



## Private Sector Participation in Water

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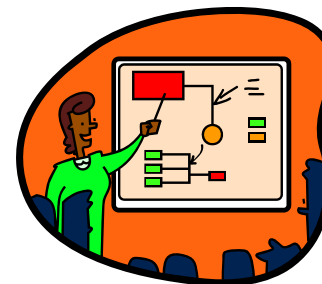
**Ministry of Construction  
Government of China**

**Beijing, Sunday 30<sup>th</sup> October 2005**



## Objectives and Structure of Presentation

- **Provide an understanding of private sector participation in the water sector:**
  - What is PPP and why consider it?
  - Examples from overseas and China
- **Lessons for PPP in China**



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## What is PPP?

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**Arrangements between public and private sectors with the following characteristics**

- **Primarily output-based contracts with private sector taking appropriate risks**
- **Longer term arrangements because**
  - **Operational outcomes are often delivered over a period of time and/or**
  - **The private sector needs to recover its return on investment**

**Examples: Management contracts, Lease, Concession, BOT**

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## Why consider PPP?

**The introduction of PPP is a strategic decision and is typically taken to achieve:**

- **EXTENSION OR IMPROVEMENT OF SERVICES**
- **EFFICIENCY GAINS / REDUCTION IN COST**

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## How does PPP work?

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These outcomes are achieved through:

1. Effects of competition
2. Introduction of commercial management, technical expertise and change of culture
3. Investment through private sector partners
4. Transfer of risk to specialised enterprises

PPP arrangements must take into account local conditions: legal and regulatory, socio-economic, environmental and technical.

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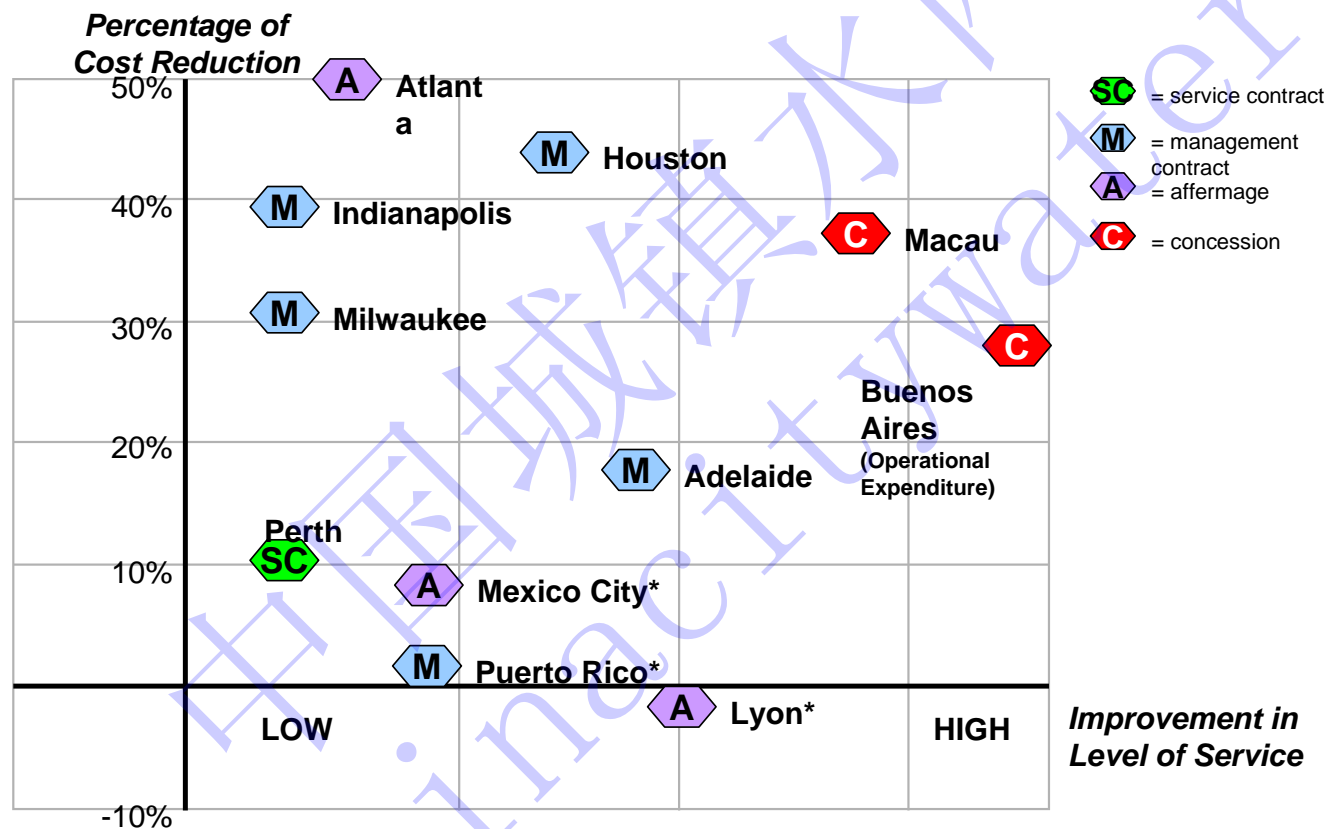
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## Outcomes from PPP initiatives



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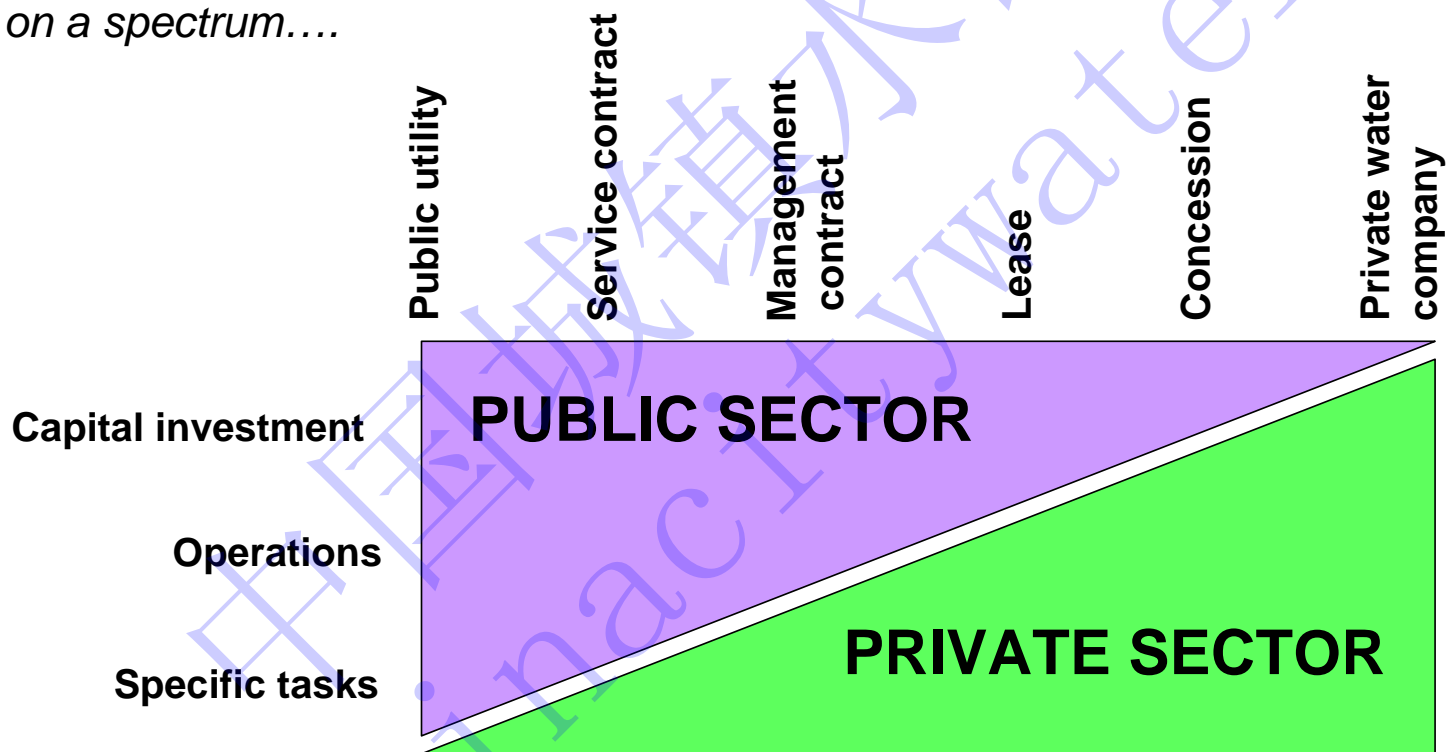
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## What are the different PPP options?

*PPP can be located  
on a spectrum....*



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## Public vs. Private Responsibilities

	Ownership	Investment	O & M	Tariff collection	Usual duration
Service Contract	Public	Public	Public	Public/ Private	1-2 years
Management Contract	Public	Public	Private with limited risk taking	Public/ Private	3-5 years
Lease / Affermage DBOL	Public	Public	Private With full risk	Private	8-15 years
BOT / BOOT	Public	Private	Private	Public	20-30 years
Concession	Public	Private	Private	Private	25-30 years
Equitization	Private	Private	Private	Private	Indefinite

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## International Trend

**World-wide, the role of the private sector in water infrastructure and services is growing**

- **governments are choosing to withdraw from activities which can be undertaken by a competitive private sector**
- **increased focus on commercial and technical performance**
- **access to private sector capital and expertise (e.g. BOOT arrangements)**

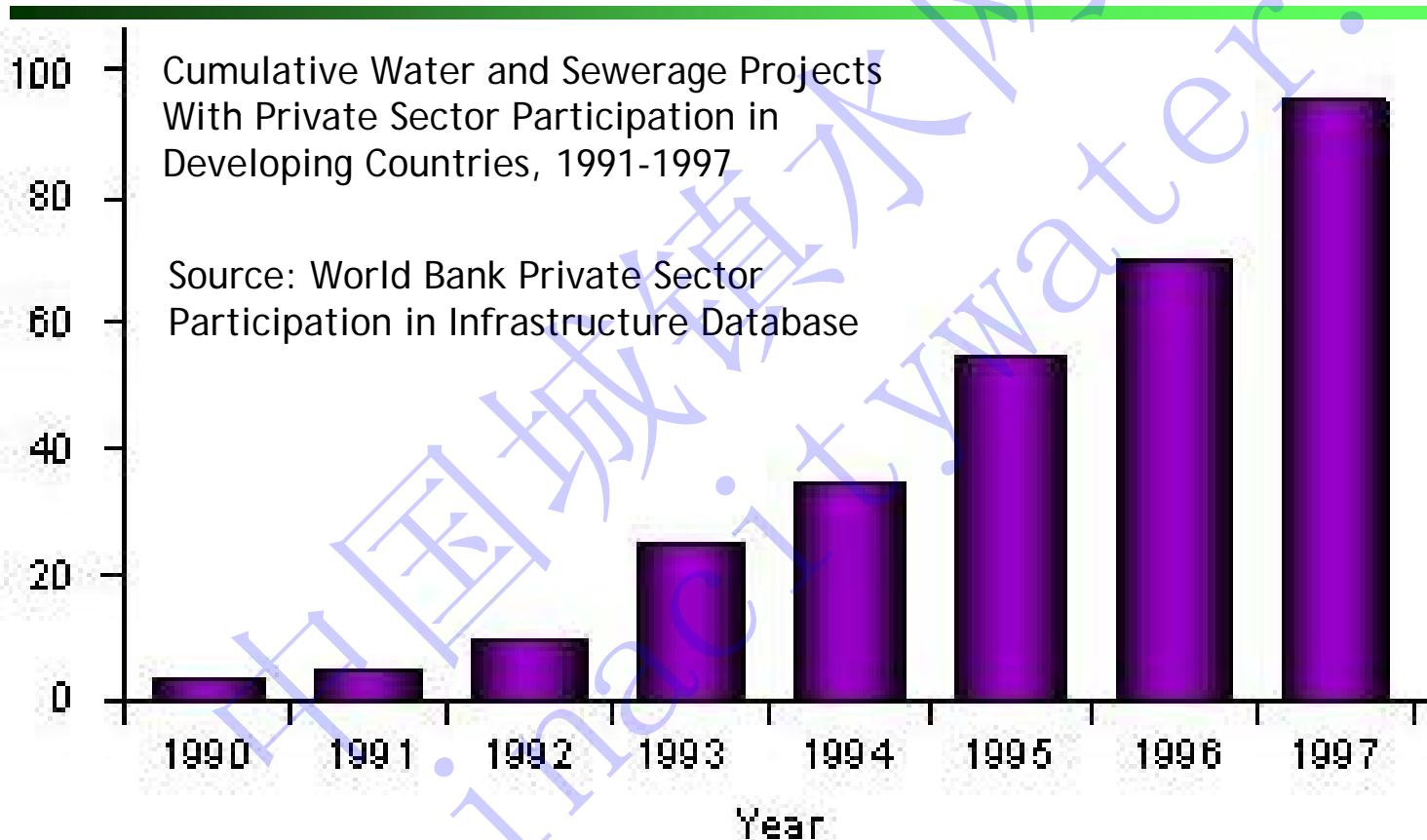
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## Growth of PPP



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## What has happened in China?

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- **Massive demand for new infrastructure and improved services**
- **PPP commenced cautiously in early 1990s (1992: Tanzhou Water Supply 35-year concession)**
- **Initially, demand for private finance and prohibitions on foreign involvement in distribution focussed PPP on BOTs**
- **To 2004 - 133 projects for water and wastewater with total investment commitment of US\$4.8 billion. Most since 2000**
- **Increasing involvement of Chinese investors**
- **PPP still only a small part of total investment (<2%) and operations**

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## What has happened overseas?

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- France - leases and concessions since 1850
- Australia - BOT, management contracts since 1990
- Chile - partial divestiture since 1990
- UK - total divestiture in England & Wales in 1989

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## What has happened in China?

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### Brief History

- BOTs typically under \$30 million (SDPC approval level)
- Typically negotiated public-private JVs
- Removal of restrictions on foreign involvement in supply systems has opened opportunities to other PPP arrangements e.g. Chongqing JV concession with Sino-French water

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## Examples of PPP in China (1)

### Examples:

- Harbin BOT
  - 30-year JV BOT. signed 1992. Good operating results. Uneven profit sharing. No debt financing
- Chengdu and Beijing 10 BOTs
  - Tendered BOTs. Central Gov involvement. Good operating results from Chengdu. Beijing 10 on hold.
- Shanghai Dachang
  - Wholly foreign-owned (Thames / China Water). Limited recourse finance. Guaranteed fixed return. Direct negotiations. Foreign stake sold to Chinese partner.



## Examples of PPP in China (2)

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### Examples:

- Sino-French Chongqing, Guangdong, Macau
  - **Directly negotiated concessions for development of water supply infrastructure and provision of services to defined areas.**
  - **Direct interactions with customers**
  - **Macau big success, Chongqing and Guangdong too early to tell**



## Cancelled PPP projects

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- **Bad news is good news**
  - **Between 1990-2001, 2500 PPP arrangements reached financial closure**
  - **Of these 2500, only 48 had been cancelled by 2002; 1.9%**
  - **Renegotiation: in Latin America, up to 74% of transport PPP contracts have been renegotiated and 55% of water contracts**
  - **Worst sectors: toll roads followed by water then electricity**
  - **Most common reason for failure in water and electricity: Inability to ensure cost-recovery tariffs**
  - **China: 9 projects exited or cancelled – similar reasons**
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## PPP failures overseas

- **Cochabamba, Bolivia: 40-year concession**
  - Halted by opposition from customers when price of water tripled and private wells outlawed. Lack of consultation
- **Manila (West), Philippines: 25-year concession**
  - Regulator refused pass-through into tariffs of increased costs resulting from the Asian financial crisis
- **Buenos Aires, Argentina: 30-year concession**
  - Devaluation of the Peso prevented repayment of US Dollar denominated debt
- **Atlanta, USA: 20-year management contract**
  - Poor information available at bid time, political interference

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## PPP failures in China

- **Da Cheng WTP Shanghai: 20-year BOT**
  - Regulatory change making guaranteed rates of return illegal. Foreign partner sold share to Chinese party.
  - Failure or unexpected outcome?
- **Shenyang Water No.8: 30-year BROT**
  - Build-rehabilitate-operate-transfer -> O&M contract -> withdrawal. Lack of political support and expertise
- **Beijing No.10 WTP: BOT**
  - Inability to achieve financial closure based on tariff arrangements



## Reasons for failure of PPP

Most common issues leading to failure:

- **Inability to ensure cost-recovery tariffs**
- **Insufficient political support**

Other reasons for failure:

- **Inappropriate arrangements and poor contracts**
- **Strategic reorientation of companies**

**Breakdown of relationship**

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## Conclusions: Lessons for China (1)

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- **Public-Private Partnerships offer the opportunity for the private sector to provide skills or financing to complement the existing resources of public service providers**
- **There is no single best model. Each contract type has a particular set of circumstances under which it is most likely to be effective**
- **Selection, development and implementation of PPP is complex. Strong political support is essential and all parties should use experienced, expert advisers**

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## Conclusions: Lessons for China (2)

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To attract the private sector in China:

- **Tariffs (and subsidies) need to be economically and socially sustainable and determined on this basis with no undue political influence. This will often mean...**
- **Increasing the effectiveness of regulatory arrangements**
- **Significant tariff increases**
- **Streamline approvals process.**
- **Transparent processes with experienced advisers on government side**

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## Conclusions: Future of PPP in China (1)

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- **PPP will continue to develop**
  - need for investment and operational efficiency, government policy
- **Increasing involvement of Chinese companies, initially as financiers and increasingly as operators**
- **Decrease in wholly foreign owned enterprises and increase in joint ventures**
  - rational risk management strategy for private sector and government
  - potential risk to customers through conflict of interest of government as provider of public services and government as investor

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## Conclusions: Future of PPP in China (2)

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- **Increase in projects in wastewater sector and in networks**
- **There will be more failures**
  - where tariff arrangements are not sustainable
  - where project development and procurement is not thorough

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## Contact details

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