

Water Deregulation Report

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Introduction

The water and waste sector lags sadly behind other infrastructure sectors in the private investment it receives, accounting for only 5% of the total including energy, telecoms and transport. By the end of 2006 526 PSP projects worth a cumulative total of \$53 billion had been closed in the water and waste sector in developing countries and a further amount in the developed countries. In terms of numbers of people served, the private water sector accounts for 10-12% of the world's population in 2008, double the proportion ten years ago and the share is expected to increase.

There has been an increasing number of reversals, especially in Latin America and Africa. 53 PPI projects have been cancelled or were in distress, totalling \$16.4 billion by the end of 2006. 53% of cancellations were in Latin America and 47% in Asia Pacific. The cancellations have not all been one sided, they have been instigated either by governments, by popular opposition or by the concessionaires. The increasing opposition and politicisation of water privatisation should not be ignored because it will not go away. Anti-privatisation activists have succeeded in forcing a number of reversals of PSP contracts and opposition has been especially strident in Africa and South America. Those in favour of privatisation tend to see water as an economic proposition. Governments are concerned with their responsibility to provide a service to the people and they accept that commercial profit may be a part of this. It may also be more efficient and cheaper. Those who are against privatisation hold the position that water is a basic human right, that should be available to everyone, if necessary at no cost to the consumer.

Historically two French companies, Suez/Ondeo and Vivendi/Veolia and more recently a third Saur/Bouygues, have been the global leaders in private water and sanitation provision. With the advent of liberalisation and privatisation in the energy markets a number of energy multinationals entered the water and waste markets, primarily because they saw limits to investment opportunities and profitability in their traditional industries. Ten years of experience and hard knocks has encouraged all of them to reassess their priorities, and to withdraw from high risk markets or reduce their exposure. In some case they have withdrawn from the water business entirely. RWE, which in five years became the third largest water company in the world, and ENEL have both announced that they are divesting most of their water interests to concentrate on energy. A new group of national players and smaller private water companies has emerged and the dominance of the large internationals is being eroded around the edges, although they still remain very powerful.

Outline of the report

- This report provides a comprehensive overview of the global water sector
- The situation in each country regarding ownership and the regulation of the market
- A global survey of water & waste deregulation
- Types of water & waste privatisation
- The reasons for liberalisation
- An extensive series of tables, charts and graphics are contained in the report

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Table of Contents

1.0 Executive Summary.....	8
Overview.....	8
2.0 Types of Water & Waste Privatisation.....	23
2.1 Why liberalise the water sector?	23
2.2 The perception of water.....	24
2.3 PSP - private sector participation models	25
2.4 PUPs - Public-public partnerships and ‘twinning’ in water and sanitation.....	28
3.0 World survey of Water & Waste Deregulation.....	36
World survey of water & waste deregulation	36
4.0 Europe	47
4.1 EU water and waste directives and investment	47
4.2 Western Europe.....	50
Austria.....	50
Belgium.....	53
Cyprus	55
France.....	56
Germany.....	61
Greece.....	68
Ireland.....	70
Italy	72
Luxembourg.....	77
Malta	77
Netherlands	78
Portugal	80
Spain.....	82
Switzerland	85
United Kingdom.....	86
5.0 Nordic Countries	97
Overview.....	97
Denmark	98
Finland.....	101
Iceland.....	104
Norway.....	105
Sweden.....	106
6.0 Central Europe	111
Overview.....	111
Czech Republic	112
Hungary	115
Poland.....	118
Slovakia	123
Slovenia	124
7.0 The Baltic Countries	125
Overview.....	125
Estonia.....	126
Latvia	128
Lithuania.....	129
8.0 Southeast Europe (Balkans)	131
Overview.....	131
Albania.....	132
Bosnia Herzegovina	134
Bulgaria.....	135
Croatia	138

Macedonia	139
Romania	140
Serbia Montenegro	142
Turkey	143
9.0 CIS	145
Overview	145
Armenia	148
Azerbaijan	149
Belarus	150
Georgia	151
Kazakhstan	154
Kyrgyzstan	156
Moldova	156
Russia	157
Tajikistan	166
Turkmenistan	167
Ukraine	168
Uzbekistan	172
10.0 Southeast Asia	173
Japan	173
Korea, South	176
Macao	178
Taiwan	179
China	181
Hong Kong	193
Cambodia	194
Indonesia	196
Malaysia	200
Myanmar	203
Philippines	203
Singapore	207
Thailand	208
Vietnam	211
11.0 Indian Sub-Continent	215
Bangladesh	215
India	219
Nepal	224
Pakistan	227
Sri Lanka	231
12.0 Asia Pacific	234
Australia	234
New Zealand	239
13.0 North America	240
United States of America	240
Canada	252
14.0 South America	254
Overview	254
Argentina	256
Bolivia	258
Brazil	260
Chile	264
Colombia	272
Ecuador	275
Paraguay	277
Peru	280
Uruguay	283
Venezuela	285

15.0 Central America and the Caribbean	287	
Mexico		287
The Northern Triangle		291
Belize		291
Costa Rica		291
El Salvador		292
Guatemala		293
Honduras		294
Nicaragua		295
Panama		296
Puerto Rico		297
Caribbean		297
Bahamas		297
Barbados		297
Bermuda		298
Cuba		298
Dominican Republic		298
Haiti		299
Jamaica		300
Trinidad		301
16.0 Middle East	302	
Bahrain		302
Iran		303
Iraq		303
Israel		304
Jordan		305
Kuwait		305
Lebanon		306
Oman		306
Palestine		307
Qatar		307
Saudi Arabia		308
Syria		309
United Arab Emirates		310
Yemen		310
17.0 MENA - Middle East and North Africa - Mahgreb	311	
Algeria		311
Egypt		312
Libya		314
Mauritania		314
Morocco		315
Tunisia		317
18.0 Sub-Saharan Africa	318	
Overview		318
19.0 East Africa - Great Lake Region	324	
Burundi		324
Ethiopia		324
Kenya		325
Mauritius		326
Rwanda		326
Somalia		326
Tanzania		327
Uganda		327
20.0 Central Africa	328	
Cameroon		328
21.0 Central African Republic	329	
Overview		329

Chad	330
Congo, Republic (Brazzaville)	330
Congo, Democratic Republic (Kinshasa)	330
Gabon	330
Guinea Equatorial	331
22.0 West Africa	332
Benin	332
Burkina Faso	332
Cape Verde	332
Côte d'Ivoire	333
Gambia	333
Ghana	333
Guinea	335
Guinea-Bissau	336
Liberia	336
Mali	336
Niger	337
Nigeria	338
Senegal	342
Sierra Leone	342
Togo	342
23.0 South African Development Community	343
Overview	343
Angola	344
Botswana	344
Lesotho	344
Madagascar	345
Malawi	345
Mozambique	346
Namibia	350
South Africa	351
Tanzania	357
Zambia	357
Zimbabwe	357
24.0 Glossary	358

Table of Tables

Table 2.4.1: Public-public partnerships (PUPs) in water and sewerage	30
Table 3.1: World Survey of Water and Waste Deregulation	36
Table 4.2.1: Major Italian Aziendi water utilities	76
Table 4.2.2: Companies with different management types	84
Table 6.1: Water concessions companies.....	114
Table 6.2: Concession companies in Hungary.....	116
Table 10.2: Water Supply Plants and Pipelines 2000 - 2005	176
Table 10.3: Construction of Sewage Treatment Plants 2000 - 2005	177
Table 13.1: A Summary of the Law	242

Table of Figures

Figure 1.1: PSP Options - A continuum	9
Figure 2.3.1: PSP Options - A continuum	25
Figure 4.1.1: Revision of EU Water Policy	48
Figure 4.1.2: Investment and employment related to EU environmental policy, 1990 - 2010	49
Table 10.1: Water supply bodies.....	174
Figure 18.1: Public water service in African cities	319
Figure 18.2: Access to drinking water in 10 African cities.....	320
Figure 18.3: Market share, earnings and employment in concessionaire and independent water and sanitation providers in Dakar and Bamako.....	322
Figure 18.4: How the sanitation market works in African cities.....	323

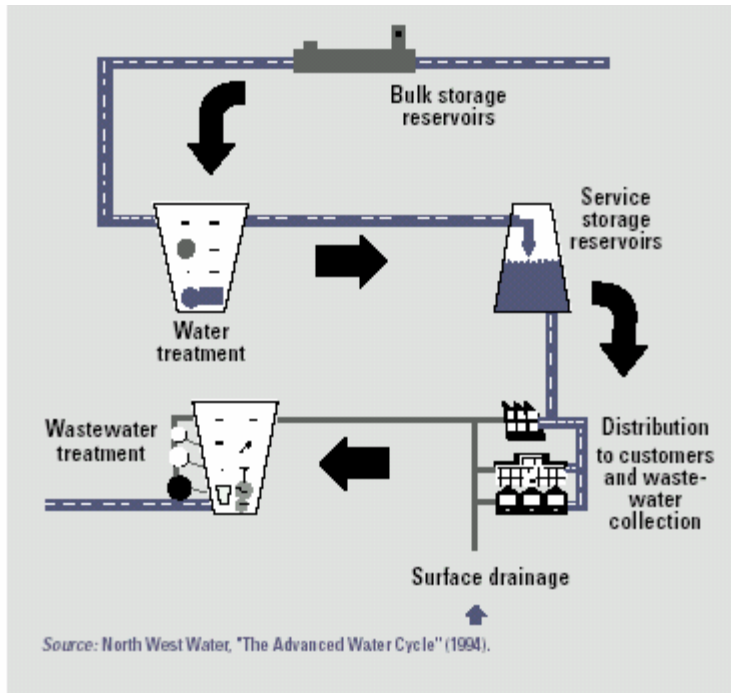
2.4 PUPs - Public-public partnerships and ‘twinning’ in water and sanitation, Continued

Main components of water and sewage systems

In some industries in which networks are important; gas, electricity, and telecommunications, governments have put limits on the natural monopoly by separating production from transmission through the network. Competing electricity generators, for example, can send power to consumers using one network.

In the water sector the problem is complicated by the absence of a national water grid. Nevertheless, the stages in delivery of water and sewage include a number which are contestable and where competition can be introduced, such as engineering services, metering, connecting new users and other activities.

In 1998 the UK government addressed this with the Competition Act, which took effect on 1 March, 2000. This covered areas in which competition is enforced by the regulator, including pricing, common carriage, contestable services, access to water resources, connections to water mains, laying of mains and anti-competitive agreements. Customers can appeal to the regulator against infringements of competition in these areas.



Industry fragmentation

The water industries around the world vary greatly in their degree of concentration. The United States has 55,000 water companies and in Europe the average numbers of companies per million inhabitants ranges from 0.13 in France to 88 in Germany.

Country	Number
Germany	88.0
Netherlands	4.4
Italy	2.3
England and Wales	0.7
France	0.13

Continued on next page

World survey of water & waste deregulation, Continued

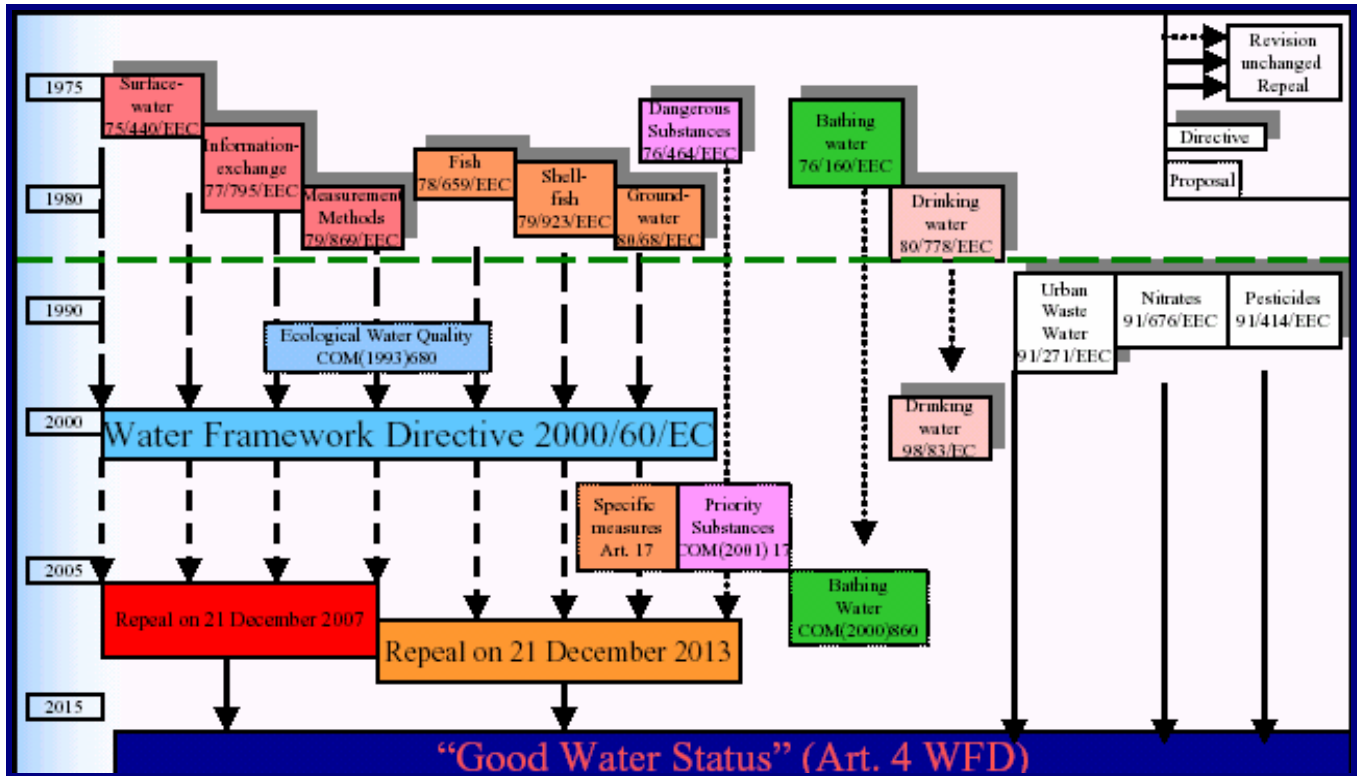
The failures of privatisation (continued)

	Assets	Operational Model
Guinea	Publicly owned.	Africa's first PSP concession, but terminated.
Guinea-Bissau	Publicly owned.	PSP exists.
Liberia	Publicly owned.	Public.
Mali	55% state, 45% private owned. Independent regulator exists.	PSP exists.
Niger	Publicly owned. Independent regulatory authority.	PSP exists.
Nigeria	Publicly and provincially owned.	Some private suppliers used.
Senegal	Publicly owned.	PSP introduced.
Sierra Leone	Publicly owned.	PSP exists.
Togo	Publicly owned.	Public.
SADC Southern Africa		
South Africa	Public and municipal ownership.	PSP exists.
Angola	Publicly owned.	EDP PUP.
Botswana	Publicly owned.	Possible privatisation.
Lesotho	Public provision.	PSP under consideration.
Madagascar	Public- ownership.	Ondeo have a concession.
Malawi	Publicly owned.	PSP exists.
Mozambique	Publicly owned. Independent regulatory authority.	Informal water provision. First PSP concession awarded.
Namibia	Public company.	Private distribution company.
Zambia	Publicly owned. Independent regulatory authority.	Public.
Zimbabwe	Municipally owned.	Privatised but private contractor withdrew.
South America		
Argentina	Mixed public, provincial, municipal and private. Independent regulatory authority.	A lot of privatisation, serving 60% of the population.
Bolivia	Municipally owned. Independent regulatory authority.	PSP exists but many problems occurred. Often cited by activists as example against PSP.
Brazil	27 state companies, 4,974 municipals. Active small private sector providers, 63 small companies in urban areas.	32 private concessionaires. Privatisation to be increased.
Chile	53 regional public and mixed public-private companies. Independent regulatory authority.	All types of PSP. The private sector has 70% of sector income.
Colombia	A free market economy. Independent regulatory authority.	All types of PSP.
Ecuador	Publicly owned.	PSP exists.
Paraguay	Mixed public and private. Independent regulatory authority.	Public and private. Aguateros, small private water companies.
Peru	Publicly owned. Independent regulatory authority.	The industry is still municipally owned although there has been some contentious discussion of PSP. Opposition remains.
Uruguay	Publicly owned. Independent regulatory authority.	Privatisation is now illegal.
Venezuela	Publicly owned.	Some PSP concessions.

Continued on next page

4.1 EU water and waste directives and investment, Continued

Figure 4.1.1: Revision of EU Water Policy



Source: EU Report

Investment

This will not be cheap. A study was conducted for the EU Commission between 1998 - 2000 to estimate the costs and employment linked to the investments necessary for compliance with the EU directives.

Annual expenditures for the directives examined are estimated at €40 billion, equivalent to 0.5% of EU-15 GDP. The investments between 1990 - 2010 will total €260 billion, plus associated operating costs of €15 billion per year.

Over and above these environmental benefits, however, the expenditures are estimated to provide half a million job opportunities per annum, equivalent to 3% of Europe's unemployed.

The study also reached two important conclusions about both the cost and the employment opportunities: There is no simple explanation of cost differences between member states. Higher expenditures occur in the developed parts of the EU, reflecting the extent of environmental pressures, opportunity costs, demand for environmental quality and a variety of country specific factors.

The pattern of job opportunities provided by the directives does not match the distribution of European unemployment. It is unfortunate that areas where unemployment is now highest will attract the lowest level of linked employment opportunities.

Continued on next page

Jamaica

Overview

In January 1999, the Ministry of Water adopted a Water Sector Policy. This policy outlines the current situation and problems within the water sector, defines the objectives of the government to address the issues and sets out the mode of implementation.

Jamaica has made significant progress in providing water services to its people. Across the country, as a whole, the percentage of households with piped water rose from 61% in 1990 to 66% in 1997. Over the same period, the percentage of households relying on water from rivers, springs and ponds fell from 5.7% down to 3.8%, while the use of pit latrines and other types of sanitation declined commensurately.

Unfortunately, the poorest 20% of the population did not share in these improvements. One third of the poorest households rely on standpipes for their water, and 30% obtain their water from untreated sources such as rivers. Only 21% of the poorest households have flush toilets.

The great majority of urban residents have access to safe piped potable water. In the KMA, 97% of households have piped water and in other towns 79% of households have this facility. Urban households without piped water rely predominantly on standpipes. About half the standpipe users in urban areas travel 50 yards or less to fetch water. While coverage is good, reliability of supply to urban households and industrial users is often erratic.

In recent years the National Water Commission has been incurring losses. Currently, it comes close to covering its operating costs but does not generate any surplus which could be used to finance investment and relies on the government to finance new infrastructure. However, competing demands on the government budget mean that this source has not been adequate to provide for the water infrastructure needs of the country.

The Water Policy lays down a series of improvements. Among these the Office of Utilities Regulation (OUR) has responsibility for the approval of fees and tariffs based on prescribed / agreed water quality and service quality standards, minimum standards of sewerage services coverage and other appropriate parameters.

Financing capital costs and private participation

Up to now, most finance for expansion of infrastructure has been provided to NWC by grants from the government. However, the government now intends the sector to access a wider range of sources of finance in the future, which will include:

- Millage (charges levied on consumers in addition to the tariff to fund new projects from which they will benefit)
- Finance provided by the private sector
- Government grants for specific works with high social or environmental value

To relieve the government of the full burden of financing the sector, private investment in new infrastructure and private operation of water services will be encouraged. However, the government will continue to own and/or control, directly or through designated entities such as the NWC, the natural resources and existing infrastructure assets.

Privatisation is regarded as a part of government strategies to secure economic benefits for Jamaica and not an end in itself. Private participation in the Water and Sewerage Sector is expected to bring improvements in the availability, quality and cost effectiveness of services being delivered. The government is investigating the complete range of private options open to it.

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