

5 Trends in Public-Private Partnerships in Water Supply and Sanitation

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Article by **Victoria Rigby Delmon**

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A lot has been happening in [Public-Private Partnerships](#) (PPPs) in the [water supply](#) and [sanitation](#) sector over the last few years, contrary to some misperceptions. Today's market is radically different from the 1990s (dominated by the large concession model and appetite of private investors to finance projects) or the 2000s (contract terminations and nervousness about benefits that PPP could bring in the water supply and sanitation sector).

Developing countries, facing the challenges of sustainability and financial viability due to the inescapable realities of poor water supply and sanitation services and constrained budgets, are looking at PPPs as an option worth considering to help performance or to develop new sources. Applying lessons learned from the past, with a better understanding of what PPPs in water can and cannot bring, water PPPs are being used increasingly by public utilities in a more focused way, to manage a specific subset of activities or challenges, such as increasing energy efficiency and water availability through non-revenue water management, or development of a new water source. The focus is on performance based contracting, with payments against outputs.

Some of the contracts are smaller in value and less complex, opening the way for new regional and local players and industries to emerge to meet these challenges.

1. [Build-Operate-Transfer \(BOT\) and Design-Build-Operate \(DBO\)](#), particularly in desalination and wastewater treatment plants, have become a solid business line in many emerging countries (especially in the Middle East, China, Mexico and Brazil) – with strong competition from a large and growing number of international players as well as regional players from developing countries. This is an area where private financing can be raised, often with the help of risk mitigation tools such as guarantees. These projects do not usually involve the challenges of the private sector managing an existing public workforce or an interface with household customers, but they bring the benefits of private investment, expertise and technology and sustainable operations. They are often new build or substantially new build in nature and so also do not carry the risks of existing assets;

2. [Performance-Based Contracts \(PBCs\)](#) for activities ranging from reduction of non-revenue water, leakage management to increasing connectivity have proved to be useful tools in increasing efficiency and expanding connectivity (for instance Ho Chi Minh City in Vietnam where a PBC leakage contract resulted in almost half the pre-project amount of leakage, with the amount of saved water equivalent to what would be needed to serve an additional 500,000 people and saved power (23,000 kwh/d)). These projects focus on results, with payments conditional on the achievement of outputs. Often these projects do not involve the

private sector taking over the management of the overall utility, so the public sector is still running the day to day operations but benefiting from private sector expertise in key areas. A substantial element of these contracts is typically knowledge transfer and capacity building of the utility workforce;

3. A significant number of **performance/ output based management contracts** have been implemented in the Middle East and North Africa (Algeria, Saudi Arabia, Oman), Latin America (Tegucigalpa in Honduras, Colon in Panama) and Africa (Congo DRC), some with regional private operators (such as SDE in Senegal which won the Congo DRC contract). Some of these involve the management of the utility being outsourced to a private operator, whilst others bring systems and expertise to work alongside existing management;

4. Small scale private operators are becoming more and more commonplace in developing countries, with many donor-sponsored water or sanitation PPP projects for rural and peri-urban areas having been successfully implemented and scaled up, with new local operators emerging. The Public-Private Partnership Resource Center sponsored a [toolkit](#) on such projects;

5. Several emerging countries have seen the **consolidation of large national private water operators**: Philippines (Manila Water, Maynilad), Brazil, Malaysia and Russia but also Africa (e.g. SDE in Senegal which became independent of Saur noted above).

A major feature of the current environment is an overall push for a more customized approach to water PPP design. The development of water PPPs has become very country specific, with governments keen on developing their own PPP schemes - usually with hybrid features which do not fit easily in the traditional classification lease/concession/BOT. For examples of some of the different forms of contracts used in water supply and sanitation sector, please take a look at the re-vamped [water pages in the Public-Private Partnership Resource Center](#).

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