

New Rules, New Roles: Does PSP Benefit the Poor?

Synthesis Report

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Preface

During the Second World Water Forum in The Hague in March 2000, there was much acrimonious debate over the involvement of private transnational water utilities in operating water services in developing countries. Members of trade unions, their federations, non governmental organisations, their networks and many developing country government delegates to the Forum contested the aggressive promotion by the World Bank and bilateral donors of private sector roles in the delivery of water services.

The Forum's slogan, "water is everybody's business", took on a different meaning – to many amongst civil society and some developing country governments, a more ominous one. To some practitioners, the intensity of the debate was a little baffling, if not intimidating. After all, the transnational water companies are but a small player in water services' provision globally. The two biggest transnationals – Vivendi and Ondeo – between them only claim to serve 210 million customers worldwide, some four per cent of the global population estimated to have access to safe water.

Nevertheless, battle lines were drawn. Those who were baffled or were unsure where they stood on the issue – including many field practitioners whose experiences revolved around the daily grind of attempting to deliver sustainable water services to communities – were caught in the crossfire.

WaterAid and Tearfund are organisations that found themselves caught in the middle. We

resolved to understand the issues better. There were ample opportunities for doing so, through direct involvement with local communities in both urban and rural areas, local and national governments, and local civil society partners in developing countries in Asia, Africa and Latin America. There were also local imperatives for deeper enquiry. Our organisations' growing involvement in urban poor areas showed that public water authorities are failing to provide, whilst alternative small-scale private water delivery systems gave much cause for concern.

In the debate and promotion of one solution over another, we felt that an important voice was missing: that of poor communities who struggle daily for access to a basic essential for life. If we were to understand the issues better and contribute effectively to the debate on PSP, then we would need to ground our enquiry on the experiences and analyses of poor people who are the most in need of solutions.

Thus, in early 2001, we started discussions and negotiations over what would prove to be a highly instructive and challenging undertaking for all those involved and for our organisations. What follows is a synthesis of our findings on the issues surrounding private sector involvement in delivering water and sanitation services, our conclusions and recommendations. From the field practitioners' perspective, and from the perspective of poor people whose enjoyment of the right to water is vulnerable or non-existent, we offer this contribution to the debate.

Acknowledgements

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This project was partly funded by the United Kingdom’s Department for International Development (DfID). We would like to thank Ian Curtis and David Sutherland for their support, especially since it provided a rare opportunity for practitioners and development workers in the water and sanitation sector to undertake their own, non-academic research, for what are obviously more practical and programme-based purposes. We hope this project can in future interface with similar research now being undertaken in academia.

The project kicked off in May 2001 with an inception seminar held in London and involving most of the participants. In the nearly two years’ duration of the project, two more seminars were held. These seminars were held at important stages so as to jointly assess the results that were coming out of our work. We would like to acknowledge the efforts of those who helped us make these seminars possible. David Sunderland and Melanie Stidolph were the organisers and administrators for the first two

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The research is composed of eight case studies and five desk studies, rural and urban, taken from twelve countries. As most of the studies were the result of team efforts, we would like to acknowledge all those involved in the work. Their involvement has resulted in our vastly-improved collective learning on the issues around PSP in different contexts (see Box 1).

Finally, our thanks go to our reference group who have kept us on our toes and forced us to look more carefully into our findings. They are Simon Batchelor of Gamos Ltd, David Hall of the Public Services International Research Unit, Gordon McGranahan of the International Institute for Environment and Development, Len Abrams of Water Policy International, and Karen Morgan, vice-president of WaterAid’s Board of Trustees.

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Box 1 – Acknowledgements

- *Mozambique case study:* Jose Atanasio David and Lindsey Breslin of Estamos Organização-Comunitaria, a non governmental organisation based in Lichinga, are the main researchers and writers for this case study. Ned Breslin of WaterAid-Mozambique and Feliciano Dos Santos of Estamos provided information and commentary.
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- *Mexico case study:* Luis Castro, an independent consultant and Saül Cruz, Director of the non governmental organisation Armonia, carried out the research and writing with editorial advice and supervision from Joanne Green of Tearfund.
- *Kathmandu case study:* Alan Etherington, James Wicken, and Dinesh Bajracharya of WaterAid-Nepal did the research and writing for this case study.
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- *England and Wales desk study:* Written by Joanne Green of Tearfund. Rowena Tye from Ofwat and Colin Skellett of Wessex Water provided comments on the paper.
- *South Africa desk study:* Written by Colin Marx, an independent consultant from South Africa.
- *Washington desk study:* Written by Eric Gutierrez of WaterAid.
- *Manila desk study:* Written by Jude Esguerra, an economist of the Institute for Popular Democracy in Manila.

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Acronyms

DFID	Department for International Development
ECOSOC	United Nations Economic and Social Council
GWCL	Ghana Water Company Limited
MWSS	Metropolitan Water and Sewerage System
NAWASA	National Water and Sewerage Authority
OFWAT	Office of Water Services
PSP	Private sector participation
WB	World Bank
WTO	World Trade Organisation

The synthesis of findings discussed in this paper is based on case studies of private sector involvement in delivering services to poor communities in eight countries: four of these focused on urban poor areas, the other four on poor rural communities. In addition, we also undertook five desk studies covering a variety of themes that we understood to be salient to an understanding of the issue, as follows: challenges and successes in reforming public sector utilities, the complexities of contracting concessions, and the political decisions behind privatisation and their implications. These desk studies helped to inform our analysis; however, the findings discussed in this synthesis are from the case studies.

The eight case studies are the following:

Rural cases	Urban cases
• Mozambique	• Dar es Salaam, Tanzania
• Uganda	• Kathmandu, Nepal
• Ghana	• Buenos Aires, Argentina
• Philippines	• Mexico City, Mexico

The five *desk* studies are the following:

- Washington D.C., USA
- Porto Alegre, Brazil
- Manila, Philippines
- Durban, South Africa
- England and Wales, UK

A key difference between the case studies and desk studies is that in the former, we undertook primary data gathering, largely through qualitative and participatory means, from members of poor communities that were experiencing PSP first-hand. We also interviewed government officials (especially at local government levels), donor representatives in-country and private contractors – whether formal businesses or informal. We also referred to official documents, where we were able to obtain them, as well as news reports. All the

case studies sought to understand the issue from at least three perspectives: those of poor people with or without access to water services, government officials with varied responsibilities for delivering water services to people, and the service providers – private and quasi-public. A detailed comparison of the differences between the studies in terms of private sector involvement and community size is presented in Table 1 – Nature of PSP and comparison of the case and desk studies.

In addition to this formal research process, we also entered into dialogues with a range of stakeholders from late 2001 to the end of 2002 for purposes of further developing our analyses. When preliminary findings from the case study research started to arrive, we entered and sought discourse with other interested groups in order to test our analyses. We presented our findings in the following forums: the 2001 International Freshwater Conference in Bonn; a conference in early 2002 organised by the PRINWASS project of Oxford University; a seminar of our Trustees; a focus group of Thames Water employees at their headquarters; an Asian Development Bank-sponsored multi-stakeholder consultation in Manila in May 2002; an NGO seminar at the World Summit on Sustainable Development; and in December 2002, at a seminar of UK-based NGOs who are members of a policy caucus called the UK Water Network.

The case and desk studies are written to stand by themselves. Each has a story to tell, a set of problems and a set of solutions. We adopted the case study method as our methodology and deliberately structured the research in this way because we are primarily seeking the specific contexts – the particularities of local situations, local actors, the relationships they are in, and the conditions they face. We feel this is the most useful approach to adopt, especially since many rigorous empirical researches have already been carried out in support of the two competing approaches of managing water as an economic good or as a human right. We start with the premise that comparisons are difficult to make or will always be tentative.

Cases and experiences on the ground will always have their particularities and therefore

turn generalised comparisons into a choice between apples and oranges. We also feel that in the case of a resource like water, with all the complex layers of relationships around it, it is even more difficult to infer trends from quantified measurement. For example, if four out of five public-private partnerships succeed, it is difficult to infer a general rule that these partnerships are successful and therefore desirable. What a successful project means can be measured in many ways, and therefore its success will always be essentially contested. A new project will always be different from any that have gone before, even within the same city or country.

The methodology we adopted is not about consciously searching for laws of PSP that can guide future practice. Rather, our aim is to understand the particularities of individual cases, and from there develop tools that may be used by whoever is interested, particularly by the poor themselves. This grounded theory approach, we feel, is more suited to the task at hand.

The individuals and organisations involved in this research project come from a range of perspectives and experience. The authors of the case studies come from non government developmental backgrounds with experience in working with local communities to develop water supply facilities and services. In this context, they have come across and may have even worked with primarily small-scale private sector entities in the localities. Others have research and policy advocacy experience, particularly those who undertook the desk studies. The authors of one of the desk studies are senior civil servants working for the utility that was the focus of the research.

We believe that it is important to acknowledge the range of backgrounds of the authors and that it is a major strength of this work. Researchers and authors can never be completely objective but at many stages each case and desk study has been challenged and read by people with other views and experiences whom we have

specifically asked to serve as reviewers. Given this diversity of backgrounds we are not unanimous in all our interpretations. Even within this synthesis, there exist tensions on certain points.

In this synthesis, it should be noted that we have indicated as frequently as possible whether a particular issue or observation is coming from a rural or an urban case study. Rather than do separate reports on findings from rural and urban areas, we have grouped them together since we are after the overall broad picture.

Some of the studies are focused entirely on water supply, while some are focused on both water supply and sanitation. We wish to emphasise that sanitation deserves a special focus of its own, especially because of the different set of problems and issues it presents. While discussions on these different problems and issues emerge in some of the case and desk studies, we do not have a study with an exclusive focus on sanitation.

Our final note is on the recent change in international law on rights and water. When we started our research, the right to water was *implicit* in two key international documents – the 1946 Convention on Economic, Social and Cultural Rights; and in the 1948 Universal Declaration on Human Rights. (This right is explicit, though, in the 1989 Convention on the Rights of the Child.) On 26 November 2002 the United Nations Economic and Council (ECOSOC) formally adopted a General Comment that explicitly recognised access to water as a fundamental human right. The General Comment did not change the text of international legal documents, but it is in itself the most authoritative acknowledgement of the right to water, and thus establishes the obligation of states and governments to recognise, protect and fulfil this right. This development fundamentally changes the terms of the debate, we collectively believe, for the better.

Table 1 – Nature of PSP and comparison of the case and desk studies

Nature of Private Sector Involvement	Payment Basis	Case and Desk Studies			
		Rural	Small towns	Cities	National
Formal PSP					
• divestiture (sale of assets)	Revenues				England and Wales
• concession (long term, operation and maintenance, management, investment)	Revenues		Magdalena town (in the Philippines)	Buenos Aires and Manila	
• lease contract (operation and maintenance, technical and commercial services)	Tariff less lease fee plus performance bonus		Huicholes (in Mexico); towns in Ghana's business units A & B	Dar es Salaam; Durban; cities in Ghana's business units A & B	
• "affermage" (operation and maintenance, technical and commercial services)	Fee based on volume sold plus performance bonus			Kathmandu	
• management contract (operation and maintenance)	Fee				
• service contract (assistance, construction)	Fee	5 districts in Ghana; 8 villages in Mozambique; villages in 4 districts in Uganda			
Non-formal PSP					
• small-scale water entrepreneurs (water delivery or provision)	Cost per bucket/tanker load			Dar es Salaam; Accra	
Non-PSP					
• community-managed	Flat and volumetric tariff	Darangan and New Bulatukan (Philippines)			
• local government	Flat and volumetric tariff		El Piru (Mexico)	Porto Alegre (Brazil)	
• public utility	Flat and volumetric tariff			Washington DC (USA)	



Figure 1 – Women and children in Ghana carrying stones to be used in building the community water point. (Photo by WaterAid/Caroline Penn)

Introduction

The debate about whether or not PSP or the privatisation of water and sanitation services is an acceptable reform option often occurs over the question of whether these services are a social good within which access to water is a guaranteed human right, or whether the services should be treated as an economic good, access to which is governed by market mechanisms such as prices, demand and supply. The two options are often confused although they are related. Therefore, it is important to state what our position is in relation to this discussion.

International law focuses on the use or function of water for guaranteeing human health and life itself. It is this use that is most associated with the claim that water is a social good that society must guarantee and make available to all its members regardless of their status. In addition, water's functions in shaping and sustaining traditional culture, religious rituals and practices

are also understood as part of the "social good" function of water. There are other vital uses of water, including economic/productive and environmental. Water is an environmental good that helps to ensure the integrity, and in turn the functioning, of ecosystems. Unless water in the environment is protected and properly managed, then the current and future uses of water – for health, food, production and leisure purposes will be in jeopardy. Finally, water is an economic good and is an essential ingredient in the production of other economic goods, (such as crops) and services (such as energy and tourism). All these competing uses of water assign an intrinsic economic value to it and this value is expressed through the costs of providing/distributing, cleaning, conserving, protecting water and through the prices and subsidies to recover these costs. The management of all these uses is crucial to successful water policy.

Box 2 – Value vs rights: opposing perspectives in the water debate

Proponents of the water-as-an-economic-good approach start from the observation that water is often treated as if it were worthless, or that its value is not as immediately evident and observable as that given to other commodities like oil, gold or beef. In areas where water is abundant and readily accessible, people typically flush their toilets or water their gardens with little or no concern for the value of the resource they are using. In many agricultural areas, farmers will tend not to conserve water when it costs them so little to access the resource, and when there is little profitability in sending water downstream to residential or industrial users who value it more. The objective of this approach is, therefore, to make the economic value of water immediately evident and observable – and this can be done most easily when a price that reflects "true value" is attached to water. This is achieved where the market model of development is used, and where prices can become the mechanism which sends appropriate signals to everyone about decision-making on allocation, distribution and consumption. The theory states that where free markets exist, prices will be self-correcting and self-regulating – i.e. the forces of demand and supply will eventually move prices to settle at that level which achieves the greatest good for the greatest number of people.

On the opposite side is the contention that access to water is a fundamental human right, and is therefore the birthright of every human being. The idea of managing water as a human right enhances the idea of managing water as a basic need, and emphasises that it is not simply the need that establishes why people should have access, but that individuals have an inherent right and an entitlement to water. The most vocal opponents of privatisation argue that since water is a source of life, it belongs to all inhabitants of the earth in common, and that no one, either individually or as a group, can be allowed to make water into private property. Water is not like any other resource, and should therefore not be treated as an exchangeable, marketable commodity. Their chief concern is that the commodification of water leads to a situation where market conditions rule. In this case, access to water will become dependent on ability-to-pay, not on inherent individual entitlement. Those who cannot pay would be disconnected, and denied a source of life.

It is important to note at this point the distinction between service and resource management. Service management refers to the provision of infrastructure (wells and pumps, supply sources, treatment plant, piped distribution networks, billing system etc). Resource management refers to the allocation of water between agricultural, industrial or household users, or deals with issues like pollution. Privatisation affects not just service management, but also resource management, especially when private property rights are created where common or public rights already exist.

We believe that in the context of both service and resource management, water is an economic good, a social and environmental good, and a human right. These different aspects should not be mutually exclusive, and need to be balanced with priority given to human and environmental requirements, and without cost-recovery becoming a barrier to meeting basic human needs.

Having said this, we would like to point out that as practitioners and development workers involved in delivering water and sanitation services in some of the poorest areas in the world, the problems to which we seek solutions are of a practical rather than theoretical nature. Our basic concern is to find ways of delivering water to the poor more efficiently, not to settle overarching theoretical debates on rights versus economic valuation versus environmental requirements. Therefore, we aim to ask a more specific and practical question: *does PSP benefit the poor?*

Over the last 20 years, the role of the multinational water companies in service delivery has grown slowly. It now accounts for only five per cent of the world market, yet its role in the water service market is an extremely contentious issue. Amongst the many reasons for this growth has been the promotion and facilitation, through donor grants and loans, of private utility take-over of malfunctioning, inefficient public water utilities in middle-income countries. This followed the aggressive reform of water policies across the developing world from the mid-80s to the late-90s, where PSP was a key element, in line with structural adjustment programmes. The

introduction of PSP as a component of reforms was intended to address the numerous failed efforts of corruption-ridden public water utilities. Now, PSP is the main approach to water reform in developing countries. This approach is being pursued in both urban as well as rural areas, where artisans and small informal enterprises involved in community water supply and sanitation are being replaced by more formal businesses. This development also goes hand-in-hand with governments being encouraged to become facilitators and regulators of water services rather than direct providers, and is in line with wider public sector reforms. In other words, the introduction and promotion of PSP by donors is fundamentally reshaping the relationships between government, business, civil society and citizens across the developing world. Our case studies show that the transition from old to new roles and from old to new rules in this rearrangement of relationships has not been altogether successful.

Great divisions have emerged over this new approach to water reform. The main protagonists on the "anti" side are trade unions, international NGOs, southern NGOs and socialist networks. On the "pro" side are northern donors, the Bretton Woods institutions, the World Trade Organisation (WTO) and some governments. Meanwhile, water companies claim that they are against the blanket promotion of PSP in water reform.

The global debate on PSP has concentrated on the involvement of multinational companies in water service delivery. But it is useful to point out that private sector involvement in water and sanitation services is extremely varied, ranging from formal to informal enterprises, local or multinational, with or without access to financial services, one-person outfits to those supported by global staff. Also, rarely has public service been limited entirely to the public sector: there is a long tradition of public utilities subcontracting the private sector in many countries. For many more years, small-scale, local entrepreneurs have been supplying water and sanitation services to rural and urban communities. In the rural areas, private non-profit-making concerns, including church and development organisations are part of the landscape of providers, as are

artisans. In the urban areas, informal water vendors and backyard drilling companies exist aplenty. Their existence in the first place is due to the failure of centralised public water supply services in reaching poorer sections of the population. However, their services are no longer confined to the poor who live in illegal or unrecognised settlements. They also provide to the non-poor whose water supply is becoming more erratic as main supply systems deteriorate. Their expansion in numbers in recent years has also been a result of donor-led policies like PSP and decentralisation. Although this group has no voice in the debate over PSP, it will be greatly affected by the outcome, not least because its livelihood depend on it. Several of the case studies in this research look at the impact of small-scale private sector involvement in water services on the poor.

Governments, both northern and southern, have rightly placed themselves under much pressure to achieve better water and sanitation coverage. The Millennium Development Goals include a target on drinking water and recently the World Summit on Sustainable Development added a target on sanitation. Both targets aim to halve the proportion of people without access to water and sanitation services by 2015. Millions of people die every year from lack of access to safe water and adequate sanitation. On the one hand, there is an undeniable urgency about this issue that makes prolonged discussion frustrating and a questionable use of resources. On the other hand, the risk of the blanket promotion of one debatable method of reform is an unnecessary waste of scarce resources.

Most southern governments have consistently failed to deliver affordable and sustainable water and sanitation to the poor. It is difficult to summarise the causes for this failure, as each situation is different and complex. However, some broad problems cut across many public utilities and municipal services: bad financial management, low funding priority, lack of staff experience and qualifications, absent or weak customer service orientation, political interference, little or no independent regulation and an absence of civil society consultation.

Many of these problems have been described as attributable to weak government capacity – equally acute in urban and rural contexts.

Our research shows that the policy of PSP does not comprehensively tackle these admittedly difficult underlying causes of water utilities' failure to serve the poor. For example, privatising the operation of an urban water utility will not necessarily resolve efficiency problems if the underlying cause is corruption. The solution to corruption is something else – such as mustering the political and community will to stamp it out – not the hiring of new private managers. If the underlying cause is the lack of public sector capacity, a shift to private sector operation without clear provisions for capacity-building may in fact pave the way for an irreversible loss of public sector capacity. In many cases, the reform process carried out deviates from serving the poor and instead subsidises those who are better off. For example, when priority is placed on rehabilitating pipe systems, those who benefit directly are users who already have a connection. The unserved poor communities, most often squatters in informal settlements, are pushed further down the priority chain. These problems occur because the policy of promoting and institutionalising PSP does not adequately encourage a participatory decision-making process and merely treats the poor as mere recipients, rather than active participants, of growth.

With this in mind we are opposed to donors pressuring developing countries to accept PSP in water services as a condition of aid, trade or debt relief. To promote a policy regardless of specific contexts increases the likelihood of failure especially when the likelihood of success of that policy is intensely contested. Furthermore, the enforcement of PSP as the central reform policy limits the options available to governments and civil society to improvise and innovate using the best possible arrangements. We believe, rather, that policies should be used to ensure that in any reform process the poor will be protected, their access to services increased, and the process itself will be transparent and actively seek out the opinion of civil society.

Box 3 – Consumers vs. citizens: addressing the real challenge

The fundamental point of contention in the water privatisation debate is about economic value versus rights. The polarity between value and right is best illustrated by the difference between the consumer and the citizen. Value is to the consumer as right is to the citizen. A consumer is one who sufficiently values a commodity such that there will be willingness to pay for that commodity. Economic value is defined as the maximum amount the user would be willing to pay for the use of the resource/commodity. A citizen on the other hand is one who inherently has rights, and as such is a member of that "public" which is the ultimate owner of the resource. As a co-owner of water, a citizen is entitled to it, and this entitlement is not based on any willingness to pay. Thus, the fundamental question is whether it is economic value or rights that should be considered as the starting point on discussions for the management of water. Should individuals be treated primarily as consumers, or as citizens, in decisions over water allocation, distribution and use?

The problem is that an individual is both a consumer and a citizen at the same time, and that these two identities could not be held separately. Other problems exist. As pointed out by Dr. Esteban Castro, a water expert at Oxford University, we should be careful not to assume that the "citizen" is a given. To start with, the citizen is a western-born concept that barely has empirical reference in most developing countries, especially Africa and Asia. The poor, for example, in most developing countries remain invisible. Squatters are not found on any electoral register. Subsistence farmers in far-flung areas are not part of the national statistics. They therefore could not exercise the traditional rights of a "citizen". Furthermore, we cannot assume that the citizen is always a co-owner of water. The question of rights (that citizens enjoy) has to be qualified: it is one thing to formalise rights in a charter and quite another to have those rights universally enforced and respected.

The challenge therefore, is not to make a choice between economic value and rights, or between the consumer and the citizen. The challenge is in finding ways in which economic value and rights can complement each other, and how the poor can be made both a consumer and a citizen in the enjoyment of water and sanitation services.

This does not mean that we are rejecting private sector involvement. In some countries where both states and markets are weak, as in Mozambique for example, we are advocating, and are in fact assisting in, private enterprise development. The private sector has a role that should not be denied. What we are concerned about is the achievement of the necessary conditions where any provider's role and value, especially in serving the poor, can be achieved and maximised. Where there is corruption and/or political resistance to serve the poor, the private sector can do very little and can in fact compound the problem. Where there is lack of information, participation and democratic processes, the situation is thrown wide open to opportunistic behaviour from the private sector. But given a situation with stable rules, enough political commitment to address the underlying causes, good governance and an informed, active citizenry, the private sector can be a responsible partner in development and an important player in reforming and improving water services. We believe that it is in the private sector's interest that the structures for good governance are kept in place and strengthened, and it is in its interest that there are active advocates of poor people's interests in basic services – these set the stage for doing good business. In all the cases that we have studied, markets are nearly non-existent or highly imperfect. Hence, achieving good governance rather than the theoretical free market will always remain a more important undertaking.

The very nature of the private sector is that it is composed of profit-maximising bodies, with access to and ability to mobilise capital, and this is why donors are pre-disposed to give it key roles in reforming water services. It is expected to inject efficiency into highly inefficient public services, and inject financial resources into severely cash-strapped services, whilst enabling these services to recover their costs from users. In theory, this will achieve the greatest good for the greatest number of people – real improvements in services that may even be accessible to all. But reality is different, as will be shown in the rest of this paper.

Donors are laying much responsibility at the doorstep of the international water operators and engineering companies for increasing access to water and sanitation services in the developing world. World Bank figures (Silva, Tynan & Yilmaz, 1998: World Bank, Note 147) show that private investments tend to flow into the medium-income developing countries, where there is relatively more political, economic and social stability and where the structures for good governance are better entrenched. Ironically, sub-Saharan Africa, the region with the greatest poverty and widespread instabilities, and where access to water and sanitation services are lowest, gets less than one per cent of total private investment in the water and sanitation sector worldwide. The lesson is that, given the present state of affairs and lack of commercial viability in the poorest countries, the risk-averse international private sector could not be expected to play a key role at this stage. Or, the risk-takers who enter the market will be of the type that demand greater profits to compensate for the risks they take.

Furthermore, fewer concessions are being negotiated. Two concession agreements, which were hailed as successful few years ago – in Buenos Aires and Manila – are now in deep financial difficulties. Azurix and Ondeo have

backed out of their concessions, rather than incur further losses. The greatest irony is that while competitive processes ensure benefits for the consumer, they help to undermine the success of the winning concessionaire. Competitiveness is often won at the expense of quality of service.

Under conditions of high risk, limited space for manoeuvre, and incentives for opportunistic behaviour, it has to be reiterated that the multinational private sector could not be expected to play lead roles in the poorer regions of the world where development needs for water services are highest. However, it could be tapped for building the managerial, financial and operational capacity of public services, particularly in the urban areas. On the other hand, donor focus has to be shifted instead to the key players on the ground – municipal governments, public utilities, domestic private sector, including small-scale and micro enterprises and civil society organisations.

In the following sections, we will take a more detailed look at these PSP problems as they have been covered in our case studies. We do not have all the answers to these problems, but where possible, we have stated a number of recommendations.

Issues and recommendations on capacity-building

Our chief concern, should governments decide to involve the private sector in the development and delivery of water and sanitation services, is that the capacity of public authorities should in all instances *not be* undermined. Our research shows that currently the pursuit of a policy of PSP generally does undermine local and national government capacity which not only limits the ability of the public sector to take services back into its management should PSP fail or when contracts end, but also allows the private sector to have more control over the delivery of what is essentially a government responsibility. Basic safeguards to ensure capacity-building of public authorities must be put in place. A city that decides to contract out water and sanitation services to a private company, say, for ten years,

should be able to acquire skills and knowledge and be in a position to operate the system at the end of that contract. Private sector contracting should not result in increased or irreversible dependence on private companies, and there must be clauses in the contract to prevent this dependence. Capacity, as we have seen in two cases we have studied, Washington and Porto Alegre, is the single most important factor that has kept the water and sewerage utilities in public hands (see Box 4). In contrast, a key reason why government authorities in Dar es Salaam, Accra and Kathmandu are considering some kind of private sector contracting is that they do not have the necessary human, technical and financial resources. Thus, it emerges that once capacity declines or is permanently lost,

there will inevitably be increasing dependence on the profit-maximising private sector. In addition, without government capacity, no reform process can be successful.

Building for capacity at every step is key in keeping or making water and sanitation services sustainable. This means not only making services financially sustainable for the operator, but also making them accessible and affordable by the residents, including the poorest.

Capacity-building is however not a simple process, especially as we look beyond the capitals of the poorest countries. Niassa Province in northern Mozambique illustrates this point. Niassa, as acknowledged by Mozambican President Joaquim Chissano, is the poorest province in a poor country. It was also the area most devastated by the civil war that ended in 1994. The majority of Niassa's population became refugees and returned only after the peace agreement was signed. Most villages are new, with little or no infrastructure to speak of. There is very little sense of community, as villages are newly resettled. In this province, because of donor-imposed privatisation policies, the state-owned construction company that built water points for the villages was scaled down and nearly dismantled. This "parastatal" company was seen as an inefficient venture, one of the many state-owned companies that lost money and brought Mozambique huge debts. Donors and their economists were confident that when the state-owned company was scaled down, there would be private entrepreneurs who would come in, eager to take the place of the parastatal company, and bid competitively for projects. But Niassa, given its conditions, only had 15 individuals who could be called "contractors" (*empreiteiros*). In short, there was hardly any private sector to speak of, or what was there was severely incapacitated. Therefore, the result of the blanket application of a privatisation policy was a decrease in coverage. The local government department responsible for the facilitation and regulation of the private sector in Niassa also does not have the human or financial resources to carry out this role effectively.

Box 4 – Capacity and the public utilities in Washington and Porto Alegre

In the late 1980s and early 1990s, the water and sewerage utility in the American capital, Washington DC, was just like any other in developing countries. Its century-old network of pipes and sewers were breaking down. Contaminated water seeped through drinking water pipes, and the utility was found to be violating safe drinking water laws. Cash flow problems became acute, compounded even further by the sheer lack of resources needed to upgrade the infrastructure. A great debate took place on how to resolve these problems. A number of solutions were considered, the most prominent of which was privatisation. After months of discussions involving numerous public hearings, feasibility studies, and the intervention of the federal government, Washington decided *not* to privatise. The first decision regarding reforms was taken in August 1996, when instead of privatising the utility, sweeping institutional reforms were implemented by the US Congress and the selling of bonds to raise funds was authorised. The second decision-making process was completed in 1999, when continued *public* operation, on the condition of achieving clear efficiency targets, was the option chosen over selling the wastewater treatment plant and sewerage services to the private sector. In many ways, Washington's water and sewerage utility remained public because it had the necessary human and technical resources, mobilised the needed financial resources, and implemented sweeping institutional reforms.

Similarly, Porto Alegre City in Brazil was able to develop what is perhaps the best performing water utility in Latin America because it had sufficient human and technical resources. It should be recalled that Porto Alegre's corps of civil servants, who adhered to a public service ethic, were instrumental in bringing the leftist Worker's Party to power in the city. Upon taking political control in 1989, they proceeded to set up what is now a United Nations-cited model in local governance – participatory budgeting processes – that allowed the new administration to raise taxes and invest them wisely and rationally for the city's overall prosperity. In ten years' time, Porto Alegre has been able to improve water coverage to 99.5 per cent of the city's residents, and to reduce infant mortality to 13.8 deaths per thousand births compared to a national average of 65.

What should be emphasised is that our partners in Mozambique, while critical of the PSP policy, *are supportive* of private enterprise development. They have set up a training scheme for skills transfer and business development for the small-scale *empregueiros* in the province. They realise that in Niassa, government is weak, the private sector is weak, and civil society is weak. Capacity-building is the central task that needs to be done, and donors have to be educated on the imperatives of this task.

It is typical in developing countries for field-based government offices to be extremely under-resourced. They often have unreliable information or no databases on which to base efficient water systems. Many public utilities, even in developed countries, often do not know the exact nature of the specific problems of their water and sanitation systems until detailed studies are made. The World Bank has made mistakes in the evaluation of problems. In Manila for instance, the International Finance Corporation of the World Bank prepared the bidding documents for the tender of the Manila water concessions. The company that won the bid complained after taking over the concession that the bidding information proved to be grossly inaccurate. For example, the length of the pipe network was greatly under-estimated. This meant that the company actually had to put substantially more investment into repair and maintenance than had been anticipated. The point is that accurate information – a prerequisite for sound decision-making – is difficult to come by in water systems, especially in urban areas where most of the assets lie buried under the ground. Developing information and databases is a key step for capacity-building, and is needed to resolve asymmetries in information between donors and national governments, multinationals and public utilities, authorities and local communities.

There are some informed observers and academics who maintain that PSP is desirable as long as there is sufficient regulation. We agree that this statement is true in itself. But we maintain that it is also misleading, because the reality is that there is little regulatory capacity in developing countries. It would be more accurate to say that PSP is not yet as desirable as it could

be, because in most developing countries there is still insufficient capacity for regulation.

The role of regulation should not be under-emphasised. One of the desk studies makes the argument that in the case of the only large-scale full privatisation in the world (England and Wales), the benefits of privatisation in the end were delivered by the development of regulatory institutions (see Box 5).

Box 5 – Privatisation in England and Wales

Privatisation in England and Wales has often been portrayed as a model that dramatically reduced financial burdens on taxpayers, mobilised billions in private capital, improved water quality standards, and generally increased efficiency in water and sanitation services provision. But it should be emphasised that these achievements were a direct result of regulation as well. As private companies took over, regulatory bodies were set up and their operations were developed. Today, England and Wales has three sets of regulators – an economic (Office of Water Services (OFWAT)); environmental (Environment Agency); and a water quality regulator. These institutions play a key role in achieving a balance between the economic, environmental and social management of water and sanitation. As a result, highly developed rules and rights have emerged. For example, private companies have no power to disconnect any user from the water service. It appears odd that donors are more concerned with enforcing PSP in poor countries, rather than with promoting the creation of similar institutions and legal protections as those existing in England and Wales specifically for poor consumers.

Negotiating contracts is another instance where local and national government typically lack capacity, hindering the regulation of PSP in service delivery. In Accra, Dar es Salaam and Kathmandu, civil servants with insufficient information and staff support have been thrust into the role of negotiating with highly-paid, well-connected and well-informed lawyers from multinational companies. The asymmetry of knowledge and information is obvious. Current weaknesses in the capacities of public authorities should not be exploited.

In summary, we believe that capacity-building is the first and most important step that has to be structured and built into PSP and other reform processes, particularly in poor countries.

Issues and recommendations on community involvement and transparency

The research found that the involvement of local communities and users of water and sanitation services is often lacking in PSP reform programmes. Where PSP has failed to deliver the promised gains, it is often the case that the poor are seen mainly as recipients rather than contributors to development. Whether projects involve large-scale or small-scale PSP, the focus is on giving contracts or concessions to the private sector for the construction of facilities or operation of utilities. Social mobilisation and community participation – proven time and again as prerequisites for sustainable development – are seen largely as burdens: non-essential components to the task of delivering water and sanitation services. Poor communities in particular do not usually have access to contract information. In Kathmandu for example, none of the documents concerning the reform had been translated into the national language by government. In small-scale PSP, poor communities do not even decide on technology options or in locating waterpoints. In urban areas, squatter communities often remain invisible with no voice, much less a claim on access to services. This issue of lack of ownership and participation is, of course, not confined to PSP projects. It is a problem for all types of water projects and the absence of these crucial ingredients usually leads to failure. PSP has been touted as the solution to the old problems of water sector reform, yet our research shows

that in the area of community participation and transparency, the old problems that led to previous failures are continuing. The underlying causes of lack of access to water and sanitation remain despite PSP.

Many users in the areas we have studied expect service providers to perform four key tasks. First is to deliver safe water, including to the poor and vulnerable. Second is to ensure that the service remains affordable and presents no barrier to access. Third is that the service is sustainable and reliable. And fourth is that channels of communication are created. These apply as much to the private sector as to the public sector, but there are extra barriers to the private sector in understanding the needs of the poorest sectors of society.

All too often, decisions are made by planners, local authorities and service delivery organisations without an understanding of or the involvement by the people who will be using the planned services. This leads to either the private or public provision of services that are not appropriate, or in the worst case, no service provision at all, due to a lack of knowledge of where those not served are living. As the private sector's role increases, it is imperative that the needs of those not being served are fully identified and understood.

Box 6 – The poor as mere recipients of, rather than active participants in development

One day in July 2001, residents of Kiwumu-Kalambi in the Wakiso District near Kampala, Uganda woke to the sound of vehicles arriving in their village. The vehicles were from a construction firm, Horden Company, which had been given a contract by government to develop the spring water source of the village. The sudden, unannounced arrival of a contractor for a project they had never asked for bewildered the villagers. But they are not complaining – after all, in a poor, poverty-stricken village like theirs, who would say “no” to the development of a water source, especially if it was mandated by government, and funded by debt relief money from donors?

This village's experience is being replicated in different parts of the developing world. On the one hand, it is a welcome development – proof of some movement breaking through red tape to meet millennium development targets in water and sanitation. But on the other hand, it is cause for concern. It is not known whether, for that village, spring source development is the infrastructure or technology that the residents wanted. Or, if they have the capacity or the necessary social organisation to keep, maintain and maximise the use of the infrastructure so that it will have far greater economic impact on their lives. Or, how the mandated 10% capital cost contributions were collected. It has been proven many times that sustainable development, or that type of development that benefits the poor primarily, is one where the poor themselves are active participants, not mere recipients of the munificence of others.

Our rural case studies show that in the main, private sector companies are not prepared for this role. They are typically contracted to construct a waterpoint or latrine, or to run a water and sanitation service, not to engage in a longer process called development. In economic language, there are typically no incentives in the PSP process that will encourage them to serve the poor or deliver social targets that are typically outside the narrow terms of the contract.

From the research that has been carried out in both Kathmandu and Dar es Salaam, government and prospective private sector providers are interested in gaining insight into where and how the poorer members of society live and access water and sanitation services, in order to be able to improve their own understanding, and thus their planning processes. All too often, however, this kind of information is requested and acquired too late in the planning stages to have an impact on the contracting process.

This lack of consultation is as keenly felt in rural areas with small-scale providers as in the urban areas with transnational private companies. For example, in Uganda and Mozambique, it has been crucial to ensure that the private sector is answerable to the communities for which they are building wells and latrines, and not just the local authority, which, in the main, pays the bill. Without community involvement in decision-making for the type of service that will be delivered and the long and medium-term maintenance of the installations, experience has shown that the services will only last in the short-term. This may be due to the service being badly installed in the first place, and the communities not knowing who to approach to take responsibility for shoddy workmanship as local government are the contract holders. Or, if spare parts or expertise in fixing the problem is needed, the problem is that the necessary social preparation for such tasks has not been implemented. Where private sector companies are involved in constructing facilities, they are generally employed only for the “hardware”, and not for any of the crucial “software”, such as training in maintenance, or hygienic use of the waterpump or latrine. Yet it has been shown that for the full health benefits of water and sanitation

provision to become apparent, there must also be hygiene promotion and education on the proper use of these facilities.

Within these practical aspects of community involvement in decision-making is the more ephemeral notion of a “sense of ownership”. This is a term that has gained a considerable amount of credence within development circles, but it is still used rather freely without an understanding of how it can be achieved. The theory is that if a community has a sense of ownership over its services, these are more likely to be well looked after and used properly. This sense of ownership cannot be bought or imposed, but must come from a genuine involvement of the users in the process of installing the service. This is not a process that can be achieved quickly, but by its very nature and when done properly, will have a long-lasting impact. Building for a sense of ownership is generally something that small-scale contractors do not and will not engage in. They have been employed to deliver a particular service and are there to maximise profits. The contracts they have signed are within the framework of commercial relations, not solidarity partnerships; so they will not be inclined to get involved in long and often protracted discussions on the management of the installation – unless it has been written into their contract to do so. Even then, the kind of company that is capable of building a well does not necessarily have the same skills as one which is more community-oriented and has an understanding of community dynamics and how to ensure that all residents, including the poorest, are able to access the services.

In an earlier research (*Contracts or Partnerships*, WaterAid, 1999), we noted the difficulties in the contracting approach that emerge when implementation is shifted away from governments. First, contracts are rigid and hence limit innovation necessary to suit local conditions and address particular needs. Second, the creation of standards applied across all projects work against poorer communities located farther away from water sources, have little ability to pay, are more vulnerable, and therefore require more investments in time and money beyond what contractual agreements allow. Even NGOs who enter such contract agreements can find

their ability to influence policy, advocate and support the most marginalised stymied by contractual obligations. As a result the contracting approach – which is designed to achieve efficiencies – may actually weaken civil society innovation and the community-based approach that respond to conditions not foreseen by standardised delivery.

It is this community-based approach, which allows for a variety of options to suit the location and the economy, and for a building of a sense of ownership that is all too often missing from any contract with the private sector. As a result, this must still remain a government responsibility, and is currently often fulfilled by not-for-profit non governmental organisations.

Likewise, large-scale, or international private companies, driven by a profit motive, will need assistance with the software aspects of the delivery of water and sanitation. This will need to be provided by the state, if it is to reach the whole population, or those most in need.

Community involvement is central. We urge government, donors and other stakeholders to constantly assess whether this goal, and its various forms like female participation, is being met, especially where a policy of PSP has been adopted. Social mobilisation and community participation equally take time and money. Investments in software need to take equal priority to infrastructure construction. These essential components should be factored into the project design, and made an explicit obligation in contracts.

Box 7 – The poorest often remain invisible

Informal, non-registered settlements are a typical feature of urban areas in developing countries. These are often called “squatter communities” and they generally supply cities with the labour needed by industry and by the elite. Municipal governments may not supply services to these communities because they lack land tenure. There is resistance to supplying services because the installation of water pipes, for example, may be seen as political acceptance of what the government considers an illegal occupancy of land. Other reasons often given include that the land is not fit for habitation (it is flood-prone, part of a street, etc), inaccessibility, overcrowding, or the perception that the poor are not able to pay for the services. These communities without land tenure often remain invisible in city planning. They are not in voter registration lists nor included in national statistics. Consequently, they are not identified or are consciously left out of planning for urban water and sanitation services. They could not even have a voice, because officially, they often do not exist.

Community mapping exercises held in Temeke, the poor area in Dar es Salaam, Tanzania revealed that where waterpoints exist, they are often located where the relatively better-off reside. The poorest are further away physically from the water sources – again because of their invisibility, especially in decision-making.

In Buenos Aires, a review of urban land laws showed how a rational and even well-intentioned legal system can be anti-poor. For example, settlements are prohibited from being built in low-lying areas that are flood-prone. The idea behind the law is clear, but what happens is that it prevents the poor, many of whom have no choice but to settle in flood-prone areas, from accessing water and sanitation services. It is like the prohibition on sleeping under bridges – it is anti-poor because only the poor will be found sleeping under bridges.

In rural areas in Uganda, Mozambique and Ghana, the case studies revealed that private contractors tend to construct waterpoints where it is easier and cheaper for them to do so, and not where the communities may want the waterpoints to be located. One result is that poorer communities – i.e. those living on marginal, inclined or rocky areas – are shunned by the contractors.

There is a great deal of lip service paid to serving the poor. But in reality, they often remain invisible in planning.



Figure 2 –
Women help
each other in
water collection and
child care duties.
(Photo by WaterAid/
Caroline Penn)

Box 8 – Are not-for-profit organisations comparable alternatives to private companies?

The Philippine case study compared three experiences to argue that the takeover by not-for-profit organisations of water and sanitation services – sometimes called “social privatisation” – is a clear and viable alternative to the private or public option. The first case involved a rural community that demonstrated how essential collective action is to the success of a development effort, and in making partnerships with government or donors work. The second case similarly involved collective action, but the key difference is that this co-operative in an urban area managed to develop mechanisms for the efficient economic management of its water system. This economic management is key to this system’s sustainability and competitiveness even under threat from big private companies. The third case is that of a privatised small-town water system financed by the World Bank. It failed because of a number of reasons – lack of collective action, no sense of ownership, lack of community participation, unclear agreements on water rights, and other issues.

Issues and recommendations on financing

A further point of contention in the debate on privatisation is the principle of cost recovery. Linked to this are debates on equally controversial concepts as “community cost contributions” and “willingness to pay”. In general we believe that cost recovery and capital cost contributions are necessary if water services are to be made sustainable over time. However, there are problems in the way these principles are applied, which more often than not, results in denying the poor access to services. These principles could result in technology choices that are too expensive, and a failure to consider that all over the developing world there are numerous cases of poor households independently investing effort and resources for self standing water systems that have been proven to be sustainable. The key problem is that cost recovery and capital cost contributions are managed from a narrow and mechanical perspective that is typically extractive, and not in its wider social sense that is more sensitive to the complexities of poverty and conscious of the role that community action has in the financial sustainability of water systems. A lot more ground needs to be broken in understanding the real issues of cost recovery and capital cost contributions.

In general, cost recovery is an issue for both public and private operation, although it is more acute where privatisation has been introduced. Cost recovery is a central principle behind water

sector reforms. According to some World Bank economists, the surest test that water services are valued economically is that users are willing to pay at least as much as the economic cost of providing them. While water (the resource itself) may be given for free, water services (assets and processes needed for the collection, extraction, treatment and distribution of water) ultimately have to be paid for either by the user (through tariffs) or the taxpayer (through government spending). Cost recovery is essential for the financial sustainability of water services, but on the flip side, cost recovery is often dismissed as a heavy-handed tool for forcing the poor to pay unaffordable levels of tariff.

Closely linked to cost recovery is the idea of willingness to pay. The simple rule is that where there is willingness to pay, cost recovery may be pursued. The problem here is that “willingness” is often measured in ways that do not capture the complexities of poverty. For example, the urban poor in Accra and Dar es Salaam pay as much as five times more than other users per litre to private vendors who fetch water from distant sources. Paying five times more should not be seen as an indicator of willingness, but rather, that there is an alternative. Furthermore, the poor’s willingness to pay should be measured against the proportion of their income spent on water and not against prices paid (see Box 9 below).

Box 9 – A comparison of “willingness” to pay between water consumers in a developed and a developing country

Consumer	Water expenses in actual figures/year	Water expenses as a percentage of household income
London family of four, with two income earners	US\$194.36 paid yearly to Thames Water Plc	00.22%
Accra family of six, with one income earner	US\$156.95 paid yearly to a neighbour with a connection to GWCL (utility)	22.40%

At first glance, the London family has more willingness to pay because they pay US\$37.51 more for their water in real terms. But when expenses are seen as a proportion of income, the Accra family actually pays 102 times more than the London family (22.4 per cent divided by 0.22 per cent). This computation does not include the value of the time that the Accra family spends in the queue for the neighbour’s tap, the value of this family’s children physically transporting the water to their house, and the value of the effort that they put into maintaining good relationships with the neighbour who controls the tap. The value of water to the poor Accra household is lost in the way their willingness is typically measured.

What is also not measured is the so-called “substitution effect” – the impact on the poor when they substitute expenditure on other essentials to meet their water costs. It may be that a child in this Accra family is not going to school because they need to substitute spending on education with the more urgent spending on water. With extremely tight budgets, the poor can only pay for any increase in water expenses by sacrificing what they have allotted to health, food or education. A moral question emerges – should cost recovery in water be pursued at the expense of users’ ability to spend on other essentials like health, food and education?

Finally, a more relevant measure in places where poverty is prevalent is what some commentators refer to as the costs of *not* providing water and sanitation. By not providing these essential services, governments may in fact be spending more on health costs and lost economic productivity in consequence. A key example is the cholera epidemic in Peru in the early 1990s. The country spent an estimated US\$1 billion in terms of lost productivity and in fighting a disease that could have been prevented by a US\$100 million investment in sanitation. Governments in Africa have increased resources allotted for education, but only 10 per cent of school-age children in large parts of rural Africa attend school because among other things, they are needed by their families for water collection or taking livestock to water sources. Without sufficient funding for water and sanitation, spending on other sectoral concerns like health and education is unlikely to achieve its desired impact.

What these point to is that more poverty-sensitive methods for measurement need to be developed. We think these are crucial steps to be taken when confronting the contentious issues on financing, especially because these are necessary steps in designing targeted subsidies that can assist the poor. Subsidies are a typical government (and sometimes donor) response to mitigate the effects of high prices on the poor and are used throughout the world. But it should be noted that often, those who benefit from such well-intentioned subsidies are actually those who are better off. For example, subsidies meant to tide over financially-strapped utilities may save

the day for consumers already connected to the water system, but it does nothing to resolve the problem of connecting those other communities who remain outside the system.

Cost recovery and willingness-to-pay issues emerge mainly in urban areas. An equally contentious counterpart in rural areas is community cost contributions, which trace back to the World Bank’s adoption of the Demand Responsive Approach. When this policy was implemented in Uganda, Ghana and Mozambique, water projects tended to be constructed only in those villages where the local community has agreed to pay for 2-10 per cent of the project’s capital costs. When the private contractors charged with implementing the project experience difficulty collecting the contributions, some simply move on to the next community where the contributions may be more readily available.

Objections emerged, not just to how the community contributions were collected and managed, but to the idea that the contributions were an expression of demand. Many rural communities have seasonal economies that make it difficult for them to have cash available at certain times of the year. The poorest areas in particular have nearly cashless economies. It is also difficult for the poor to turn over their hard-earned cash to private contractors they barely know. It is easy to have suspicions that the contractors have already been paid for by government and are just after additional profits from the communities. The case studies in the three countries accept the idea behind the demand-responsive approach, but reject the imposition of community capital contributions. They instead focus on the need for “social preparation” – that contributions can be collected where communities are already prepared. For unprepared communities other expressions of demand have to be developed such as contributions of time and labour, participation in community meetings or payments in kind (e.g. crops and livestock).

There are arguments for maintaining some form of community contribution – for economic and social reasons. When communities contribute, further projects in other poor areas can be

financed. Also, it undeniably builds a sense of ownership when managed well and when the contributions are spontaneous and voluntary, not enforced and mandatory. There is, however, a fine line to be drawn between a community contribution that encourages a sense of ownership and one that excludes the poorest (who are unable to afford contributions as this would result in substitution) from gaining access to essential services.

Community contributions and user/consumer charges need to be very carefully calculated in order to balance affordability with financial sustainability. The bottom line principle we are supporting, and which was agreed at the Bonn International Freshwater Conference in December 2001, is that cost recovery, user/consumer charges and capital cost contributions should be pursued but should not in any way deny people access to the service. Where there are difficulties in paying, other means – like cross-subsidies, cheaper instalments or payments in kind – have to be found so that poor people need not be forced to pay.

In order to address some of the problems related to contributions, it is essential that providers allow for a wide range of options to suit all users. A lesson we have learned from the case studies is that problems of affordability and ultimately, sustainability, emerge where there is little choice on technology options or financing arrangements. In Mozambique for example, villages of repatriated refugees who have no choice but use handpumps constructed for them by contractors hired by government often end up with having broken and useless waterpoints. These villages have little community cohesion, little capacity, and lack access to spare parts to repair their handpumps when they break down. In contrast, those villages which were given a choice and opted for the more basic well with rope and bucket now have safer and more sustainable water sources, despite being low-tech. In Kathmandu, the principal driver of water prices will be the financing and capital repayment cost of the Melamchi underground pipe tunnel project, but there are no indications that government and donors had exhausted other less expensive possibilities before the decision

was made to proceed with this costly option. Providing choices is important, and a step needed to avoid problems with affordability and sustainability.

There are many cases around the world where complete subsidisation is financially impossible but where the services have to be made affordable and accessible. In such places all the more should additional options be considered, to the point that a degree of flexibility on standards is necessary. In the end, the choice could be between a lower technology option that is more affordable but which can be made reliable and sustainable, and a higher quality, more expensive option that ends up as a financially-draining white elephant.

There is something about capital cost contributions that should be carefully considered and understood. There is a tendency to see capital cost contributions as simply about ownership and buy-in, which emphasise the choice to opt out, especially if it is seen as too expensive. What we are trying to develop is the idea that capital cost contributions be seen and managed as meaningful indicators not only of what may be the most appropriate technology choice for a community, but more importantly, that community's ability to sustain a system over time. It should be remembered that all over the developing world, poor families routinely invest substantial effort and other resources to develop reliable water sources *independently*. There is ample evidence of poor families paying for as much as 100% of the capital costs of their water systems, and it is these household-based initiatives that have been found to have higher rates of sustainability, as studies by the Network for Cost-effective Technology in Water Supply show. Here, three factors should be noted. First, water systems owned and managed along kinship lines presupposes a sharing of values and goals, not commercial or contractual relations, among the water users. Second, there is a desire for collective or co-operative action. And third, the water users themselves choose the technology to use – something that they are familiar with and which they can maintain over time. As such, what we are proposing is that capital cost contributions should not simply be seen from the more limited economic-financial

perspective, but appreciated in a wider social sense as a community's ability to sustain a system over time which takes into consideration the sharing of values, the desire for collective or co-operative action, and the appropriate technology choices.

In summary, a lot more work needs to be done both in understanding financing issues in relation

to the poor, and the tools that may be used for a more pro-poor management of costs, water tariffs, subsidies and contributions. A main argument of this paper is for greater detail, enabling more informed discussion and decision-making, to be made available in settling issues around financing.

Box 10 – Tariff options recommended by NGOs in Kathmandu

<p>The setting of tariff levels is a balance between financial need and political judgement. It cannot be set on financial needs alone, as it can trigger events like that in Cochabamba, but neither can it be set only on political considerations. There are a number of pressures for both a low tariff and a high tariff: in Kathmandu, these pressures are as follows:</p>	
<p>Tariffs are kept low, because of pressures to:</p> <ul style="list-style-type: none"> • Allow poor people to meet their basic water requirements at a non-exorbitant cost, i.e. at a maximum of 3% of their income • (in the case of block tariffs) relieve the poor of the greater burden they carry when sharing a connection with neighbours 	<p>Tariffs are raised, because of pressures to:</p> <ul style="list-style-type: none"> • Allow the utility to function without subsidy from government and thus have autonomy in its operations. • Raise revenues to pay for maintenance, rehabilitation and expansion of the network • Discourage wastage, especially in a situation of water shortage for many households
<p>The NGO Forum in Kathmandu proposes a two-tier water tariff that combines recognising water as a human right with the need to manage it as an economic good, as follows:</p> <ul style="list-style-type: none"> • Water priced as a basic requirement – the consumer only pays for operation and maintenance costs. Six cubic metres per household per month are delivered at a cost of around Rs 180 (US\$2.40), which is equivalent to 3 per cent of the mean income of poor households. • Water priced as an economic good – the consumer pays for the full cost, which includes operation and maintenance, financing, capital repayment, cross-subsidy, and regulation cost, and also the levy to Melamchi Valley residents. This will be charged for all consumption in excess of 6 cubic metres per household per month. <p>This tariff structure could meet the objectives of social equity as well as utility effectiveness. Limiting the basic water requirement to 3 per cent of poor households' mean income is reasonably pro-poor, and can be supplemented by public tapstands. But one objection is that it makes billing more complex and increases the potential for corruption. However, at present there are as many as 60 different tariffs, depending on class of consumer, size of pipe, and volume consumed. The proposal simplifies the system for domestic users.</p> <p>A further objection is that by charging only for operation and maintenance costs, any operator trying to make a profit will be loath to supply poor households where the cost of installing a connection cannot be reclaimed. Government must supplement this by subsidising those who cannot afford to pay for the connection costs.</p>	

Issues and recommendations around institutional reforms

Institutional reform is the last of the four areas where we believe urgent action is needed. In a narrow sense, institutional reforms are processes and changes necessary to stamp out corruption and inefficiency in water and sanitation utilities. In a wider sense, institutional reform covers regulation (protection of the poor and the environment), transparency and accountability, and ultimately, good governance. Our research traced the failure of utilities – both public and private – to the lack of monitoring, benchmarking, quality control and supervision or target setting by both political authorities and consumer representatives. Accountability mechanisms are ultimately the means to combat corruption and inefficiency. Also carefully considered institutional reforms are needed to manage what is often a difficult transition from the old to the new roles and rules.

Anecdotal evidence on inefficiency and corruption in developing countries can be overwhelming, as shown by our desk and case studies. These failures need to be identified, in order that they can be seriously confronted. These include the following:

- Non-revenue or unaccounted-for water in Manila, Buenos Aires, Dar es Salaam, Mexico City, Accra and Kathmandu reaches 40 per cent or higher. This means that for every 100 litres that the respective water utilities send out, at least 40 are lost through leaks or illegal connections, or are not paid for due to inefficient billing and collection. The poor are often accused of being the biggest water thieves. But as it turns out, most water theft is committed by those with the necessary political connections. The supply pipes to Dar es Salaam have been described as “like a porcupine” punctured with so many illegal connections. Water supplies in some Metro Manila areas are deliberately cut, so that water mafias can make a killing selling water delivered by trucks to helpless households. Response times to repair pipe bursts can be measured in months.
- Public water utilities in these cities have high staff-to-connection ratios. A common explanation is that hiring decisions in these utilities are left to political discretion, not based on merit or efficiency. The standard of efficiency is to have four employees for every 1000 connections. Some of the cities we studied had, at some point, over 25 employees for every 1000 connections. It was not unusual to find a crew of eight repairing a leak that could be done by one person. Payment slips had to be checked, cross-checked and countersigned by at least four different persons, increasing not only bureaucratic procedures but also opportunities for corruption.
- In rural areas of Uganda, Mozambique and Ghana, many handpumps break down within three months of construction. Most efforts to get the contractors to repair them (a task that they guaranteed in the contracts they signed) proved to be futile as local communities are not given the contact details of these contractors, and local governments have no capability to enforce the guarantees.

It is important to recognise these failures within the context in which they took place. There is a danger of simply attributing them to lack of competence in developing countries. It should be remembered that developed countries went through similar phases as well. What spurred the British to make their water systems more efficient and to set up sanitation systems were the cholera epidemics that debilitated that country's economy in the 1800s. The public water utility in Washington DC, as mentioned earlier, nearly collapsed due to inefficiency and financial problems as recently as the early 1990s. Then there are other peculiarities of context to consider, such as different models of development. Tanzania and Mozambique, for example, were initially organised as socialist economies with central state planning, where water was provided free of charge or heavily subsidised.

Box 11 – Philippine Water Districts: some early attempts at reform

Long before the World Bank started putting pressure on Least Developed Countries to implement institutional reforms, the Philippines took bold steps to de-politicise and make water and sanitation provision more efficient. In 1973, one of the first policies signed into law by President Ferdinand Marcos after declaring martial law was to replace the old National Water and Sewerage Authority (NAWASA) with the Metropolitan Water and Sewerage System (MWSS) and to create Water Districts in the larger municipalities outside Metro Manila. MWSS and the Water Districts were institutionally – and financially – autonomous bodies, accountable to elected and appointed public officials. To support the Water Districts, a Local Water Utilities Administration was created which functioned as a low-cost lender and provider of technical support services. Water Districts were created in over 400 cities and municipalities and became hugely successful in meeting their mandates. What made the difference was that in their autonomous existence, the Water Districts operated under the principles of economic viability, without undue political interference. They invested where it made sense to invest, maintained staff-to-employee ratios that were efficient, and met clear performance targets on billing, collection and repairs. Professional managers with clear mandates, not political appointees accountable to their masters, ran the utilities.

However, there was a legal challenge to their status. A case filed in Philippine Courts argued that Water Districts violated a Philippine law that prohibited government-owned bodies from being incorporated as limited companies. In 1991, the Supreme Court upheld the challenge and effectively ordered Water Districts to be re-municipalised.



Figure 3 – Barrio San Martin, beside the polluted Reconquista River in Buenos Aires. (Photo by Eric Gutierrez)

To further appreciate the need for institutional reforms some background information is necessary. Before privatisation, rural and urban water supply was the responsibility of central government agencies. Funding for these public works was administered centrally, largely from donor funds. By the early 1990s, there was near-universal agreement that this form of delivery and the institutions that managed it were preventing rather than facilitating access to water to ever-increasing numbers of people. Even when not saddled with corruption and inefficiency, centralised delivery of services prevented responsiveness to users' needs and situations. Centralised services were also unable to repair and rehabilitate waterpoints quickly enough, forcing people to go back using unsafe water sources. Clearly, something had to be done.

During this time, governments across the developing world were being coaxed and forced by donor governments to improve governance. A fundamental reform of governance was undertaken. Decentralisation became the banner call, and central government delivery mechanisms began to be dismantled. In several countries, regional and district-level water and sanitation teams were established in the rural areas. In towns and cities, utilities were pushed towards institutional autonomy, though not financial independence. Later still, local government authorities were given responsibility to plan and allocate resources for providing water supply and sanitation facilities.

Within this decentralising institutional environment, a further reform was introduced – that of changing the role of the state from direct provider to facilitator or enabler of services. Services would then be provided by the private sector – whether commercial for-profit or non-profit – as the state was rolled back. Thus, water sector reform packages had as one of their key planks the involvement of the private sector. The uniformity of this particular reform element across the different countries we studied, regardless of the differences in political, economic and social context leads us to conclude that this system of service provision follows a model imposed by multilateral and

bilateral donors, either as part of the structural adjustment loan packages from the IMF and WB, or as explicit conditions attached to bilateral aid.

Changing the role of government, whilst at the same time effectively reducing its capacity (through reductions at central level, but not increasing personnel at the local government levels), erases benefits that could be gained from decentralisation per se (such as responsiveness to people's needs, greater accountability, etc). But there seems to be a gross error in expecting that weak decentralised agencies of government would quickly learn all about tenders and other forms of private sector contracting, and be able to keep track, monitor and supervise the activities of contractors fanning out beyond the provincial capitals – it is not unusual to find one-person district or local government water and sanitation “departments” with no funds or vehicles to move around a vast area where public transport is at best irregular.

In the rural areas we studied, this changing role had a detrimental impact on the poor's access to services. In Mozambique and Uganda, work contracted out to private drilling companies has not always been up-to-standard. Some work is so far below standard as to render the finished waterpoint useless. District water units that have the responsibility to supervise and monitor the work of the contracting companies and to make sure that they follow agreed standards are unable to do so. In Uganda, the district water and health teams that are supposed to monitor, as well as to mobilise communities to become involved in the development of their water supply service and help ensure its operational sustainability, are stretched to breaking point and unable to undertake the work. What results is a mixture of escalating prices for contracted-out construction work, sub-standard and deficient products which guarantee un-sustainability even over the short-term.

It is not hard to imagine that sub-standard work will cost the community more – for repairs as well as costs associated with the return to unsafe sources and the time and effort to collect water from these sources. Poor communities are left with an unreliable and costly service. This is a

supreme irony, given that one of the reasons for involving the private sector was to improve the efficiency of the service and to increase service coverage quickly.

The rural case studies also show that there are, so far, no improvements in accountability. In some respects, accountability was compromised in the dilution of responsibilities that accompany

the changes in roles. Because projects are contracts between governments and contractors (communities are technically not a party in the contract), the supposed beneficiaries are in no position to seek redress for sub-standard work. Accountability is lost in the commercial/contractual, quick-fix arrangements of private sector involvement.

Box 12 – Why the United States could not privatise its water services, even if it wanted to

The Washington DC desk study raised the question of the United States' – host to many institutions promoting free market policies and privatisation – inability to privatise its water and sanitation services on the scale seen in France and England and Wales. A number of answers are presented:

- France has a far stronger private sector that emerged from over a century of public-private partnerships. Because of circumstances peculiar to that country, the arrangement in France is that municipalities owned water and sanitation assets while contracting out various aspects of the operation to private companies. As a result, there were hundreds of small private companies in France providing the services, which over the years merged and grew into what are now the world's biggest water and sanitation multinational utilities. Because of this history it is no wonder that French multinationals are the largest in the world and dominate more than three-quarters of the world's private water market. The United States does not have this kind of history. Enron's attempt to be a major water player ended up in failure.
- The water industry in the United States is fragmented. For example, the water system in the Washington DC area (pipe networks, treatment plants, pumping stations, etc) is owned by different municipalities. There are layered and overlapping responsibilities between local, state and federal governments. Even if all these bodies were to co-operate, a sale of assets or full divestiture to the private sector would be extremely complicated. In contrast, the water industry in England and Wales was consolidated into regional water authorities in 1974. For each delineated region, a single public authority took ownership of assets and control of operations. Thus, it became easy for Margaret Thatcher to sell these regional water authorities when privatisation was adopted in 1989. The regional water authorities became the British water multinationals – Thames Water Plc, Severn Trent Plc, Anglian Water Plc, and so on. Unlike in France however, these companies were prohibited by regulation to merge or buy each other out. In England and Wales they can only operate within the boundaries of their region, but these companies can operate abroad, and hence have provided competition for the French multinationals. They can also be bought out by companies from overseas. Thames Water for example, is now owned by Germany's RWE.
- The Clinton administration in the US had a different view of privatisation. He wanted government to deliver improved services at lower cost, using market-oriented techniques. This partly explains why a public but efficiency-maximising water utility was the option taken in Washington DC in 1996. Today, privatising public water and sanitation utilities are decisions for state and local legislatures to take, not the federal government.

This comparison of experiences in the United States, England and Wales and France shows that the imposition of privatisation to create a change in roles among public and private bodies is problematic, unless the appropriate local conditions are present. There is much to learn from these experiences in the rapid introduction of PSP to developing countries.

The two institutional issues raised here – one of capacity to monitor and regulate, and the other, redress for failure of service – are not, however, peculiar to private sector involvement. Equally, a publicly-delivered service will require monitoring and/or scrutiny and some form of regulation, be it in the form of quality supervision/quality control, or the use of benchmarking or target-setting (e.g. reduction of unaccounted-for water) by politicians and independent representatives of consumer interests. It is in part the absence or weakness of these functions that has led to the gross inefficiencies and deterioration of public water supply services – an absence or weakness that will similarly lead to the same problems if the private sector is involved. The absence of mechanisms for direct accountability to consumers contributes to the atrophy of public water services. Where natural monopolies and profit from services are the bottom line, there is an even stronger case for direct consumer accountability so that the interests and welfare of the consumer of the service are safeguarded.

It should be noted that there is often a fine line between undue political interference and the pressure for accountability. It is true that many water utilities in the developing world have been weakened by politicians who have used them as bargaining chips or as leverage for unscrupulous ends. Utilities that are at the mercy of their political masters' whims have been witness to investment priorities being skewed to benefit the political and economic elites, rather than to expand services to areas where they are most urgently needed. At the very least, it is an inefficient use of resources. At worst, it is a means to perpetrate social injustice. Yet complete non-interference by political authorities may also be unacceptable, or at worst, an abrogation of responsibility.

The Kathmandu case study brings home very powerfully the reality of the need for independence of the provider from undue political interference. On the other hand, the Washington case study provides an example of desirable political interference in the operations of a public utility, which forced the utility's managers to improve services under threat of privatisation. In this particular case, the scrutiny function of Congress enabled a negotiated

definition of utility efficiency that marked the pathway to improvement. The Buenos Aires case study shows that the involvement of a private operator does not in itself depoliticise water and sanitation provision. Aguas Argentinas had to contend with, on one hand, the terms of its original contract that stipulated it should serve everyone, and on the other, the political reality that slum communities are effectively barred from receiving a service due to existing contradictory legislation.

It is tempting to conclude that beneficial political interference works only in established democracies. Perhaps it is more accurate to conclude that "political interference" which arises from the transparent and institutionalised scrutiny functions of elected representatives of the people – national parliaments, district assemblies – is ultimately a good thing. We have not reached a final conclusion on this, and consider this issue to be one of the pieces in the monitoring and regulation puzzle. This function, as discussed in the previous section, becomes more important where utilities are run by private operators. How well regulated or monitored public or private operators are, affects to what extent they are able to serve the poor.

Capacity-building, in the case of Uganda and Mozambique is of a more fundamental kind – the need for more personnel in local authority water and health departments to undertake monitoring, supervision and community mobilisation. In the case of Dar es Salaam and Kathmandu, capacity-building relates to the creation of networks that can engage in the processes of privatisation, the access of these networks to information, as well as the means by which complex information received by these networks can be translated and explained to users, particularly the poor, who will ultimately bear the brunt of privatisation decisions.

It is clear in the Kathmandu case study that poor people's interests need to be actively championed, not just by civil society, but by the different participants in a privatisation process, including consultants and advisers hired by government to help establish the process. In this case, an adviser was hired to ensure that the urban poor in Kathmandu would not be left

unserved as operation of the utility passes to private sector hands. The readiness of a civil society network to rise up to the challenge of engagement in the process, rather than staying outside the process and criticising government for failing to serve the poor, provides a model of civil society activism on this issue. Privatising services is a complex affair and many governments are ill-prepared to manage the process, and are probably as ill-informed as civil society participants, who are usually outsiders to the process. Civil society participants, working to strengthen the hand of government by assisting in whatever way appropriate (for example, in commenting on tender documents prepared by external advisers), increase the likelihood that the particular shape of the service privatisation will further the interests of the poor. This requires a corresponding openness in government to this type of involvement by civil society.

In contrast, the Ghanaian government is managing the privatisation process for Accra and a cluster of town centres in a different way. Instead of opening and creating space for public consultation on the privatisation of urban water services, it chose to close down debate. Its own action spurred a campaign against privatisation by a broad swathe of Ghanaian civil society. This was then successful in opening public debate on the issue, a year after the start of the process.

It is irresponsible for governments to choose not to discuss what after all is a historic re-arrangement of the way public services are delivered, especially when there are real threats that under the new arrangement poor people could be excluded from a basic service; penalised for being poor and unable to pay. It is in the interest of government to involve a broad constituency, especially one which represents the interests of the poor, and poor people themselves in the shaping of privatised basic services.

There are both technical and political reasons for wider institutional reforms and rearrangements of relationships. Politically, a failure to inform, consult and involve people in shaping services is likely to result in civil strife. That is one of the lessons to be drawn from the experience of Cochabamba. By informing and opening up

avenues for dialogue with the wider public and with the poor, government will be in a position to engage the resources of society to deliberate how best to deal with problems of limited resources, huge investment needs, and providing services to all, including the poor. There are difficult equations to balance and conflicting interests to manage. Failure to inform and involve the public and civil society in understanding what is at stake inevitably leads to further complications.

The technical reasons relate to information gaps which must be filled when designing the service, be it publicly or privately operated. Very few governments in the developing world really know the precise state of their water network, what water resources and providers are being tapped by people, and how to establish service subsidies that are fair and will reach those who really need to be subsidised. Involving organisations of the poor and wider civil society would help to bridge the information gaps.

The discussion above reflects the level and quality of relationships that need to be established and strengthened for any privatisation process to be successful in providing services to the poor. The key relationship is between the public entity (that decides on whether to privatise or not and establishes the particular privatisation arrangement) and the community and their civil society champions (who will be directly affected by these decisions). Dialogue between these stakeholders needs to be continuous, especially since as the Manila and Buenos Aires studies show, ensuring that the interests of the poor are catered for does not end with the signing of even the best PSP contracts. Ensuring the interests of the poor is a product of continuous negotiations.

Relationships between the private operator and the community and their civil society champions also need to be established, partly for technical reasons mentioned above, but also because it is these stakeholders who are ultimately the customers who must be served. As has been explained by Tearfund in another research document (Tearfund 2001, Community Participation in Urban Services), it is ultimately in the interests of business that it is aware of the

complexities of poverty and the role that it can perform in the longer process of development.

In conclusion, the involvement of the private sector in the delivery of public services will require new rules and roles for different

stakeholders. These all require the strengthening of capacities of all stakeholders, opening of access to information, and the creation of new relationships, as well as structures for those relationships.



Figure 4 – Five-year-old girl in Mozambique carrying water container on her head. (Photo by WaterAid/Caroline Penn)

Summary and conclusion

The role of the private sector in water supply and sanitation is increasing. In rural areas, more and more donors, multilateral agencies and governments are mobilising and funding the private sector to undertake a range of activities as state agencies and public bodies are rolled back or dismantled. In urban areas in developing countries, the increasing level of private sector activity is attributable more to a perceived failure of public utilities, rather than due to the demand created by natural market forces. New roles and new rules are created in this rearrangement of relationships between the state, business and civil society in water and sanitation provision.

In this research, we have probed into the impact of this rearrangement on the lives of the rural and urban poor in developing countries. We identified four areas of concern, where the rearrangement may imperil the reliable, affordable and sustainable access of the poor to safe drinking water and adequate sanitation – capacity-building; community participation and transparency; financing and monetary considerations; and institutional reform.

Our foremost concern is the impact of the new rules and new roles on capacity-building in the poorest areas around the world. As state agencies are scaled down and private companies called in to take over their roles, there is the real danger of irreversibly losing public sector skills and capacity in water and sanitation provision. This is not necessarily a bad thing – after all, why not give a public service function to those who can potentially do a better job of it? But what we have noted is that such a change of roles may become a realistic option only where market structures are better-developed, where rights and entitlements are universally respected, protected and enforced, and where sufficient data to inform decision-making exists.

In rural areas, the focus of promoting private sector involvement appears to be at the expense of public sector capacity-building. PSP is enforced as a condition for aid, grants or loans,

even where the local private sector itself is virtually non-existent, or so weak and nascent that it needs capacity-building programmes themselves. Weak, under-resourced and under-staffed government bodies are expected to take on the new role of facilitating and supervising new rules in the delivery of services, and to monitor activities that they can barely keep pace with. Changes are enforced even with little or no local government understanding of what the changes are all about.

In urban areas, the key issues are governments that are ill-prepared to manage PSP processes, the lack of regulatory capacity, and the absence of information needed for adequate regulation. Where privatisation processes are ongoing, over-worked and under-paid civil servants are thrust into the role of negotiating with jet-setting representatives of multinational companies, some of whom resort to the most subtle forms of bribery to gain an advantage over competitors. Despite adherence to certain corporate codes of ethics or professions of commitment to sustainable development, there remains a corrupting influence when high-spending companies enter an environment of poverty, and negotiate with the humble civil servant using all their wealth and sophistication.

What we believe is needed is for government to develop the capacity to shape policy reform according to the interests of their citizens, to regulate services, to provide guidance and to process grievances from whichever side they originate. Equally, civil society needs to develop the readiness and capacity to engage in PSP processes, rather than stay outside as intransigent critics who may have valid reasons for opposition but who offer no real, workable alternative. Civil society groups, we believe, when sufficiently enabled, are in the best position to monitor activities and generate information. In some instances, they can be not-for-profit entities that can offer themselves not just as charitable alternatives but as credible competitors to the profit-seeking private sector. The private sector too should be the target of capacity-building,

especially in terms of how to engage civil society meaningfully and to understand the complexities of poverty.

Our second concern revolves around people and participation. It is quite unfair that even when fundamental roles are being changed, the poor generally remain in their old role – invisible, passive recipients of development. This undermines the effectiveness of development. Decisions and contracts are made *for* them, they have little role in their formulation. They barely even have knowledge of the contracts. Social mobilisation and community participation are often treated as burdens – as bureaucratic procedures to dispense with – and not essential components without which projects will fail. In fact, it is quite unfortunate that donors became concerned with the impact on the poor of the rearrangement of relationships only as an afterthought, once they had already proceeded in promoting and enforcing PSP policy.

By its nature, there are inherent barriers to the profit-motivated private sector's understanding of the needs of the poorest sectors of society. In the rural areas we studied, the private sector is not prepared for this role. Companies are contracted to construct water points or build latrines, not engage in the longer term process of development. They are more interested in laying the bricks and mortar, and getting paid for it, not in building any sense of ownership. The private sector's relationships are short-term commercial and contractual, not long-term, strategic solidarity partnerships. It is thus not surprising that in rural areas, poor villages wake up to construction crews coming in who have little accountability for the service or product they deliver. It is not surprising that in urban areas, the public is the last to know about private sector contracts being negotiated.

Some transnational utility companies have become more flexible than municipal governments in delivering services to squatter communities and informal settlements that lack land tenure. Likewise, in some big cities, their entry has become the biggest threat to well-entrenched "water mafias" who keep prices up and public services inefficient. These companies are to be praised for their innovations, but what

appears most crucial to the success of such arrangements is the existence of community organisations. Community organisations negotiate on behalf of the poor, and make it possible for agreements to be carried out. Especially in the poorest areas, community organisations are indispensable social institutions. This was illustrated most vividly in the Buenos Aires case study.

We believe that building a sense of ownership and maintaining an environment of transparency will always be a government responsibility. Investments in community participation and social mobilisation should be prioritised as much as physical infrastructures. Finally, more work needs to be done to ensure that community participation and social mobilisation are built into the design of PSP processes.

Our third concern deals with the issues of financing. We are highly critical of the measurements most extensively used by donors when making cost and financing decisions, because they often do not capture and are insensitive to the complexities of poverty. Donors and lenders will talk about operation and maintenance costs, capital repayment costs, financing costs and other costs that lead to inevitable price increases. Often missing from the discussion is how the poor spend substantially higher proportions of their incomes on water expenditure than those who enjoy better economic standing. While financial analysts are hired to look into cash flow projections and revenue streams, not enough attention is given to quantifying the value of time lost and effort spent in queuing at five in the morning at the neighbour's tap, or opportunities lost when children are not sent to school because they are needed to make a daily six hour round trip bringing livestock to water sources. The risks to private investors are evaluated using the most sophisticated economic and financial techniques; the risks to communities (and government) of corporate wrongdoing are not tabled for discussion. The idea of capital cost contributions for rural projects is introduced and enforced almost exclusively along a mechanical economic-financial perspective, without consideration for the real reasons that have made poor families to routinely invest substantial effort and other

resources to develop reliable water sources *independently*. As a result, the more important tasks of building shared values and goals, of developing co-operative effort, and of providing appropriate technology choices is missed. This also results, in many instances, in insufficient consideration of the reality that villages have nearly cashless economies, particularly during months when crops are growing. Policies for collecting contributions are made without considering how difficult it would be for poor peasants to give their hard-earned cash to strangers.

Despite these inherent problems in the way cost recovery and capital cost contributions are implemented, we still believe that these are acceptable, even necessary principles, but should never be made a barrier especially for the poor to access services. In rural areas, capital cost contributions can build a sense of ownership when managed well and when it is spontaneous and voluntary, not enforced and mandatory. In urban areas, the poor can become good customers because they know more acutely the value of reliable and safe water supplies. It is in this area where detailed, practical and workable solutions are more necessary than statements of principle or fiery rhetoric. In this synthesis, we presented detailed recommendations for dealing with cost recovery issues in Ghana and Nepal. We discussed the need for developing instruments to measure substitution effects and the costs of not providing water and sanitation services. We mentioned that subsidies targeted for the poor can best be designed when costs are broken down into their more specific components. Our case study on the not-for-profits implementing the alternative of social privatisation show the limits of evaluating costs from a narrow and mechanical financial perspective. We have also advanced the idea that capital cost contributions ought to be seen and managed as a community's ability to sustain a system over time.

Affordability is always a complex issue. We observed in the course of the research that in urban areas high costs are not necessarily due to profiteering gone wild today, but to lack of maintenance and investment yesterday, or when price increases were kept low so that an

incumbent government would not lose favour with the electorate. Private companies become easy targets to the charge of excessive profiteering; public officials responsible for unwise, whimsical investments are often already conveniently out of office when the impact of their decisions is most acutely felt. It is important to always be conscious of this wider picture when discussing affordability.

To deal with affordability, we also saw the need to go back and start from the technology and financing options on offer. It is important to consider cheaper technology options and less expensive financing schemes. Problems of affordability, and ultimately sustainability, emerge where there is little choice of technology options or financing arrangements. When the hard decisions on charges finally have to be made, it will inevitably involve balancing financial need with political judgement.

Beyond the discussion of cost recovery, we argue that money spent on water and sanitation goes a long way, bringing not only economic but also health and education benefits. Safe water and adequate sanitation mean greater economic productivity, a healthier population and more children in school. It therefore merits being given higher priority in the financial allocations of donors and governments.

Finally, our fourth and last concern centres on institutional reform. We defined institutional reform in its narrow and wide sense. We traced the failure of utilities – both public and private – to the lack of monitoring, benchmarking, quality control and supervision or target-setting by both political authorities and consumer representatives. Mechanisms of accountability are ultimately the means by which problems of corruption and inefficiency can be solved.

A difficult task related to institutional reform is determining between “beneficial” and “undue” intervention by political authorities in decision-making. Complete non-interference can be desirable, but can also lead to the dissolution of accountability. These are part of the monitoring and regulation puzzle that is yet to be understood.

Institutional reforms are also about the new roles and new rules that emerged with the active promotion of PSP. It is important to see these new roles and new rules fully, and look at how the transition from old to new is being managed. Again, we need to emphasise the absolute importance of regulation and the inescapable fact that water and sanitation reform is reliant on sound government.

In effect, we are calling for a new approach. For lack of a better term, we call this a *context-determined approach*. It is characterised by a starting point that is local – i.e. the problem is established and defined within the local context being considered. It does not start from a general principle, or from a set of abstract prescriptions on what ought to be done. It instead tries to develop tools and solutions from the particular local context. This approach is yet to be developed and elaborated on, but is not entirely devoid of theoretical foundations. In fact, it finds many affinities with institutional economics, as opposed to free market economics. “Institutions” in this sense, are understood as the collective acts that “establish relations of rights, duties, no rights and no duties”.

We are encouraged by the fact that institutional economics is finding more room within the World

Bank. On the whole, however, we see free market thinking as remaining dominant within the Bank (as shown by its recently released and updated Water Resources Sector Strategy) and other donor institutions. We hope that the findings of this research project, meant for practical purposes and carried out by practitioners, will be listened to and perhaps open new discussions on theoretical issues as well as the practical ones.

But what we are most hopeful for is that a multistakeholder review of PSP – similar to the review process undertaken on dam construction – can get under way. This proposal is one of the more important outcomes of the International Freshwater Conference in Bonn (December 2001). There remains a fundamental divide over PSP: on one hand is the considerable scepticism and outright opposition to increasing PSP in water and sanitation services delivery, while on the other is the nearly universal promotion of PSP by donors. We believe that it is only through a multistakeholder review of this kind that the final, authoritative, and legitimate word on this debate can be made. It is only through a multistakeholder review that the question of whether PSP benefits the poor – under the new roles and new rules created – can be definitively answered.

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