Water Supply and Sanitation in Portugal: A Nation-Wide Public-Public Partnership Complemented by the Private Sector

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achieved very good results

in the water sector

in the last 15 or 20 years

and made a very good use

of the EU Structural Funds

How was this possible?

% of population served
With drinking water systems

- 86-90%
- 91-95%
- 96-100%
Evolution of the water sector in 1993-2010 and current targets

- Percentage of the population with access to public water supply systems: from 80% to 96% to 95%
- Population with access to public systems for waste water disposal with adequate treatment: from 30% to 76% to 90%
Quality controlled water supply in accordance with national and EU standards

A boom in attendance and quality of service!!!

“The Portuguese miracle...”
Paul Reiter, Former Executive Director of IWA
SITUATION IN 1993

INVESTMENTS: Only to solve local problems without seeking for integrated solutions (lack of synergies dispersion of systems)

MANAGEMENT: Responsibility of the 308 municipalities (no corporate or entrepreneurial attitude)

OWNERSHIP: Private companies totally excluded from this sector by law

TECHNOLOGY: Difficult to adopt state of the art technology

WATER SOURCES: Many unsustainable or unreliable sources of water and very poor integration in water resources management

REGULATION: No regulation, no benchmarking, only “loose” technical requirements
SITUATION IN 1993

Lack of infrastructure, low servicing, poor management and investment dispersion!

Water Supply:
- Only $\approx 50\%$ of the municipalities
- With more than 75\% of service

Waster Water Treatment:
- $\approx 90\%$ of the municipalities
- With less than 50\% of service

No regulation!
A NEW APPROACH WAS NEEDED

Driving Forces for Change

- Need to “absorb” efficiently significant EU Structural Funds
- Good example of EPAL, the only company with adequate scale
- The attempt to implement a regional model was abandoned in 1974 for political reasons with bad consequences
- Municipalities were eagerly responsible but a strategic involvement of Central Government was clearly needed
- Recognition that the private sector could bring efficiency, know-how and bench-marking
A NEW MODEL WAS CONCEIVED

Strategic Guidelines

- “Enterprising” the water sector and promoting scale by the creation of regional systems
- Finding a balance between the role and political importance of municipalities and the need for a national policy
- Finding a balance between opening to the private sector and keeping public leadership in structuring the systems
- Establishing Águas de Portugal (AdP) as an tool for implementing a national public policy
- Seeking the support and involvement of municipalities as co-owners (and users) of the new regional systems
- Seeking the financial sustainability of all regional systems
- Establishing regulation and benchmarking of all systems
In terms of public water policy there were basically two main challenges:
How to implement a consistent national policy?

How to optimize the use of the structural funds?
How to bring scale to the new water systems?
... with such a huge dispersion: - territorial dispersion!
- political dispersion!

How to adopt a consistent multilevel approach?
- National level: Strategic vision and policy
- Regional level: Regional systems for “bulk” water
- Local level: Local “retail” water services
An ambitious nation-wide Public-Public-Partnership was launched leading to the Portuguese Model of water services.
The Portuguese Model

Six Keywords of the Change

• Concentration (geographical scale - several municipalities)

• Multipurpose operation (water and wastewater)

• Enterprising (creation of companies instead of municipal service)

• Segmentation ("unbundling": bulk/regional vs. retail/municipal)

• Mild privatization (gradual and under public control)

• Regulation (at the core of economic sustainability and quality improvement !)
The Portuguese Model

Multimunicipal Companies and Holding AdP at the Core of the Model

DEFINITION OF MULTIMUNICIPAL COMPANIES

- Serves several municipalities and has a regional scale
- Only for regional “bulk” production of drinking water or regional “bulk” treatment of waste
- Municipalities remain responsible for “retail” services and direct contact with end users
- Majority of capital is public and municipalities are fully engaged in management (typically 51% State, 49% Mun.)
- Capital owned by the state is concentrated in AdP that is responsible for strategic management

Municipalities Kept Open Other Choices

Francisco Nunes Correia, ATHENS European Week Edition 2013, Marne-la-Vallée, 22 November
The Portuguese Model

Municipalities Kept Open Other Choices

Municipality alone:
- Direct management of the entire system
- Create a municipal company
- Create a company with a private partner
- Concession contract with a private company

Association of municipalities:
- Direct management of the entire regional system
- Concession contract with a private company

The model evolved smoothly in time
The Portuguese Model

Only six multimunicipal companies were created in 1993

- Cávado – Integrated solution to ensure the Porto Metropolitan water supply;
- Douro e Paiva – Integrated solution to ensure the city of Porto water supply;
- SIMRIA – Integrated solution to solve pollution problems mainly caused by paper industry;
- EPAL – Already existing (inspiring case);
- SANEST – Integrated solution to solve pollution problems in Estoril Coast and Metropolitan Lisbon
- Sotavento and Barlavento – Integrated solution to solve drought problems in Algarve coast

The model extended gradually to the whole country always based on the free decision of municipalities!
The Portuguese Model

Now Águas de Portugal (AdP) participate in 20 companies

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<table>
<thead>
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<tbody>
<tr>
<td>Nº of Enterprises</td>
<td>20</td>
</tr>
<tr>
<td>Water for Human Consumption</td>
<td>641 ($10^6$ of m$^3$/year)</td>
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<tr>
<td>Water Treatment Plants</td>
<td>88</td>
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<tr>
<td>Wastewater Treated</td>
<td>393 ($10^6$ of m$^3$/year)</td>
</tr>
<tr>
<td>Wastewater Treatment Plants</td>
<td>626</td>
</tr>
</tbody>
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AdP Structure

42 enterprises

A quite large group in the area of environmental services
AdP Is a Global Actor

International

International Operations

Concession Contract
(water supply)
Mozambique (Maputo-Matola)

Technical Assistance
Angola and Algeria

Concession Contract
(solid waste)
Mozambique (Maputo)
The Portuguese Model

An essential tool to promote efficiency, effectiveness, transparency and consumer satisfaction in water and wastewater services

• It protects the consumer from the “natural monopoly”

• It promotes a “surrogate” for competition

• It protects the economic feasibility and sustainability of the service

The Portuguese Model of regulation considers three complementary areas of activity:
Regulatory model

Structural regulation of the sector:

- Contribution to national strategy formulation for the sector
- Contribution to the clarification and improvement of rules and legislation governing the sector

Regulation of utility behaviour:

- Legal and contractual monitoring of the utilities
- Economic regulation of the utilities
- Quality of service regulation of the utilities
- Water quality regulation of the utilities
- Consumer complaint assessment

Auxiliary regulatory activities:

- Collection, validation, processing and public disclosure of sound information
- Innovation and technical support to the utilities
A gigantic public - public - partnership
Central State + Municipalities

“De-verticalization”
unbundling?

Conceptual separation of “bulk” from “retail”
“high” and “low” in analogy with energy systems

Creation of regional systems with appropriate scale
water intake, “bulk” treatment and selling to “retail” distributors (municipalities)
wastewater “bulk” collection and treatment, from “retail” collectors (municipalities)

Creation of companies owned by state and municipalities
state through holding AdP – 51%, relevant municipalities – 49%
the law authorizes 49% private but it was not implemented

Creation of a regulator and giving it an important role
benchmarking role, authoritative role, Capacity building role
Main lessons learned from the water and wastewater resources reform:

What are the “goods” and the “bads”?

The “bads”

• Private sector with some difficulties in stabilizing

• Financial unbalances of a few systems

• Risk of creating a public dependent “nomenklatura”

• Some lack of coordination between regional and local systems

• Delays in the necessary investments in the “retail” systems
What are the “goods” and the “bads”?

The “goods”

• Critical mass in terms of technology and management
• Freedom of choice: no “one size fits all”
• Effectiveness in investing and getting results
• Respect local authorities without compromising national policy
• Development and maturing of a private sector
• Large step forward in terms of financial sustainability
• Effective regulation and benchmarking
• A gigantic public-public partnership involving 200 municipalities
Thank You