically the participation of either public or private companies. The type of partnerships and assistance required may vary from one country to another, and may depend on institutions involved, partnership structures, involvement of the stakeholders, transparency and fairness in the governing structures, awareness-raising and good communication practices.

While the motivation to use the private sector is many times due to the belief that the private sector is more efficient than the public sector in terms of reducing costs and increasing the quality of the services, various appropriate alternatives should be considered for each specific city on the type of partnership that suits its existing social, economic, institutional conditions and political requirements. It was unanimously agreed that there is no single public-private partnership model that will suit all cities in the MENA countries for the next 2-3 decades. Each city must carefully consider the options that will suit its inhabitants the best. The long-term goal should be to provide efficient water and wastewater disposal services to all the citizens at reasonable and affordable costs. How these services could be best provided should be carefully considered, and appropriate alternatives should be carefully considered, before the final decisions are taken.

It is essential to develop regulatory, legal and institutional frameworks in order to ensure that the interests of the private and the public sectors, and most importantly, those of the users, are protected. It was also agreed that the public-private partnership is far more advanced in the urban water supply sector compared to the irrigation sector.

The Workshop was remarkable in the sense that the discussions were always focused on facts and experiences, and not on dogmas. The participants freely and frankly discussed all issues, some of which are controversial, as well as the difficulties, constraints and errors that were faced in the past. During the presentations of the case studies, the authors dispassionately pointed out as to how the public-private partnership processes could be further improved in the future based on their own personal experiences. Nor surprisingly, the discussions were some times heated, but invariably the debate was based on issues, and not on ideologies or personalities. It is a real compliment to the organisers that they selected leading experts from the region who are objective and knowledgeable, and were always focused on the issues, even though the subject itself has often proved to be controversial in many major international fora.

The case studies are now being finalised by the authors in the light of the overall discussions during the Workshop. Thereafter, these studies will be edited and published by a major international publisher. Even though the focus of the case studies is on the MENA region, the publication will undoubtedly be of direct interest to anyone interested in public-private partnership in the developing world.

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