

Conagua / OECD dialogue on private sector participation in water infrastructure

Second workshop



Conagua, Mexico, February 2012

Steps in developing the assessment

- Building on:
 - answers to the *Checklist*-based Questionnaire
 - publicly available material (academic papers, government information, OECD & other organisations' publications)
 - workshop of February 2011 and bilateral meetings
- Part of a broader OECD / Conagua dialogue on water governance
- Next steps:
 - Comments and supporting material by 16 March 2012
 - New version by mid April 2012



Outline of the presentation

1. Context and recent developments with PSP
2. A fragmented institutional and policy framework
3. Goals, strategies and capacity at all levels of government
4. Financial sustainability
5. Accountability mechanisms
6. Questions for discussions

1. Context and recent developments with private sector participation





Policy framework

National Water Programme (PNH)

- PS expected to contribute technology & funding to build, operate & maintain water works

National Infrastructure Programme

- Identification of infrastructure projects to be financed through PPPs

2030 Water Agenda

- Notes the need to attract the PS
- Identifies improvement of legislation to support regulatory framework



Context

- PNH, PNI and targets of the 2030 Water Agenda represent important PSP opportunities:
 - Investment need of 114bn pesos (\$9.5bn) for level of treatment which meets discharge standards
 - Universal access to WSS by 2030 = investment in network extension, wells development and rainwater harvesting of 215bn pesos (\$17.8bn)
 - PNH aims to support 80 municipalities > 50,000 inhab. to improve efficiency of water service provision by 8%.



Important lessons from past experiences

- Uptake of BOT contracts: 36 BOOT for WWT & WT plants between 1992 and now under FONADIN
 - 17 are operational (\$5,9bn of private invt = 2/3 of total);
 - 6 are under construction (\$9bn of private invt > 1/2 of total)
 - 13 are in post or bidding process.
- Involving PS in service delivery: 9 concessions or management/service contracts
 - Cancun and Aguascalientes: improved coverage & op efficiency, but regulatory risk & demographic pressure
 - Appetite for PSP in the provision of WSS stalled after 2001 - Difficult uptake of MIG

2. A fragmented institutional and policy framework

Checklist: The enabling environment is a key determinant of risks and value for money



◀ Federal efforts to consolidate the PSP legislation

LAASSP

- allows for long-term contracts in **service provision**
- introduces related dispute resolution mechanisms

LOPSRM

- Object: infrastructure

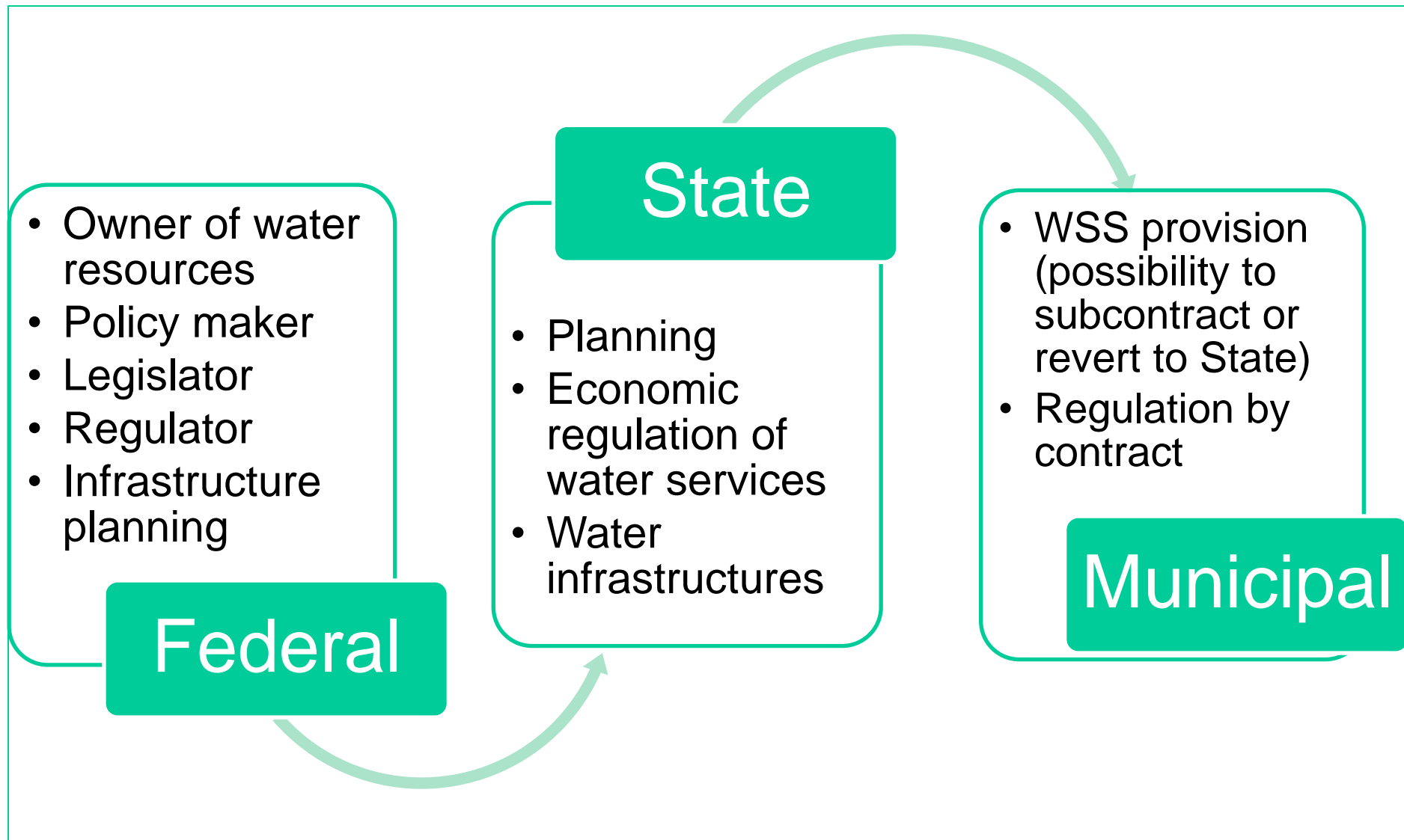
Law on public/private association

- **not sector specific**
- regulates projects preparation
- provides ways of dealing with unsolicited projects
- facilitates project development

National Water Law (1992, 2004)

- allows for PPPs

3 tier allocation of responsibilities





Preliminary OECD Recommendations

- Foster coordination mechanisms to bridge the gaps generated by institutional and policy fragmentation for PSP, building on existing tools and institutions
 - On a case by case basis, Cost benefit analysis and Water Utilities Diagnosis (DIP) can help link the different levels of government;
 - Conagua has a role to play, “to promote the participation of society and the three tiers of government in the integrated management of water resources and their inherent public goods”, along with States with a strengthened role and more “capable” municipalities.
 - Greater clarification of roles and responsibilities would help (through a WSS Law?).

3. Goals, strategies & capacities at all levels

Checklist: PSP = change in culture & practice
=> need to catalyse expertise



« Heterogeneity of situations at sub-national level

- Service provision: decentralised municipal bodies, deconcentrated bodies, State bodies - with different procedures, characteristics
- Some States with PPP laws
- Some municipalities involve the Federal level through federal programmes, mainly Promagua
- Common features:
 - Limited experience of municipalities with PSP => cultural shift
 - Short term mandate of mayors in the face of long term projects that take time to prepare



Preliminary OECD Recommendations

- Build resources and capacity on PSP at sub-national level through standardisation of PSP requirements and documents and the sharing of good practices.
 - Strengthen existing capacity building initiatives, such as the water programmes of CONAGUA or the IADB PIAPPEM
 - CONAGUA is preparing model PSP contracts.
 - Role for other institutions catalysing the expertise on PPP for all sectors (PPP unit within the ministry of finance)?

4. Financial sustainability

Checklist: The cooperation will not work if financial sustainability is not ensured. This has 3 dimensions: value for money, cost recovery (3Ts) & affordability for governments



« Tariffs are at the heart of financial sustainability

- Tariffs levels are below cost recovery, but vary widely across municipalities.
- Difficult political economy of tariffs regulation:
 - Incentives to increase tariffs are limited: short-term mandate of mayors + federal subsidies.
 - In most instances, tariffs regulated at municipal level and tariff increases need approval by congress. Limited role of federal level (methodology not used).
 - The acceptability of tariff increases varies: difficult in Aguascalientes, rather well received in Mexico City.



Preliminary OECD Recommendations

- There is room for tariff increases in some places. Probably less in others, where a phased approach involving greater bill collection could help build consumer trust as a prerequisite for tariff increase.
- Support the States and municipalities in finding “the composition they consider most appropriate between tariffs and subsidies” => help with the methodology, raise awareness on the revenues for the water sector
- What is the optimal level of tariff regulation? States level helps address some of the political interference

5. Accountability and transparency

Checklist. If used adequately, PSP can be a powerful leverage to promote transparency, accountability & responsiveness to users.



- Limited availability and credibility of information on sub-national infrastructure and on performance of operators
- Limited performance-based culture of water service provision.
- Use of performance indicators remains limited
- Competing sets of performance indicators and methodologies



Preliminary OECD Recommendations

- Strengthen monitoring & disclosure of information
 - Support the development of an information base on the state of sub-national infrastructure and assets and on the performance of operators
 - Support the development of a set of performance indicators common to all utilities, based on an **agreed** methodology (i.e. integrate existing approaches)
 - Consider public disclosure of the information, incentives for good performers and capacity building mechanisms for lagging municipalities / operators
- Support the development of some regulatory functions outside of contracts.



Questions

- How has the MIG (*Mejora Integral de Gestion*) mechanism evolved after the firsts bids in San Luis Potosi? Has a right balance of risks between public and private be found?
- Is the current consolidation of the legislative framework at federal level, including through the new PPP Law, providing the necessary stability and security for PSP and ensuring beneficial partnerships? Is anything missing?
- Are the current initiatives to standardise PPP documentation & strengthen capacity at local level sufficient to support municipalities wishing to involve private partners? What capacity building toolbox at local level is needed? What institutional mechanism to foster the building of capacity?



Questions

- How to promote a regulatory framework that incentivises a performance based culture, greater responsiveness to users, transparency and accountability? What role can institutions with regulatory functions play (incl. Conagua)? How can responsibility be shared and coordinated across levels of Gov?
- How could the information base on the state of infrastructure and assets and on the performance of service delivery be strengthened? What would it require to harmonise the existing set of performance indicators and methodologies?
- What would it require to bring tariffs more in line with sustainable cost recovery – in terms of assessment of population acceptability, political leadership and amendment of tariff regulation?



Thank You

OECD PUBLIC GOVERNANCE DIRECTORATE



Contact:

celine.kauffmann@oecd.org