



Private sector involvement in water services

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IT IS BECOMING more frequent for the private sector to be involved in the provision of public services such as water and waste water.

There is a range of ways in which a dedicated services company from the private sector can be involved in the management and provision of municipal services. These range from a very restricted provision of technical services, through a variety of contracts involving increasing responsibility to full ownership of the supply system.

This is illustrated in the chart attached which indicates the main structural alternatives in a hierarchical manner. The principal stages of this are as follows:

- 1) The division between the provision of the services through a contractual relationship with a municipality or a State and the situation where the private sector is the outright owner of the supply company and assets.
- 2) Within the contractual subdivision there is a division between the provision of services only, the provision of services with working capital and the provision of all investment and operation.

Starting with the simplest arrangement which involves the least level of private sector responsibility and progressing to total private sector ownership the main alternatives are characterised as follows :

Ancillary operations

The operating contractor provides a well defined technical or management service in support of the municipality's management resources. For example a municipality wishes to implement a mains rehabilitation exercise. Pressures on its resources are such that it finds that it is beneficial for it to engage an operational contractor who can undertake the management of the programming, works implementation and control, consumer liaison etc. The municipality continues to operate the network using its own staff while the contractor completes the specialist work.

Operation and maintenance (O&M)

The operating contractor carries out the day to day operation and routine maintenance of a specific geographical sector or defined level of responsibility.

In this situation the operator would be paid for the work done in accordance with the contract price structure.

Maintenance expenses would be reimbursed against schedules of rates and where appropriate priced bills.

Operation (with working capital only) (AFFERMAGE)

The operator is contracted to carry out all routine operation and maintenance. The operator is not involved in the financing of capital works. He is only called upon to provide the working capital required for the actual operation. It is likely that he will be required to provide a consultancy service in respect of any new works which may be proposed. The operator may be involved in the operation right through to customer billing, or he may be paid by the undertaking who bills the customers.

Operation with new capital investment (CONCESSION & B.O.T.)

These forms are similar. The operator finances all costs for the installation of the utility (new works and renewals) and the working capital required for its operation and maintenance. In the most highly developed contracts (Concession) the operator is responsible for billing the individual customers. The price of the water sold is controlled under the contract and also includes a proportion which is collected by the operator on behalf of the undertaking. In BOT's, which are slightly more simple, the customers are usually charged by the undertaking and the operator is paid in accordance with rates set in the contract. In either case, these payments can include productivity bonuses, or shares in increased profits if appropriate. At the end of the contract period the installations are handed over to the municipality unless the contract is renewed or extended.

Joint venture

In this case the private operator and the municipality create an appropriate special purpose company in which they both have a shareholding. This joint venture company undertakes the provision of the full service and charges the customers direct. The joint venture can either operate under a contract with the municipality or under a licence arrangement. Remuneration to the shareholders is through the payment of dividends. Often the private sector partner also provides special management and technical support.

Private ownership

In this case the operating company and the infrastructure and assets are owned entirely by the private sector. The regulation of the private monopoly thus created is normally by some form of statutory control or licence agreement.

Whilst from the foregoing it may appear that each category is clear cut, in reality this is not the case as there is a great deal of flexibility. Eventually the solution is

adapted to meet the needs of the individual case in question.

This can be illustrated with examples from China, Indonesia, Malaysia, Viet Nam, Australia, Argentina, North America and Europe. Each case shows how the private sector service company focusses on different customer needs and political requirements. They also show how the solutions are adapted to the cultural, economic, legal and financial structures of the countries in question.

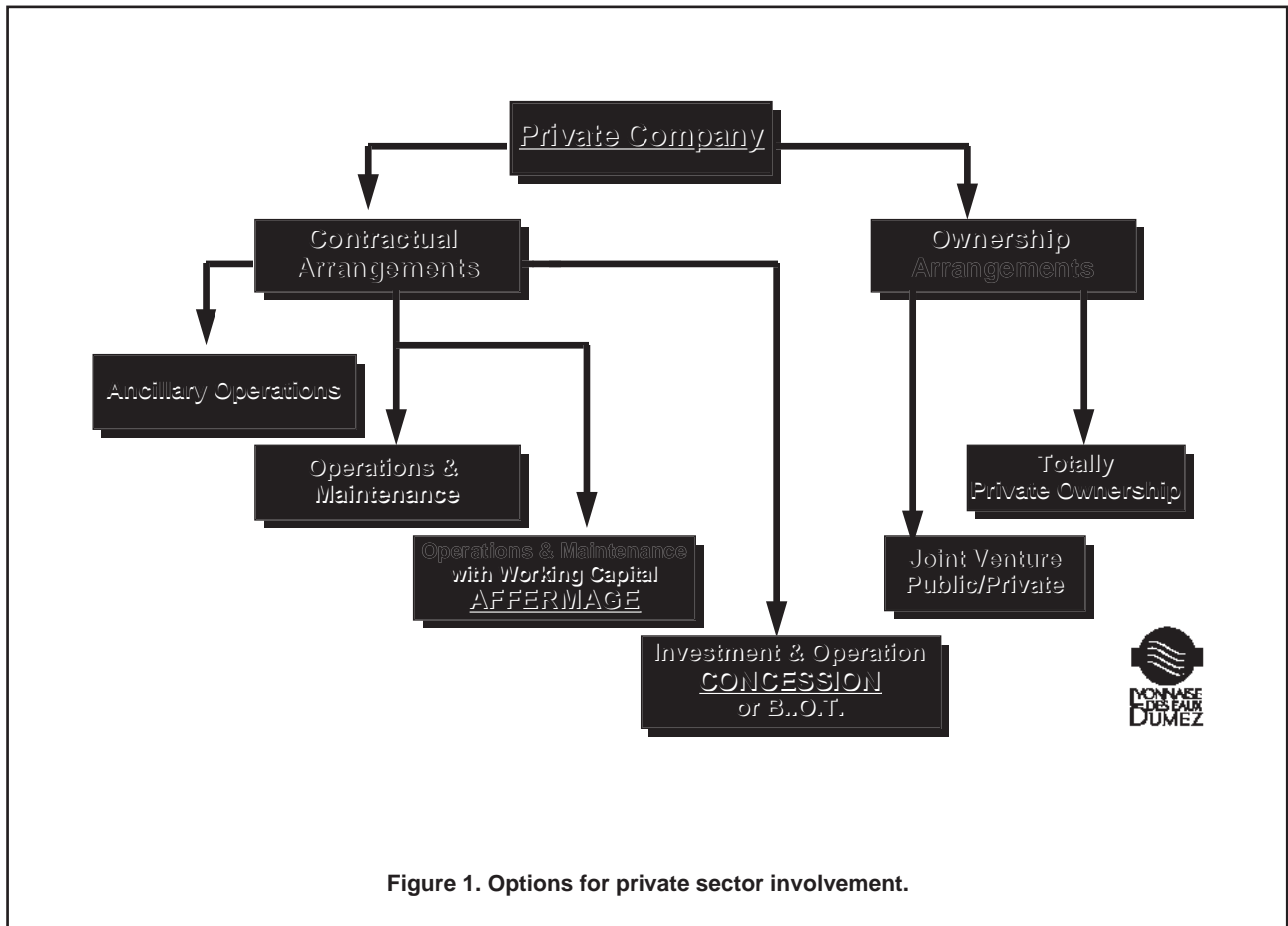


Figure 1. Options for private sector involvement.