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PRIVATIZATION IN THE WATER SECTOR:

The experience of private sector participation in the water sector is very clear. First of all, it's not a new phenomenon. If you look at a country like France for instance, the private sector has been providing water to municipalities for over 100 years. We see quality water at all levels. If you look at the nineteenth century even before the term "concession" existed, in most of the Middle East water was a concession, as well as electricity, and was provided by the private sector.

So let's put this in perspective. What was happening in the nineties with the failure of the public sector to deliver efficient water services to the poor? Other alternative solutions had to be looked at. The private sector was one of the solutions that was put on the table, in terms of bringing the know-how, the management and the investment. We saw a lot of public utilities around the world in the sixties that couldn't deliver water to the poor. We saw a lot of people not connected to the system.

So when we talk about public versus private, this is a false debate. This is not a debate. I think this is very important. It's not a question of better or worse. It's who can provide efficient water service to the poor at lowest cost. If the private sector can do it that's fine. If the public sector can do it, I have no problem with that. But with 50% what we call "water losses" - which is what we have seen on average in most developing countries due to the inefficiency of the system - this is not acceptable. 50% of the water is lost in the street because pipes are not repaired, or because people are illegally connected. This is not acceptable.

What we have seen is the private sector being able to intervene in tough places and being able to deliver sufficient water, to cut losses from 50% to 35%. In cities like Gaza where let's face it, in 1996 when the private sector management contractor came it was able to install 50,000 connections after five years, cut the losses and improve the quality with good chlorination. That's what the private sector has done.

THE WORLD BANK'S FUNDING FOR WATER AND SANITATION:

The World Bank is providing an average of \$1 billion in water and sanitation per year. 85% is going to the public sector. And the private sector, in the last twenty years, has made between 5% and 10% of the investment. So this water will remain majority owned by the public sector at the end of the day.

If you look at the eighties, prior to the Asian crisis in 1997, it was a period when a lot of private investment was coming. There was a lot of confidence in the market. And at that time there was a lot of belief that the private sector could play a much higher role in investment. And there was a risk that public investment was crowding out these private investments. So there was a role for the

public sector in terms of putting the framework in which the private sector could come and invest.

Ten years down the road it's clear that the private sector investment in the water sector remains very low, 5% to 10%. That's the reality on the ground. That's the reality. Now why? I think that's the question.

The water sector is not a sector where you make money anyway, it's very low return. It's very clear that the cost recovery is very low. This is a sector which over the years was never able to recover the cost. So either the public sector or the private sector is losing money in water. So when you talk about what's been happening in the last ten years, even the public sector is not behaving well. With the exception of a few.

SUCCESSFUL PUBLIC UTILITIES:

There are some good public utilities and the World Bank is supporting them. In Vietnam we are involved with the public utilities. One of the best public utilities is in Tunisia. I think this is one case which is very interesting where the losses of water are around 15% to 20%. In Brazil, in Bahia, you have very good public utility and the Bank has always been partnering with them. In the eighties in the nineties and now.

There is a clear recognition that with the private flows in infrastructure generally going down and with public money going down, with donors' money in the sector going down, you cannot just watch and see. We have to intervene. And therefore the shift that you will see right now is - how can you blend public money and private money? How can the private money be leveraging the public money and how can the public money leverage the private money? That's the new issue here.

WORLD BANKS LOANS THAT CONTAIN PRIVATIZATION AS A CONDITION:

We work with governments when we design our investment loans or our adjustment loans, including for the water sector. The condition is part of the package. We have never been ideological. It's case by case. You have some loans where there are never any conditionalities on the water. If you look at the percentage of water and sanitation loans with privatization conditionalities, it's 17% of the total.

There are some cases where there were some covenants in terms of increased private sector participation. There are some loans where we ask for increased private participation. It could be different forms, it could be a service contract.

TARGETING THE POOR:

You need to get a clear subsidy and you have to target the poor. We have schemes in places like Chile where we know who the poor are. And then you give them coupons. Or for instance you can issue the bill showing the full cost of the water, and those who you identify as poor are targeted but first you show them how much it costs. Then you give the discount or the subsidy in the bill to people who will see it. And that's what we suggest. You need to target those poor.

In South Africa the first bracket for the poorest of the poor is free water. It happens in Johannesburg. That's what's happening. We are open to looking at different models. But what's very important is you cannot target everybody. You have to target the poor and unfortunately the poor are always left out in this equation. So in our program right now that's the kind of subsidy we would like to do.

SOUTH AFRICA:

South Africa for the last few years has done a lot of reform in the water sector. I've been on the front line in terms of moving the water agenda and it's very interesting to see the utility sector being reformed. I think that South Africa is definitely on the right direction in terms of reform.

Let me give you another example, Côte d'Ivoire, where the private sector has been involved for the last fifteen years. It's never talked about - why? It's a good case. Water is being delivered. And people pay for it. This is a good case. Again, you want to talk about the good cases - Casablanca - water and the energy and solid waste. These are all cases that unfortunately that are not known.

WHY WATER DOESN'T ATTRACT INVESTORS:

There are what I call right now concessions under stress. Because of different reasons. And this is related to the whole collapse of private investment. Post Enron, post September 11th, the lack of attractiveness of the investor is affecting the whole infrastructure sector. Not only the water sector. The water sector, which was already low on the list of attractiveness, is suffering even more.

From our side we need as the World Bank group, which means the IBRD, IFC and MIGA, we have to build a framework and rebuild confidence so that private investors can invest and at the same time ensure that public utilities which are run on commercial basis continue to be run efficiently.

ARGENTINA, MANILA AND JAKARTA:

First of all the issue of Argentina in particular is a market-economic related issue, it's not a water related issue. That's how we should look at it. If you look at prior to the Argentina crisis, 1.6 million people were connected, that's a lot of people. And investment was going pretty well. Water quality was among the best in the world. Thanks to private sector involvement, there was a very high degree of happiness.

The case of Buenos Aires right now, and this includes the Manila and Jakarta cases, are all related to the market economy situation. The 1997 crisis or the 2001 crisis. So these are not water related issues, they are market-economic related issues and I think it's important we look at them this way. If you isolate the market economic factor and you look at the utility per se, they were run pretty well. The services were good. And I think if you talk to the people outside Buenos Aires and some other provinces, you will be surprised that in some of the other concessions [in Argentina], people will say they want [the private companies] to stay and how can we help?

So let's put it this in perspective. I am not saying that all of them are good stories. Of course there are issues, what I call related to contractual design, to regulatory reform. That's why it's very important to have the framework in place which different parties understand. It is very important that the role of the public sector is well defined. Unfortunately, sometimes its role is not well defined. And I think the World Bank is working to help the public sector to assume its responsibility.

THE MILLENNIUM DEVELOPMENT GOALS:

Right now the investment that is happening in water and sanitation is around \$15 billion a year. If we have to reach the millennium development goal for water and sanitation, which means to cut by fifty per cent those that don't have access to water, we have to go from \$15 to \$30 billion a year. This is the bill.

Right now if we continue the business-as-usual model where a little bit of public sector, a little bit of private sector, little bit of everything, only 20% to 25% of the countries can reach this target. So there is a need to scale up at all levels. From the public sector, from the private sector and from the donor community.

THE FUTURE:

I don't think it's fair at this stage to say [the private sector] has left forever. There are opportunities. I think if you have a good transaction on the table, even right now, people will bid for it. We have seen it. So I think that right now what's very important is to rebuild confidence.

Governments should not simply expect anymore that the private sector will come along, take all the risk, do all the investment and they don't have to do anything. I think this has changed. That's what you will see in the next ten years. But keep in mind the role of the private sector in water, which is right now between 5% and 10%, in the next ten, twenty years, will not be more than 15% or 20%.

From the World Bank perspective we are scaling up. I think our lending will have to increase but we have to invest in viable enterprises. You cannot invest in money-losing companies. Therefore, in some cases, if the utilities or the municipalities are being restructured and it is on the verge of becoming viable, we need to help them by doing what we call the restructuring plan, corporatizing them so that they can run on commercial basis. Like what happened in Canada or France or UK or Germany.

The only problem we have in developing countries is these are state-owned enterprises which means they're only living on subsidies but unfortunately they are not up to the market test at any level. Whereas in developed countries the public sector - whether it's in Netherlands or Sweden - these companies function on a commercial basis according to company laws.

INCREASING THE NUMBER OF PRIVATE WATER COMPANIES:

How do we deal with the limited number of players? I agree that it's time to have the middle size companies, some of the Europeans, some of the Scandinavians, some of the Canadians. I see no problem with one of the good public utility companies being involved in some of the developing world. Aguas de Portugal, which is a company publicly owned by the government of Portugal is involved in a concession in Mozambique, in Maputo. So I see this kind of middle-size company. I would like to see much more of the local companies being involved as well. I think the change in the next few years is to make more players in the market and I think the World Bank can facilitate this by working on the contract design with the governments, our clients.

IS THE WASHINGTON CONSENSUS DEAD?

What's happening right now is a recognition that the private sector alone will not be enough. The donor community including the World Bank - and we just discussed this in Dubai actually - has to be involved to leverage the private money. We cannot wait anymore. The poor cannot wait anymore for connections. And the girls cannot wait anymore to have a latrine at school. And there is now more recognition that there is a direct link between infrastructure development, growth, and poverty reduction. And water could be in this agenda.

I don't see the ideological debate, honestly, and I been in this institution for 13 years. And I've been pragmatic and I've been involved in a lot of this privatization. When I joined the bank there was a recognition that the private sector agenda had to be looked at. But it was not the only way. So when you talk about the ideological debate in my 13 years at the bank there is always debate on any issue, we're always trying to be on the frontline of an issue. But the imposition of an ideology? I don't think this is the case. Again, we're case by case.

WATER AS SOCIAL OR ECONOMIC COMMODITY:

It's a very interesting debate. Water is life. That's number one. The water resource is life. But from the resource you have to take this water and get it to the consumer. There is a cost for it. You need to clean it, you need to put it in a pipe, you have to put a meter on it, you have to deliver it. There is a cost for it. Somebody somewhere has to pay for it. Either the taxpayer, or the government - which means the taxpayer. There are no other ways. So it's a social commodity, but it costs to be delivered. And that's very important.

WATER SCARCITY IN THE FUTURE:

Some of the estimations we have seen say that water use will increase by about 50% in the next 30 years. It's estimated that 4 billion people, one half of the world's population, will live under condition of severe water stress by 2025. These are the figures. With conditions particularly severe in Africa, the Middle East and South Asia. Over-obstruction of the aquifers will be an issue in some places like Australia, or China or the Middle East. The projections will not be better if we don't put the house in order. But there are ways, we have to look at the sector with hope. And I think if the sector is run in an efficient way, we can go and salvage the situation. Over the last 20 years more than two billion people have been connected. Let's face it this is the highest figures we have seen in the last 50 years.