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**Private Sector Involvement and Contribution for Sustainable Water Use**

The key arguments for private commercial involvement in water are simple: to use the marketplace to boost investment and enhance efficiency at lower public cost. Many cities, particularly in the developing world, urgently need to stop water infrastructure deterioration, promote efficient and sustainable water use, and generate revenue for needed investments. But given the essential nature of water and the need for the public to feel assured about safety and access, how far should private participation be allowed to go?

Despite the rise in private sector participation in the water sector worldwide over the last decade or so, it is estimated that still little more than 5% of the world's population is provided with drinking water through private operators. While the nature of private sector participation may range from partial financing of investments to a major role in the operation of services, in most cases it involves managing some services while the public sector retains ownership of the system.

This is broadly the picture within the European countries and US, although there has been a shift in emphasis from government as provider of water supply to a role as regulator. Water supply in France, for instance, is in public ownership, but management is a mix of public and private systems. The French municipal authorities act as economic regulator. This compares with the UK where ownership is private, as is management, while the economic regulator, Ofwat, was set up as an independent body. The US has a partially public, partially private ownership structure. And even where there is extensive public ownership, it has become more common to set up "parastatals" or state-owned enterprises, with a large degree of financial and institutional independence.

All these arrangements have their advantages and disadvantages, but their common point is that the government always retains responsibility for setting and enforcing performance standards. Water services are widely accepted as a natural monopoly, and so their provision and maintenance requires close policy attention, including a high degree of regulation. And while water supply systems remain largely publicly owned, management is increasingly being shared with private operators, though on top of this, many governments have also focused on creating operating environments in which civil society becomes more involved, too.

If governments ignore private sector involvement completely, they would probably forgo technical and managerial expertise, capital injections and greater efficiency. Involving business in, say, management is likely to increase responsiveness to consumer needs and preferences.

But while private participation is evolving in the some areas in the world, there appear to be obstacles to greater business involvement in water in Central Asian countries, including the Uzbekistan. First it requires a change in behavior. Governments should stop being the day-to-day manager and becomes the overseer of the work. Making this shift is not easy for many governments. Also, investors scrutinize the government's regulatory capacity. If this capacity is weak and creates uncertainty, private capital will not flow in, particularly if the investment looks less attractive than competing opportunities elsewhere. In other words, governments must remain involved, but differently.

A second issue concerns water charges. These are often too low to support major private investments. Many governments sell drinking water at prices well below the cost of providing the service, and this is partially true to Uzbekistan as well. In some cases, this is to ensure that the basic needs of all citizens are met, in others it is to avoid unpopularity, even civil unrest. But the truth is, the price rarely reflects economic realities. For sanitation services and raw water abstraction the prices are usually even lower. For potential private investors, the conclusion is simple – depending on how low revenue streams are, they will either not engage in the project, or adjust the level of investment, thereby reducing the attractiveness of any partnership.

Yet, water users are often more able and willing to pay for many services than their governments think. Drinking water is a basic need and most ordinary people in cities already pay something to get it. In fact, poorer, non-networked urban neighbourhoods often pay more for their drinking water than wealthier areas do. Government charges mostly do not reflect demand and governments do not realise that the potential revenue streams are sufficient to interest private investors in drinking water services over the long term.

Difficulties arise for other parts of the water cycle though, particularly wastewater collection and treatment. While people are often willing to pay to have sanitary waste removed from their residences, they often value this service lower than access to clean drinking water, even if the healthcare costs of this choice might be high. Still consumers typically place less value on treating sanitary waste once it is taken away.

Ensuring that all citizens have access to clean water, regardless of their ability to pay, is a key goal for most governments and an important prerequisite for the success of private sector participation. Business ventures can help to achieve that goal, but in many cases, insufficient measures to accommodate the poor have undermined social acceptance of private participation, contributing to the collapse of the underlying project.

One point about private water operating companies is that they are limited in number. Nor will they have an unlimited capacity for investments. Most governments understandably aim to attract large international water companies in the hope that these one-stop shops can meet all investment needs, including the kitchen sink. But these firms want to concentrate on the largest, most potentially profitable opportunities – typically municipalities of more than 500,000 people. Governments should spend more time studying the role that the local private sector could play in providing water services.

One of the examples of local involvement would be the Water Users Associations. In many developing countries Water User Associations (WUA) play a key role in the management of water resource and water supply systems. Societies with a strong tradition of water resource management provide excellent examples of the principals for WUA's. The most important aspect is the interface between the users and the providers of the resource. This is usually Government (traditionally top down in its approach) and the communities. Successful WUA's all have strong community leadership, who understand the costs of delivering drinking water and have been given training in the necessary technical and management skills. These programs are usually started through bilateral or multilateral funding agencies and will take time to establish and gain confidence. However they do provide the end user with a voice in management of the resource and subsequently "ownership" of the system. With ownership comes the understanding of the need to maintain systems and hence responsibility for cost recovery. Reaching this level of responsibility takes time, and requires flexibility by all parties. However provided leadership is present communities can operate and manage quite complex systems on their own.

Examples of this are found in rural and some high density urban areas where many successful systems have been established and run by the communities themselves. These are in reality small scale private operations managing and maintaining village distribution networks, and the setting and collection of tariffs.

### **The field of cooperation for OSCE and its participating states**

In order to boost the public-private partnership agreements in the water supply sector in former Soviet Union countries, including Central Asia countries, it is necessary to provide an assistance in setting up such structures and provision to its members and staff with appropriate knowledge.

We have a Proposal, subject for consideration by OSCE and its participating states, to launch the program to provide of a project preparation service for the multilateral agencies operating in the region. Program, can offer the services to IFIs such as EBRD, WB and ADB in the form of grant co-financing to support the private-public partnership (PPP) development in water supply and sanitation sector.

IFIs are able to invest significant capital resources but they have very limited funds to carry out the supporting capacity building programs that are required to go in parallel with implementation of the large loans in the water supply sector. The lack in provision enough training, capacity building programs and other loans' soft components due to the fact that Borrowers do prefer to borrow the loan funds for hard equipment and civil works. The OSCE could play a key role through provision the grants for capacity building programs adding the value in on-going and proposed water supply projects.

The examples of such type successful cooperation between bilateral and multilateral organizations we see though implementation of Water Investment Support Facility (WISF) of the EU Water Initiative in the former Soviet Union countries, through offering the services at a project preparation stage to cover the environmental and social safeguards of the water supply projects handled by IFIs.

The implementation of the Program should be controlled by a Steering Committee to be composed by OSCE, Governments and IFIs staff.