

Contents

Foreword	ix
Acknowledgments	xi
Preface	xiii
Overview	xvii
1 Considering private participation	1
1.1 Underlying policy problems in water services	2
1.2 Some possible effects of private participation	3
1.3 The challenge of getting private participation to work	5
1.4 Models of private participation	7
1.5 Approach of the <i>Toolkit</i>	11
2 Planning the process of introducing private participation	15
2.1 Four stages	16
2.2 Stakeholder consultation and analysis	21
2.3 Setting up government institutions to manage the process	21
2.4 Analytic and advisory work required	25
3 Involving stakeholders in the design of the arrangement	33
3.1 Identifying stakeholders	34
3.2 Developing a strategy for engaging stakeholders	38
3.3 Interacting with different groups of stakeholders	40
3.4 Identifying winners and losers under different options	46
4 Setting upstream policy	51
4.1 Allocating responsibilities among different levels of government	52
4.2 Determining the appropriate market structure	56
4.3 Establishing rules for competition	69

5	Setting service standards, tariffs, subsidies, and financial arrangements	73
5.1	Setting a service goal	75
5.2	Estimating the cost of service	77
5.3	Determining the mix of tariffs and subsidies	79
5.4	Implications for design of the arrangement	88
5.5	Accessing and structuring finance for investment	89
6	Allocating responsibilities and risks	97
6.1	Analyzing responsibilities and risks	98
6.2	Determining the best allocation of responsibilities and risks	102
6.3	Designing risk allocation rules	108
6.4	Allocating risks and responsibilities under different models of private participation	120
7	Developing institutions to manage the relationship	125
7.1	Tasks and institutions	126
7.2	Monitoring and enforcing performance	131
7.3	Resolving disputes	132
7.4	Adjusting tariffs	137
7.5	Involving customers	143
7.6	Maintaining good working relations	145
7.7	Links between institutions to manage the relationship and models of private participation	145
8	Designing legal instruments for the arrangement	149
8.1	Choosing legal instruments	150
8.2	Working with administrative, concession, and regulatory codes	154
8.3	Ensuring that people comply with their obligations	159
9	Selecting an operator	167
9.1	Choosing a selection method	167
9.2	Setting the selection criteria for competitive bidding	171
9.3	Managing the bidding	179
9.4	Dealing with other issues	194
	Appendix A: Examples	199
	Amman (Jordan)	200
	Cartagena (Colombia)	204
	Chaumont (France)	208
	Cochabamba (Bolivia)	213
	Côte d'Ivoire	216
	Gabon	219

Gdansk (Poland)	223
La Paz and El Alto (Bolivia)	226
London and Thames Valley (United Kingdom)	230
Metro Manila (Philippines)	234
San Pedro Sula (Honduras)	239
Santiago (Chile)	242
Senegal	246
Sofia (Bulgaria)	250
Tangiers (Morocco)	254
Trinidad and Tobago	257
Appendix B: The policy simulation model	263
Glossary	271
References	277
Index	302

Boxes

Box 2.1 Central government support and private participation for building local government capacity in South Africa	22
Box 2.2 A typical contract package	26
Box 3.1 Could more consultation have helped the La Paz–El Alto and Cochabamba concessions?	35
Box 3.2 Household surveys to determine willingness to pay	43
Box 3.3 Advantages of involving stakeholders in Kathmandu, Nepal	43
Box 3.4 Advantages of involving stakeholders in Cartagena, Colombia	44
Box 3.5 Teschie Tankers Water Association in Accra, Ghana	47
Box 4.1 Controversies over water service responsibilities in Brazil	54
Box 4.2 Aggregation of water service in small towns in France	55
Box 4.3 Difficulties splitting a national utility in Ghana	61
Box 4.4 Splitting the metropolitan provider service area in Manila	62
Box 4.5 Single metropolitan provider in Buenos Aires	62
Box 4.6 Franchising and other professional support models for small towns	64
Box 4.7 Separating water and sanitation services in Senegal	67
Box 4.8 Joint water and electricity service provision in Gabon and Morocco	69
Box 4.9 Limits to capital market competition in England and Wales	71
Box 5.1 Service targets for the Buenos Aires concession	76

Box 5.2	The capital maintenance approach to estimating depreciation	79
Box 5.3	Output-based aid approaches	84
Box 5.4	Designing tariffs and subsidies to help poor people	88
Box 6.1	Example of the need for reset mechanisms	111
Box 6.2	Market testing—A way to determine whether the operator’s costs are reasonable?	114
Box 6.3	Event-based reviews in The Gambia and Gabon	117
Box 6.4	Examples of hybrid arrangements	123
Box 7.1	Renegotiating an affermage-lease in Senegal	133
Box 8.1	Renegotiation and risk transfer—the Manila water concessions	161
Box 9.1	Transparency in Manila	168
Box 9.2	A note on terminology	179
Box 9.3	Two-stage prequalification in the European Union	184
Box 9.4	Be careful what you ask for—how information in proposals relates to evaluation criteria and contracts	191
Box 9.5	Best and final offers and competitive negotiation in the United Kingdom	194

Checklists

What to do before beginning the process discussed in this <i>Toolkit</i>	13
Managing the process of introducing private participation	31
Setting service standards, tariffs, subsidies, and financing	94
Allocating risks and responsibilities	105
Issues to consider in designing expert panels for dispute resolution	134
General background law—Additional issues for due diligence	159
Designing legal instruments to embody the arrangement	165
Selecting the operator	198

Figures

Figure 1.1	Perceived fairness allows a lower rate of return to be promised for a given legal protection	6
Figure 1.2	Operator and contracting authority’s share of customer revenue under five arrangements	8
Figure 1.3	The allocation of risk to the operator and determination of subsidies	12
Figure 2.1	Stages of the process	16
Figure 3.1	Steps in involving stakeholders in design	36

Figure 3.2	Social impact modeling	48
Figure 4.1	Upstream policy decisions and implications for the transaction process	52
Figure 4.2	Imaginary country showing urban areas and water supply features	58
Figure 4.3	Value chain for a water services business	66
Figure 5.1	Balancing service standards, tariffs, and subsidies	74
Figure 5.2	A possible structure for development-agency finance in an arrangement	93
Figure 6.1	Key areas of responsibility	99
Figure 6.2	Demand risk—A forecast and two possible outcomes	100
Figure 6.3	Demand risk for the operator	101
Figure 6.4	Links between risks	103
Figure 6.5	Initial and final risk allocation for a concession	104
Figure 6.6	Currency risk	107
Figure 6.7	Summary of key decisions in designing resets	118
Figure 7.1	Information, capability, incentives, and legitimacy	129
Figure 7.2	Possible institutions in a management contract	146
Figure 7.3	Possible institutions in a concession contract	147

More information

Things the <i>Toolkit</i> doesn't address	xv
Considering private participation	13
The process of introducing private participation	31
Involving stakeholders	49
Setting upstream policy	72
Setting service standards, tariffs, subsidies, and financial arrangements	95
Allocating risks and responsibilities	123
Choosing and designing institutions to manage the relationship	147
Designing legal instruments to embody the arrangement	166
Selecting the operator	198
Financial modeling	269

Tables

Table 1.1	Five arrangements	9
Table 2.1	Advice that may be needed	26
Table 3.1	Stakeholder identification and composition	37
Table 3.2	Five types of interaction with stakeholders	38

Table 3.3	Four ways of communicating with stakeholders	39
Table 3.4	Stakeholders and ways to involve them in designing arrangements	41
Table 4.1	Benefits and costs of increasing scale and scope	60
Table 5.1	Types of subsidy	83
Table 6.1	Objectives of tariff resets and corresponding risk allocation	113
Table 6.2	Hypothetical operator—Financial position	114
Table 6.3	Impact of reset objectives on methodology and outcomes	115
Table 7.1	Choice of tasks and institutions	127
Table 7.2	Typical strengths and weaknesses of selected institutions	130
Table 8.1	Legal and implementation design issues	151
Table 8.2	Legal instruments	152
Table 8.3	Appropriate instruments for particular tasks	153
Table 9.1	Example of a weighted-average technical score	173
Table 9.2	Possible scoring of items in technical proposals	173
Table 9.3	Some possible financial criteria by type of arrangement	174
Table 9.4	Comparing ways to combine financial and technical scores	177
Table A.1	Illustrative approach to stakeholder analysis	268