

Developing Inclusive Public-Private Partnerships:
The role of small-scale independent providers in the delivery of
water and sanitation services

by

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October 2002

Prepared and Presented at the
'Making Services Work for Poor People'
World Development Report (WDR) 2003/04 Workshop
held at Eynsham Hall, Oxford

4-5 November 2002

1 Introduction

Seen from one perspective, it is a curious notion that the concept of public-private partnerships in water and sanitation was applied in developing countries. The PPP originated in high-income countries, in the context of power and plenty: strong institutional capacity, extensive service networks and infrastructure, a mature private sector proven in its efficiencies and management capacities, and appropriate and enforceable regulatory frameworks. Shifting from the existing public provision of services to some form of public-private partnership was, in the main, a process of *transfer* – transfer of a functioning, universal service that usually extended to most urban residents and came with a well-established cost recovery system.

How different the context in low-income countries is: chronically weak public institutions, deteriorating infrastructure limited to core urban areas, an immature and unproven formal private sector, low rates of cost recovery and a weak regulatory context. The service delivery problem in low-income countries is concerned with massive service extension and significant upgrade often in informal settlements on marginal land, addressing customers with limited access to formal systems and reliant on alternative delivery mechanisms. The process is one of *development and reform*. The problem at hand includes some of the key aspects and causes of poverty: institutional weakness, political marginalisation, entrenched inequity and a bias in the allocation of resources.

Without significant change, the PPP concept developed in the context of power and plenty was applied to this weak environment. In some cases, PPPs have delivered benefit over and above the public sector efforts and perhaps even improved the supply trickling down to poor areas, but many PPPs have actually resulted in increased activity in the non-poor rather than poor areas, many have marginalised the poor and some have reduced the poor's access to adequate services.

This unfavourable side of PPP outcomes is commonly attributed to a number of factors. The incentive structures of these arrangements may not encourage the private sector to launch into the problems of delivering services in poor areas – ostensibly because arrangements have not been developed to tackle service inequities. Improvements in service delivery to the poor have often been an indirect result of improved efficiency – targeting has not always been on the agenda; and policy, legislation, regulation, and contract design have not been tailored to promote a pro-poor structure to the PPP. Typically, exclusivity, service standards and tariff structures have not worked to the benefit of those that need the improvements most.

The fundamental premise underlying private sector involvement in water and sanitation services is that experienced international operators can bring skills, know-how, management practices and technologies that lead to greater efficiency and effectiveness. It is noticeable though, that these operators *do not* bring with them knowledge of and an ability to work with the poor – or an understanding of poverty. Yet, in the context of public-private partnerships in low-income countries, getting services to poor people is one of their most significant functions.

In most cities with ailing public sector provision that task has been carried out by a fleet of small-scale providers, many operating within the informal sector, quite independent of the utility. The profile of these providers varies significantly from city to city as they have developed in response to local conditions and social, institutional, political and legislative constraints. Despite their limitations and differences most offer decades of experience delivering a service and a vast knowledge of poor people's preferences.

This paper suggests that the conventional PPP framework should be transformed to become a more appropriate and practical vehicle for service delivery in poor contexts. The paper firstly introduces a wider livelihoods perspective of the service needs of the poor. It looks past standard utility criteria to consider other factors that affect the way poor urban households access services. It then considers how these requirements are met by alternative forms of service delivery, juxtaposing these with the network utility service and illustrating the important role of existing small-scale independent water and sanitation providers in fulfilling the diverse requirements of the poor. The final section outlines some of the policy, legislative and institutional constraints to such change, and suggests that it is time efforts were placed on resolving some of the thorny issues that have resulted in exclusive rather than inclusive partnerships.

2 Learning from the past, listening to the poor

The experience of the formal private sector

The large-scale private sector brings with it a wealth of skills and experience in water supply and sewerage: quality, network distribution, efficiency, as well as the particulars of policy and regulation, contract provisions and tariff regimes. In many cities, the focus of the private operations has been on the development of a viable system, benefits have accrued from improvements to the primary and secondary systems. Due to superior management practices, technologies and (sometimes quite significant) investment, improvements in bulk water supply, treatment processes and better overall operation of the distribution system has led to considerable reductions in unaccounted-for-water and improvements in the reliability, quantity and quality of water in the city. These benefits often include the overall supply into low-income settlements.

The experience of private operators delivering tertiary level water and sanitation services in poor areas however is still relatively limited. In many of the early PPPs, improvements in low-income settlements were programmed for the future. Where operators did promote household connections for the poor, initiatives were typically carried out in legal, planned and easily accessible settlements. As a result of these efforts some households who can afford the price of the connection and the monthly bills are, for the first time, able to access adequate water supply; and in those instances where tariffs and subsidies have been applied carefully, some poorer households have benefited as well.

Many operators, however, are constrained from or choose not to work in informal settlements, seriously restricting the improvements that have been made at the tertiary level and their experience of working with the poor.¹ With exception, few operators have considered existing small-scale independent providers (SSIPs) as a potential resource at the tertiary level. Few have considered the possibility of enhancing these services in a structured programme of *incremental* upgrade; and few have restructured their operations to include organisations that know about and can support the poor. The involvement of both SSIPs and civil society are still very much a matter left for pilots and a few innovative projects.²

Differentiating poor from non-poor consumers

Apart from their own efficiency goals, a utility typically considers the service being provided in terms of quality, quantity, cost and convenience, and they apply these criteria to both poor and non-poor consumers. Most operators have not yet fully grasped that the decision-making framework determining the poor's consumption and access to water supply and sanitation services is very different from the non-poor. Yet understanding the needs of the poor service consumer and the ways these needs are satisfied, provides crucial information for policy-makers and operators to make services work for poor people. Through a range of poverty assessments describing the perspective of the poor, it is possible to highlight some of the characteristics that differentiate poor from non-poor service consumers.³ A few examples are included here for illustration:

- One of the key findings often overlooked by utilities is the **diversity** of demand amongst the poor: there are great differences in the capability, vulnerability and capacity of low-income groups. Urban areas, communities, neighbourhoods, and households encompass vastly different levels and experiences of poverty. Yet, utilities (whether public or private) have repeatedly referred to 'low-income' communities as an homogeneous group. In practice, most urban poor communities are heterogeneous and there is significant difference in the way households prioritise services and fund service expenditure. To improve access for all, service delivery must respond to the diversity of their problems, needs and priorities.
- Within households there is also a **variability** in service consumption that differentiates the poor consumer from the non-poor: the poor modify their service needs to minimise expenditure in lean times (perhaps the result of seasonal work) or during a crisis (such as retrenchment, death or

¹ In many cases new management has also resulted in service options being removed and not replaced.

² The utility SODECL in Cote d'Ivoire has made a particular effort to include SSIPs, and the tri-sector partnership pilots of the Business Partners for Development initiative have included civil society actors in different forms. See for instance the Buenos Aires Concession (urban water supply and sanitation) and the South African BoTT (rural water supply).

³ While general in nature, the information in this paper is derived from PPAs carried out over the last 5 years. See for instance, Poverty in Vientiane, Plummer and Foppes-Ayamuang (2000) GHK Working Paper.

illness). Most poor households, whatever their income, cut back on services to reduce their outgoings as a key part of their survival strategy.⁴ They eliminate the purchase of higher quality water (such as bottled or piped network water), they may (re)establish illegal forms of supply and they reduce water consumption (e.g. washing less frequently). They may also opt for less convenient ways of obtaining water (carrying distances rather than purchasing at their dwelling) and they return to their preferred means of obtaining water when the crisis subsides.

- Many poor women are concerned with issues of **safety and security** in relation to services. They modify the way they collect/obtain water or access sanitation services depending on the degree of risk involved. Households concerned with personal safety (such as young girls in dangerous settlements in Botswana) may seek out services that can be delivered to the home, or at a suitable time of day, to avoid being ostracised or harassed at communal facilities. Many Muslim women in West Africa are not allowed, for cultural reasons, to collect water from communal standpipes;⁵ and many suffer severe health complaints because of restrictions on ablution. Changes in service delivery can also result in less security in living arrangements. Many poor households in India have opted for communal toilet blocks that do not attract wealthier households to a neighbourhood.⁶
- The most vulnerable households are susceptible to exploitative and marginalizing behaviour on the part of water providers. The types and degree of **vulnerability** varies significantly in relation to household and non-household level services, communal and private services and on the nature of the provider. In Vientiane, for instance, the household connections obtained by some households are a mixed blessing for their vulnerable neighbours and tenants – they offer a more convenient water supply at lane level but reinforce the dominance and power of their wealthier neighbours (see Box 1). In other countries, the lack of water in homes has enabled vulnerable women to find peer-support in communal kitchens, support that is lost when the more convenient household connection is installed.

Comparing service options

Within the limited field available to them, the poor are able to deliberate over supply: where they get their water, what sanitation services they use (if they use them) and why they choose those forms of service (if they get to choose). This must be the starting point for any discussion over the roles of service providers in PPPs. Low-income communities depend on a range of providers and evidence suggests that individual households do not stick to one provider, rather to the extent that they can, they pick and choose to suit their changing needs and budget.

Other than the main utility or government department, the range of water providers serving the poor includes:

- standpipe and water kiosk operators and other providers distributing at communal water points;
- water resellers;
- water carriers (vendors and tanker drivers); and
- independent network providers.

The diagrams in Table 1 provide simple illustrations of the benefits of a range of different providers. In relation to the affordability, quality, quantity and convenience criteria, we see what we would expect: high quality, quantity and convenience comes at a price; and conversely, for communal services, lower quality, convenience and quantity that the poor can purchase at lower prices. Both fill a particular need. However, if we introduce some of the factors specifically relating to poor consumers – vulnerability, flexibility, informality and security – we begin to see that the benefits of each service option vary quite substantially. Standpipes offer benefits far beyond low price, resellers and carriers can respond to convenience and security requirements and all alternative service providers offer poor consumers a flexibility not achievable with the network service. These factors begin to explain why some poor households select one service option over another, why they are willing to pay high prices for some (lower level) services and why, if they have more than one option, they may even change that provider on a daily or weekly basis, according to the household member collecting, the season and the time of day.

⁴ As women often take responsibility for water supply within the household (HH), it is often an early cutback that is made, as it does not require negotiation with male HH members.

⁵ *A Synthesis of Good Practice in sub-Saharan Africa* compiled by Kariuki, M et al (forthcoming) WUP.

⁶ Programmes of infrastructure upgrade in Indian cities have resulted in the poorest households being pushed out of settlements in core areas because of a process of gentrification.

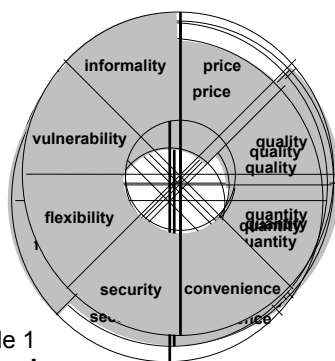


Table 1
Service

options and the requirements of the poor consumers

	Benefits	Problems
Standpipes and Water kiosks (communal service)	<ul style="list-style-type: none"> Affordable Accessible in informal settlements Low investment means illegality may not be an issue Vulnerable generally not threatened by operator Flexible – service is optional, customers can choose when and how much they wish to purchase 	<ul style="list-style-type: none"> Quality will vary with water source Quantity will vary with bulk supply to settlement and functioning of water point Inconvenient – water must be carried some distance, time spent for women key factor; high opportunity cost Can be insecure and unsafe for women
Household resellers (lane level service)	<ul style="list-style-type: none"> Available in informal settlements Flexible–consumer can vary use Safe – service provided to house Convenient – if water is piped to neighbouring houses Quality – may be the same as network 	<ul style="list-style-type: none"> Costly – can be high price as resellers often aim to cover their own water consumption Vulnerable – HHs can be exploited and excluded by reseller especially where no other options available Quantity – will vary
Water carriers (household level service)	<ul style="list-style-type: none"> Flexible – service is optional Convenient – household service Safe – household service Available in informal settlements Vulnerable HHs – not marginalised as long as they can pay retail provider 	<ul style="list-style-type: none"> Costly – due to transportation Quality – will vary with water source, no guarantee it will be from the network Quantity – will vary with carrier (low quantities with carts, higher quantities with tankers)
Network services (household level service)	<ul style="list-style-type: none"> Quality – generally safer than other forms of water supply Quantity – generally better but will vary with bulk supply to settlement Safety and security – household service is safe (security may be threatened in some circumstances) Convenient – household service [Affordable service – if subsidised] [Vulnerable HHs – not liable to daily exploitation or manipulative] 	<ul style="list-style-type: none"> Costly – often unaffordable to poorer households (unless subsidised) Flexibility – none Not normally accessible in informal settlements Vulnerability – HHs vulnerable if policy to disconnect

In any context, it is therefore critical to identify those factors that influence which service options poor households choose. To make services work for the poor it is necessary to recognise that the poor household's decision-making framework in relation to water and sanitation services is about balancing a wide range of shifting concerns and requirements.

Box 1: WATER RESELLING IN VIENTIANE⁷

Most households in Vientiane have some form of running water supply. A significant proportion have obtained formal metered water connections from the utility (Nam Papa). These may be some distance from their dwelling, located on the closest road. Water is piped through semi-permanent $\frac{3}{4}$ -1" pipes above ground connecting to a private tap located beside or under the dwelling. Most other households obtain their water from these 'connected' neighbours by paying a fee of between Kip 5-15,000 per month (\$0.5-\$2). HHs with a Nam Papa connection may supply between 4-10 households in their area, and most subsidise their own water entirely, or perhaps even profit, as the neighbourhood water-seller. While many of these informal selling arrangements are amenable and beneficial to all parties, others are conflict-ridden, especially when those with water are relatively wealthy. Control over water supply gives these wealthier households significant control over the livelihoods of others and a powerful means to dominate the neighbourhood. When disputes arise within the neighbourhood, the water-selling HH frequently exerts its right to cut-off the supply to other HHs.

Neighbours do not collect water in plastic buckets, but water is generally piped through flexible hoses from the neighbours tap to feed drums or large pots in the adjacent houses. Each household purchases their own hose at a price of Kip 8,000 (\$1) per metre. A $\frac{1}{2}$ " hose can cost over half the price of the $\frac{3}{4}$ " piping and metered service provided by Nam Papa. In the evenings pressure is poor, and consequently fresh water is often stored for long periods (and creates a breeding ground for malarial mosquitoes).

Despite these problems, this method of sharing/accessing another HHs private connection is relatively successful, providing a cheaper alternative than an individual meter. Recently, groups of households have initiated a more equitable system of setting up (communal) meters and then accurately sharing the cost of monthly bills. Nevertheless, the lack of any communal supply means that the very poorest people have no direct access whatsoever to water and many have not established a regular system of access, but work out what they will do to drink on a daily basis.

Apart from this system of water resale, the most notable aspect of domestic water supply in Vientiane is the enormous dependency of the poor on bottled water. There is little trust in the quality of the water provided by Nam Papa and the water utility advises on boiling all water before drinking. Apart from the very poorest group, most will buy bottled water for drinking purposes. Using average figures and based on an average income of Kip 200,000 per month, the poor allocate 7.5% of their income to the costs of providing water to the household.

The potential roles of independent and small-scale service providers

Alternative service providers offer both lessons and vehicles to ensure service provision at the tertiary level is uninterrupted and accommodating. Utilities, especially those in a state of flux and undergoing a shift to private sector operation need to consider how they can integrate these providers to create a partnership that has an expanded range of options and coverage, a partnership that promotes and does not eliminate choice, a partnership that develops services through incremental and sustainable action. Efforts should be placed on:

- identifying each service option, its scope and coverage;
- examining the ingredients of these alternative service offers and considering the benefits of each service from the perspective of the poor;
- considering how these service options fill gaps and supplement the utility in the short and medium term;
- establishing potential roles for these providers in a PPP; and
- planning how SSIPs can become an integral part of the city-wide water and sanitation system.

The potential roles of small-scale providers (as seen from the perspective of the poor) are provided in table 2. Evidence from a wide range of poverty-focused activities in various sectors has shown that incorporating and enhancing established small-scale delivery mechanisms can be critical in the success of new public-private initiatives, countering the potential impacts on the most vulnerable groups,

⁷ Extract from Plummer and Foppes-Ayamuang (2000), op cit.

facilitating immediate improvements and interim arrangements. The large-scale private operator thus becomes a lead partner, targeting their skills and experience where they are best placed and drawing in the skills and experience of others to create solutions that meet social, physical and financial objectives.

Table 2
The Potential Roles of Small-Scale Water Providers: A Livelihoods Perspective

<p>To allow flexibility of consumption •</p> <p><i>Small-scale providers generally allow low-income households to vary their consumption. The (informal) supply system allows the poor to opt in or out of the service. Water supplied by standpipe attendants and water carriers is a consumable that can be varied on a daily basis – the choice is with the household. Purchasing from resellers may commit households to a greater degree but they are normally able to discontinue/resume consumption without significant loss. Small-scale provision means that the poor can (and do) use different qualities of water for different types of consumption.</i></p>
<p>To provide flexibility in payment •</p> <p><i>Small-scale providers generally allow a level of flexibility in payment terms and conditions far beyond the scope of the utility. These terms are structured in regular (daily or weekly) payments to suit the way the poor manage their money. Payment is convenient as it is always collected within the neighbourhood. The SSIP may also provide a source of short-term (although high interest) credit during lean times. Utilities, on the other hand, require customers to pay up-front charges, make payments after long (monthly/quarterly) intervals and make trips (during their working day) to pay at central offices. The poor struggle to manage their finances, regulate their consumption and are rarely given any flexibility for the time and place of payment.</i></p>
<p>To promote security and personal safety •</p> <p><i>SSIPs working at the household level (resellers and carriers) might offer a level of security and safety not associated with communal services. Many small-scale providers are willing to meet the specific needs of households (e.g. time of delivery) to keep them as customers. Reselling through piped supply systems, no matter how simple, offers a form of household service that can provide safety at night (particularly for women) and an alternative to communal facilities.</i></p>
<p>To provide services in informal and problematic conditions •</p> <p><i>Small-scale providers are able to deliver (carry, truck or resell) to the poor whether the land is marginal, hazardous or physically difficult; and the settlement illegal. Informal settlements comprise up to 50% of some cities and the lack of service within these areas is a critical gap filled by small-scale providers.</i></p>
<p>To provide options for vulnerable households •</p> <p><i>In those situations where a policy of disconnection is enforced, the network supply can make vulnerable households more vulnerable. If utilities enforce exclusivity clauses and remove service options, vulnerable HHs may lose access to services. In some countries water reselling is not exploitative but in others it is a means of marginalising the most vulnerable. Other options such as communal water kiosks, and water carriers provide an important alternative.</i></p>
<p>To provide affordable services •</p> <p><i>The cost of household (private) connections is often unattainable by the poorest households, who then need to access an alternative form of supply. The recurrent costs of water (and sewerage) bills can be prohibitive if the pricing and subsidy system is not structured to enable them to consume and pay within their capacity. Poor HHs also fear the unknown costs of water-borne sewerage and facilities. Many poor households pay more per unit of water bought from water carriers and resellers than they would from the utility – but they do so because the utility service may not meet all their needs.</i></p>
<p>To expand the choices available •</p> <p><i>Collectively, small-scale providers provide poor households with choice. Choice is critical to their coping strategies and to the development of an empowering approach to service delivery. When PPP initiatives rigidly promote network provision for all and remove existing service options, they are inevitably marginalising the very poorest groups.</i></p>

3 Redefining PPPs to become inclusive partnerships

This overview of the potential roles of small-scale independent providers in relation to the livelihoods of the poor may make a case for more inclusive water and sanitation PPPs, but it should not imply that this is straightforward. In an historical context where both the poor and small-scale providers have been marginalised and excluded, it is necessary to develop a strategy to move in this direction: to create the policy environment, to remove legislative barriers, to build capacity and to change attitudes. A number of problematic issues will need to be resolved.

Thorny Issues for including SSIPs in Public–Private Partnerships

Typically, **policy and legislation** both hinder the involvement of small-scale providers. Even in those countries that have developed a legislative framework for formal private sector provision of water supply – there are still huge barriers preventing service to the poor. Governments must aim to create a policy framework that not only aims for long-term universal service provision but also includes for the enhancement of the SSIP role. At the heart of the *success* of small-scale providers is the *problem* of their informality. The lack of legal recognition of their function needs to be reconsidered and steps taken to facilitate legal standing. Once in place, this legal standing will also facilitate the monitoring processes that are critical to enhance the level of service delivery.

Efforts should be placed on developing a better understanding of what the regulatory environment for small-scale providers should be. **Regulating** small-scale providers within the PPP will concern price, quality and entry. A key factor constraining SSIPs⁸ is commonly the framework of **performance standards** established by the government or utility to promote safe water supply. Often unattainable, outdated and concerned with piped supply, these standards do not account for the heterogeneous nature of the communities being served – for their differing needs, capacities to pay, or the possibility of alternative service providers delivering an intermediate form of service. Revising standards and ensuring their relevance to local conditions is urgent. In practice this may mean introducing standards that do not jeopardise health and hygiene objectives but allow for intermediate levels of water supply and on-site sanitation for the poor in the short or medium term.

A key issue that must be resolved is **exclusivity**. In early PPPs, the exclusive right to deliver services within a defined area was a central tenet of the contract with the private sector. It was considered vital to commercial viability, to safeguard the operator against true competition of equals, but was then applied to include the smallest water vendor and sanitation worker. In some countries there is growing recognition that this clause is inappropriate. In Manila, in order to promote consumer choice, the operator has agreed to allow small-scale providers to participate in the delivery of services for a defined period. Best practice suggests that it is necessary to remove exclusivity – that more options do not affect the private operator's profit and can assist achieve targets when it is part of an incremental improvement plan to maintain access and extend network services.

Contracting SSIPs can be straightforward – many have service or franchise contracts with utilities – but in order for a small-scale provider to be paid by a municipality or utility, they need a **contract**. This can require registration as a business (or some formalisation) however bureaucracy often overwhelms and blocks entry for willing entrepreneurs. It is likely, for instance, that registration will require a fee, legal and financial management assistance (see Box 2 illustrating the water tankers in peri-urban Lima). It may require efforts to address the lack of organisation, coordination and skill to function within the formal context; and it can require umbrella organisations to safeguard the interests of their members. The development of SSIP associations has proven useful as a means to interact with large-scale operations and to introduce forms of self-monitoring.⁹

Existing **tariff regimes** are frequently focused on network water supply and sewerage. Many regimes severely penalize the poor or promote disincentives for improving access to the poor.¹⁰ Even those that provide subsidies and social pricing often result in benefits only for those that are connected. The subsidy for connection costs typically marginalizes those that do not live in formal settlements or do not wish to commit to a recurrent payment regime. Within the scope of a sensible framework, charges must be set for different categories of consumers and different levels of service, and take into account the alternative forms of service provision. This should also provide the opportunity for regulating pricing by all

⁸ Inflexible performance standards also constrain efforts to develop network services in alternative ways e.g. condominium systems

⁹ See for instance the Tanker and Vendor Associations established in Lima and Cote d'Ivoire.

¹⁰ e.g. the combined water and sanitation tariff applied to poor consumers that are not connected to the sewerage network.

providers, removing some of the exploitative practices of some small-scale providers while ensuring that the tariff regime does not create disincentives for incremental improvements and long-term objectives.

The lack of **land tenure** in settlements occupied by the poor and those serviced by SSIPs, places severe restrictions on the type of services provided in the existing context and future scenario. Addressing land tenure issues must be placed high on the policy agenda. Efforts can be made to facilitate better access by developing interim solutions and planning administrative action (e.g. guaranteeing occupancy for 10 years, creating better awareness of de facto security of tenure and establishing mechanisms for granting land tenure once barriers are removed). Different options need to be explored in relation to the very different institutional, legal and policy contexts. Small-scale providers need to be given explicit and unambiguous permission to deliver services to people in informal settlements and thereby remove any fear of reprisal from authorities.

Box 2: WATER TANKER SERVICE DELIVERY IN PERI-URBAN AREAS OF LIMA, PERU ¹¹

In the late eighties, informal settlements in peri-urban Lima were riddled with water and faecal-borne diseases because of the poor water quality and arid conditions. The creation of a partnership in 1990 involving the municipality, communities and the small-scale independent water-tanker drivers (together with a successful community mobilisation programme) has contributed to significant upgrade in the quality, quantity and reliability of water supply to poor residents and a sustainable alternative in settlements not connected to the network.

The inclusion of small-scale providers at the core of the partnership acknowledged that the ad hoc tankers represented an asset and not a liability to be discarded. The strategic design of the programme (with EU support) included these small-scale water suppliers as a vital link in the utility delivery process. Efforts were made to regulate the quality and price of the water supply to ensure that delivery became fair, viable and sustainable.

Perhaps the most significant step in this process was the formalisation of the water tanker provision, through registration as small businesses and the development of tanker driver associations. The new system requires that the tanker drivers obtain treated water from one of the four official pumps provided for this purpose by the Lima water utility. Although sometimes insufficient in quantity, this water is of the same quality as that supplied to the city network. The tanker drivers pay the utility per tanker filled. The tankers are annually contracted by the community management organisations to provide water to local storage reservoirs, to which a small independent network has been constructed. The tanker drivers are paid a fixed amount agreed by the community and regulated by the municipality.

These small enterprises vary. Some are single owner-drivers; others are local businessmen with 5-10 tankers, employing 10-20 workers. In order to ensure ongoing work, the businesses maintain their tankers regularly (although there is some concern about some of the hygiene standards). At the city level, the Directorate of Environmental Health carries out monitoring of the quality of water supplied at the pump and the conditions of the tankers. The municipality regulates and monitors the service at the local level.

Initially operated for some years in the informal sector, a key characteristic of these enterprises is their lack of managerial and administrative capacity. They have had few opportunities for developing skills in formal accounting and management or technical proficiency. Consequently, they lacked knowledge of their responsibilities as water distributors and in relation to taxation and fees.

Despite initial scepticism, the tanker drivers now state that there is little difference in their after-tax profit and that becoming formal sector businesses has improved their access to credit and enabled them to fund business expansion. It has also allowed them to expand their client base to include commercial customers (not just the community organisations in the local settlements) and to create jobs for unskilled and semi-skilled local workers. They argue that the main benefit of the arrangement for them is their legitimacy, primarily reflected in their being able to purchase good quality water from the water utility, and thus ensure their own sustainability as service providers.

Defining workable relationships

For a PPP to work successfully, experience suggests that stakeholders need to understand each other's objectives and interests and respect the potential contributions of other partners.¹² This requires a friendly environment, a learning approach and a desire on the part of all partners to broaden sometimes narrow fields of vision. It may require efforts to remove mistrust or disrespect and to build new relationships based on the ultimate goal: that all actors have vital contributions in the delivery to the poor; that there is a solution of best fit which is more inclusive than the government or the conventional public-private mix; and that without these contributions, the poor would suffer further. It also requires that all partners, including the formal private operators, can see how they will benefit.

¹¹ Extract from *Focusing Partnerships: A Sourcebook for Capacity Building in Public-Private Partnerships* Plummer, J. (2002) based on a case study by Ecocuidad (2001).

¹² *Flexibility by Design: Lessons from Multi-Sector Partnerships in Water and Sanitation Projects* Caplan, K. et al (2001)

Although there is a strong argument for a basic division of roles in relation to public, private and civil society sectors,¹³ there is no fixed formula for this inclusive form of partnership, the final arrangement and allocation of roles (the balance between state and non-state, large and small-scale) will always be dependent on context, the actors involved, their capacities and the level of cooperation that already exists. It is the spirit of inclusion that must first be disseminated.

Central to the development of this more inclusive partnership approach is the development of capacity to initiate policy and legislative change and for **strategic planning** at the city level to precede PPP development. Efforts in the water sector have often been isolated. Through the development of more strategic approaches PPPs must now be linked into urban governance and poverty reduction processes. And whereas, in the conventional form of PPP, the capacity building of the public sector was a primary concern, in this broader partnership approach, capacity building must be focused on a broader range of actors. The private sector needs to become more attuned to the development process to which it contributes and the service delivery task it is entrusted with. It needs to develop skills to understand the nature of the demand in the low-income market,¹⁴ to work with the poor and the providers and organisations that already support them, to learn how to make services work for *all* the poor.

More capacity is also required to develop *meaningful participatory processes*. The inclusion of **civil society** organisations is an essential and non-negotiable aspect of this inclusive form of partnership.¹⁵ Civil society plays a crucial role in ensuring the accountability of government, utilities and SSIPs, and plays an important binding role.

- The NGO sector can act as capacity builders sharing their knowledge of the poor. They can champion and articulate the interests of the poor and provide an interface and entry point to communities. NGOs are probably best equipped to understand a community's resources and how to integrate these into the overall formulation and development of the PPP arrangement. NGOs often have experience that enables them to understand the role of SSIPs in service delivery to the poor, and to facilitate institutional arrangements that bring SSIPs into partnerships.
- Communities and consumer organisations can participate in decision-making to ensure that solutions are relevant. They can also participate in the construction process, in the management, operation and maintenance of installed services and in long-term financial sustainability arrangements. Through organisations and networks, consumers themselves must take on a role in regulating the partnership.

An important aspect of the approach proposed here is the need for skilled public sector management and for better understanding of urban governance processes. Managers at the local level must bring together very different actors and emphasise the importance of these integrated, strategic and participatory approaches to service delivery. **Local government** is therefore cast into an even more onerous role in this inclusive form of PPP, they need to improve coordination, management, monitoring and communication skills and to develop appropriate organisational structures and procedures. With support, national government needs to ensure that the regulatory environment, institutional structures and policy frameworks enable municipalities to act and that obstacles preventing effective implementation are removed.

A final note

It has taken some time for public-private partnerships in developing countries to begin to respond to the nature of the environment in which they operate, yet surely all public-private partnerships in developing countries must be 'pro-poor'. There is a need for PPP policy to catch up with the purpose for which it is intended – to promote a form of public-private partnership that is appropriate to the resource-deficient, poverty context of developing cities. In order to scale up water and sanitation improvements, efforts should be made to redefine the PPP and to locate it in the context of urban poverty, governance and the practical realities of service delivery in poor contexts. Without this structural change and necessary capacity building, public-private partnerships will continue, at best, to create mixed results and, at worst, to marginalise the poor from improvements to water and sanitation services.

¹³ Emerging Models for Developing Water Systems for the Rural Poor: From Contracts to Co-production Waddell, S. (2000); see also Caplan, op cit.

¹⁴ A more knowledgeable private sector is required, but the delivery process cannot wait for this capacity development. It is already very clear that some operators can develop capacity to work with the poor, while others remain resolute to undertake tasks in their usual way. This distinction has not always been prioritised in the selection of private operators.

¹⁵ The role of civil society is a critical aspect of the 'inclusive' partnership beyond the immediate scope of this paper, but well documented by the Business Partners in Development initiative.