

HOW CAN THE PRIVATE SECTOR HELP PROVIDE ACCESS TO DRINKING WATER IN DEVELOPING COUNTRIES?

Lise Breuil and Aymeric Blanc give a mixed review of public-private partnerships in the water sector. Based on AFD experience – support to sectoral policies and implementation of best management practices – the authors consider that the private sector has still not fulfilled its role in terms of extending networks and policies that are favorable to the most disadvantaged populations. They do, however, underscore the benefits that have been gained from the introduction of private interests – particularly in terms of clarifying the roles and responsibilities of the different players.

Can Public-Private Partnerships Benefit Populations Excluded from Water Services?

Although public-private partnerships may have achieved relatively disappointing results in terms of extending access to water for poor populations, the arrival of private operators has nevertheless often allowed authorities to better define their public service objectives and give a political dimension to access to water for all. International operators also constitute a source of innovation and make it possible to tailor supply to the poorest populations; in future, local entrepreneurs will have to fully participate in this objective.

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Throughout the 1990s – during the heyday of public-private partnerships (PPPs) – one of the conditions for donor intervention was often that national water distribution companies in developing countries were opened to the private sector. Although the issue of the future of disadvantaged populations may not always have been clearly dealt within the framework of these partnerships, there were a number of more or less implicit expectations concerning them; first, financing provided by the private sector would undoubtedly increase the supply coverage for the population, second, productivity gains achieved by private management and by competition would improve financial equilibrium in the sector, and the poorest would ultimately benefit as this would bring down tariffs.

Private sector involvement did benefit poor populations, either directly – via the extension of water networks to unserved populations – or indirectly – by drawing the attention of the authorities to the need to focus on access to a service for all in the framework of a more equitable sectoral policy, and also by providing the technical and social innovations required to integrate the poorest populations. However, twenty years of experience of PPPs have produced mixed results.

Globally negative results for the poorest

The first obstacle to providing widespread access to water is the cost of connection to the network. In this context, the most favourable policies for poor populations are those that increase their supply the most. Private operators involved in PPPs have often promoted individual connections to the detriment of standpipes; as early as

1974, the national water distribution company in Côte d'Ivoire financed distribution networks and made some 350 000 connections between 1988 and 2006. This example was followed by Senegal – 130 000 social connections between 1996 and 2006 – Niger and Burkina Faso.

Although access to a connection may have been the meeting point between population demand and a commercial model led by the private operators, the development of this policy did remain limited. Indeed, the lack of financing for networks led to connections being targeted in neighborhoods that were already connected, to the detriment of the poorest that were often located in the outlying areas of cities. This underinvestment – which was sometimes attributable to the State in cases of affermage – was detrimental to the extension of primary and secondary networks to remote neighborhoods and limited the impacts of social connection policies. These policies also failed to make progress as a result of the low capacity of populations to save enough to pay a bi-monthly bill; a number of disconnections (70 000 in Côte d'Ivoire) were observed during the period that followed connection. Service provision mechanisms implemented by PPPs cannot disregard the characteristics of demand which is often unstable and precarious.

Private sector involvement sometimes went hand in hand with tariff increases due to the need to recover costs. Progressive block tariffs were implemented by most PPPs with a first subsidized social block for low monthly consumption – supposed to be that of the poorest. But these systems showed mixed results; the practice of “neighborhood ...

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... sales” where the poorest users sometimes consume more than the subsidized amount due to the high number of people per household and end up in the highest tariff blocks. In some cases, these tariff blocks can have pernicious effects – particularly in concessions – because they do not encourage supply for small consumers. In the Senegal affermage, to avoid this bias the average price paid to the operator is the same for every cubic metre sold, whether it be in the social block or in a more profitable block.

Finally, the arrival of the private sector sometimes led to the disappearance of existing cross-subsidization systems. PPPs were often accused of focusing on supplying rich neighborhoods – in urban areas – while the State kept entire responsibility for disadvantaged neighborhoods – in rural areas. It consequently cancelled out the advantages of solidarity among these regions which implied losses in tax revenues, and thus worsening in regional disparities. This “creaming off” effect explains why ideological anti-privatization movements were so virulent in developing countries and why popular opinion took such a negative view of these reforms¹.

In most PPPs, the poorest consumers were consequently the ones that lost out the most: social connections often targeted neighborhoods that were already supplied, tariffs were not reduced proportionately to the productivity gains achieved, and equalization among services or users sometimes disappeared without being replaced by specific subsidies to support the most disadvantaged. Finally, policies to disconnect bad payers were tightened.

Private sector participation, a factor for clarification?

Paradoxically, PPPs often acted as a catalyst by introducing a discipline that was beneficial to water service management and defining developmental objectives that aimed to provide populations with access to essential services. These objectives had been less-well formulated prior to the implementation of PPPs because the poorest had little political representation. This clarification of everyone’s respective objectives, roles and responsibilities can, of course, take place in the context of well-regulated State-owned companies. But it becomes essential in the framework of PPPs – which require a clear sharing of risks.

The poorest populations often have a deficient political representation; this situation is worsened by practices of corruption that favour economic and political elites during “privatization” processes (Auriol and Blanc, 2009). In this context, introducing a private partner makes it possible to define objectives to be achieved and estimate their cost, often *via* a financial model shared among players in the sector meaning a realistic financing strategy can be adopted and the contract can subsequently be regulated. On this basis, it is consequently up to the government to make new political commitments, provide the resources required to finance network extension in sometimes remote neighborhoods – *via* tariffs if the equalization system allows it, otherwise *via* public subsidy or earmarked grants. International donors have also increasingly focused their attention on pro-poor Output Based Aid mechanisms: direct financing paid to operators on the basis of the number of social connections made, grants earmarked for certain neighborhoods to extend supply, etc.

Since the 1990s, government strategies in some countries using PPPs have changed considerably: they have shifted from the simple target of stabilizing public finances and have taken on board a social dimension that integrates issues relating to access to essential services for poor populations – in connection with the increasing concern of the international community and the Millennium Development Goals launched by the UN in 2000. Even when PPPs have failed, the experience of the partnership has often led to new reflection on public goods, and accessibility to them for the vast majority, and has helped the role of the State to evolve. This was, for example, the case in Mali following the election of President Amadou Toumani Touré in 2002 and the withdrawal of Saur in 2005.

Once the political orientation has been defined – between fiscal concerns, effectiveness and equity – the difficulty then lies in implementing effective and credible economic regulation to give ...



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¹ According to a 2003 survey conducted by Latinobarometro of 19 000 people in 18 Latin American countries, these reforms generated 80% of negative opinions (see <http://www.latinobarometro.org>). Boix (2005) and Carrera et alii (2005) can also be consulted on this point.

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... economic players long-term incentives and avoid daily and discretionary political interventionism. In Senegal, the affermage contract coupled with a performance contract made it possible to control losses and recovery rates (Blanc and Ghesquière, 2006). The subsidy policy for new connections, the freeze in the level of social tariffs (offset by an increase in the tariff for public establishments), or extensive solidarity between users and regions (over a quarter of revenue collected is used in the cross-subsidy system) demonstrate a strong political will. The latter has led to the implementation of a sector regulation mechanism which today seems able to withstand any political vagaries.

Private sector adaptability and innovation capacity

Ad hoc local solutions need to be found to supply poor neighborhoods, which most of the time come under a sort of contractual gray zone that obliges operators to manage in contexts where implicit and ambiguous situations rule. Traditional approaches do not work in these “unconventional” neighborhoods where there is often no legal security (housing is often illegal) and no financial security (inhabitants have unstable and fragmented income).

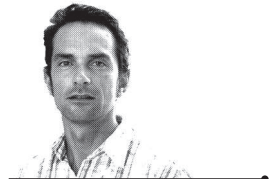
International private operators have managed to innovate in this context by bringing in third parties: NGOs, social intermediaries, or even local small-scale private service providers (SPSPs) that are in a better position to provide a service tailored to a specific demand. Some international private operators have taken the initiative to launch social programs bearing the torch of a vision of corporate responsibility. The reasons that motivated them were commercial (how to improve the image of the company), political (uncertainties about the possibility to manage a long-term service in a city while neglecting certain neighborhoods) and pragmatic (how to combat illegal connections or the spread of water-borne diseases from slums). Innovative PPPs consequently came into being, often during the life of a contract, by developing a “participative” component that integrated the interests of poor populations. In other cases, innovation focused on technical sales systems: how to integrate the user into the chain of

services, prepayment meters to reduce management costs relating to poor clients and a culture of non-payment, etc. These PPPs consequently helped provide differentiated services tailored to the needs of poor people, and a social and technical alternative to the “universal network” as it is perceived in developed countries.

Beyond this professionalization in the social engineering of international private operators, the development of local small-scale private service providers adapted to the market of small and medium-sized cities or peri-urban areas would, finally, appear to be a core issue for the renewal of PPPs in the water sector in developing countries in order to make them more favourable for the poorest. The local private sector is admittedly already very present, but remains widely informal. In order to promote the emergence of an effective local private sector that can grow, make economies of scale and become professional, it is essential to set up a dialogue on technical standards by adapting donors’ bidding procedures and, more generally, through measures that promote the institutional transition of these informal players. Indeed, the issue of regulating the heterogeneous services of these small operators does appear to be essential – as much for reasons concerning the management of water resources as for public health or social justice reasons. In many cases, private sector innovation – which is essential in order to supply the most disadvantaged populations – will allow services to be tailored to realities in the field. The local private sector has a key role to play, provided it grows, becomes formal and manages to regulate its services. ●

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