



New roles, new rules - does private sector participation benefit the poor?

BRIEFING PAPER

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Introduction

Few would disagree with the need to see significant reform in the water sector if the Millennium Development Goals of halving the proportion of people without access to water and sanitation by 2015 are to be achieved, especially if it is the poor who are to gain access to these services.

However, the thrust of water sector reform so far has been the promotion of private sector participation. This is contentious and radically reshapes basic relationships between governments, business and civil society across the developing world. The heavy promotion of this single strategy fails to address more fundamental issues in the sector that are vital for both future public and private operations.

In collaboration with Tearfund [another UK-based development NGO] and part-funded by the Department for International Development, WaterAid has probed into the impact of this rearrangement on the lives of rural and urban poor communities in 10 developing countries. WaterAid's research has highlighted four areas of fundamental concern that need to be addressed if the new arrangements between governments, business and civil society are to work. Failure of these new roles and new rules will undermine the provision of reliable, affordable and sustainable, safe drinking water supplies to the poor.

Capacity-Building for Reform and Regulation

WaterAid's foremost concern is the impact of the new roles and new rules on capacity-building in the poorest countries. As state agencies are scaled down and private companies are called in to take over their roles, there is a danger of irreversibly losing public sector capacity to deliver water and sanitation services. Should the private sector choose to withdraw from a country this could leave the public sector unable to formulate alternative arrangements. This is a critical issue, especially in the poorest countries where there is little commercial viability to sustain private sector involvement.

New government roles need to be developed for shaping policy reform according to the interest of citizens, regulating services (whether public

or private) and processing grievances.

National governments, international donors and financial institutions should focus their effort in water sector reform on those stakeholders who remain on the ground in the direst of situations – municipal governments, public utilities, small-scale entrepreneurs and civil society organisations.

With political will and institutional commitment, locally-made solutions are possible. There is a need to develop frameworks in which civil society and the private sector can work together. Civil society needs to develop the readiness and capacity to engage in private sector contracting processes. The private sector on the other hand, especially small-scale operators, should be encouraged to engage with civil society meaningfully and understand the context of extreme poverty they operate within.

Institutional Reform

WaterAid's second concern centres on institutional reforms. WaterAid's research has 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 with which problems of corruption and inefficiency can be dealt with.

People and Participation

WaterAid's third concern is around the participation of poor people. It is inexcusable that as basic roles change, the poor generally remain in their old roles – invisible, passive recipients of development. Decisions and contracts are made *for* them, not *with* them. More often than not, they do not have access to contract information.

The private sector is and will always remain a valuable player. But it exists in order to secure contracts and operate commerce, and is therefore typically unprepared to deal with issues of poverty. The private sector is contracted to undertake particular jobs – 'to lay the bricks and mortars' – not to engage communities in building a sense of ownership of projects or to collaborate on long term development. The key to any partnership's

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The international NGO dedicated exclusively to the provision of safe domestic water, sanitation and hygiene education to the world's poorest people.

success is the presence of community organisations that negotiate on behalf of the poor, as private companies – big or small – do not themselves have the expertise in the long-term solidarity partnerships necessary in the poorest countries.

Governments should maintain responsibility for building a sense of ownership and maintaining an environment of transparency. Investments in community participation and social mobilisation should be prioritised as much as those in physical infrastructures.

Costs and Conditionalities

WaterAid's final concern deals with financing and cost recovery. We are critical of the arithmetic extensively used in decision-making on costs and financing because it ignores the complexities of poverty.

Donors and lenders base water tariffs on cash flows and operational, maintenance and financing costs. The costs of **not** providing water rarely figure in the determination of tariff. These costs include the medical treatment of water-related diseases, economic productivity lost due to them, and loss of education due to children fetching water instead of attending school. Current systems also require capital cost contributions in rural areas, even where villages have nearly cashless economies, particularly during months when they are waiting for crops to grow. The result is the anomaly that poor households have to spend a significantly larger proportion of their incomes on water than those who enjoy better economic conditions.

WaterAid believes that cost recovery is a sound principle provided it does not become a barrier for the poor to access services. In rural areas, capital cost contributions can build a sense of ownership when managed well, and when they are spontaneous and voluntary, not enforced and mandatory. In urban areas, the poor can become good customers because they are acutely aware of the value of reliable and safe water supplies. However, it is important that costs are set at an affordable level so they are not priced out of the water market.

Affordability is always a complex issue. In urban areas, today's high costs are not necessarily due to profiteering, but to the lack of maintenance and investment. To make water schemes affordable, it is important to consider cheaper technology options and less expensive financing schemes at the outset.

Private sector participation has been made a precondition for the provision of finance, either loans or grants, to poor developing countries. We believe this should be changed to conditionalities that the interests of the poor are served, proper consultations are undertaken, all options are considered, and capacity-building is built into the process.

Conclusion – A Multi-Stakeholder Review of Private Sector Participation

A number of informed observers and academics maintain that private sector participation is desirable, as long as there is sufficient regulation. WaterAid agrees that this statement is true in itself, but maintains that it is also misleading, because in reality there is very little regulatory capacity in developing countries. It would be more accurate to say that private sector participation is not yet as desirable as it should be, because in most developing countries there is still insufficient capacity for regulation, lack of community participation, lack of enforcement of rights and entitlements and underdeveloped markets.

The private sector has a crucial role to play. However, WaterAid is concerned that water sector reform strategies have been one-sided and will not achieve the necessary conditions where the private sector's role and value, especially in serving the poor, can be maximised.

From WaterAid's research and case studies, there is little evidence to show that the transition from old to new roles in the reform process has been successful. The most important stakeholders on the ground – municipal governments, public utilities, small-scale providers and civil society organisations – are typically not yet equipped for these changes. Promoters of water sector reform have paid insufficient attention to the needs of these key stakeholders, assuming that private sector participation will in itself produce the necessary environmental changes.

WaterAid is calling for a new approach that critically analyses the greater role of private sector participation in all its different manifestations and the new roles and new rules created by water sector reform. WaterAid supports the creation of new roles and new rules, provided they do not harm the poor and that they improve the poor's access to affordable, reliable and sustainable water and sanitation services.

In order to understand, develop and support new roles and new rules, WaterAid supports the call for a Multi-Stakeholder Review of private sector participation, similar to the concluded review process undertaken on dam construction through the World Commission on Dams. The call for a Multi-Stakeholder Review was first raised at the Bonn International Freshwater Conference in December 2001. There remains a fundamental divide over private sector participation. On one hand is considerable scepticism and outright opposition to the increasing private sector involvement in water and sanitation services delivery. On the other is the nearly universal promotion by donors of PSP policy. In our opinion a Multi-Stakeholder Review is essential to answer the question of how best private sector participation will benefit the poor, and in order that a set of guidelines may be developed, to which all stakeholders can adhere to.

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