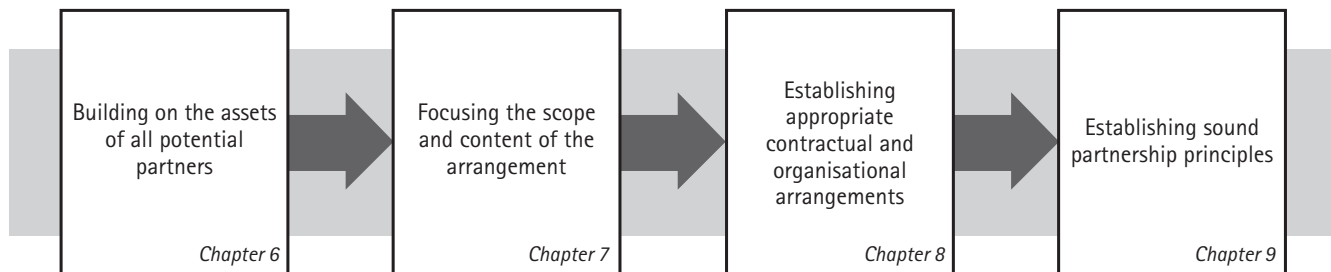
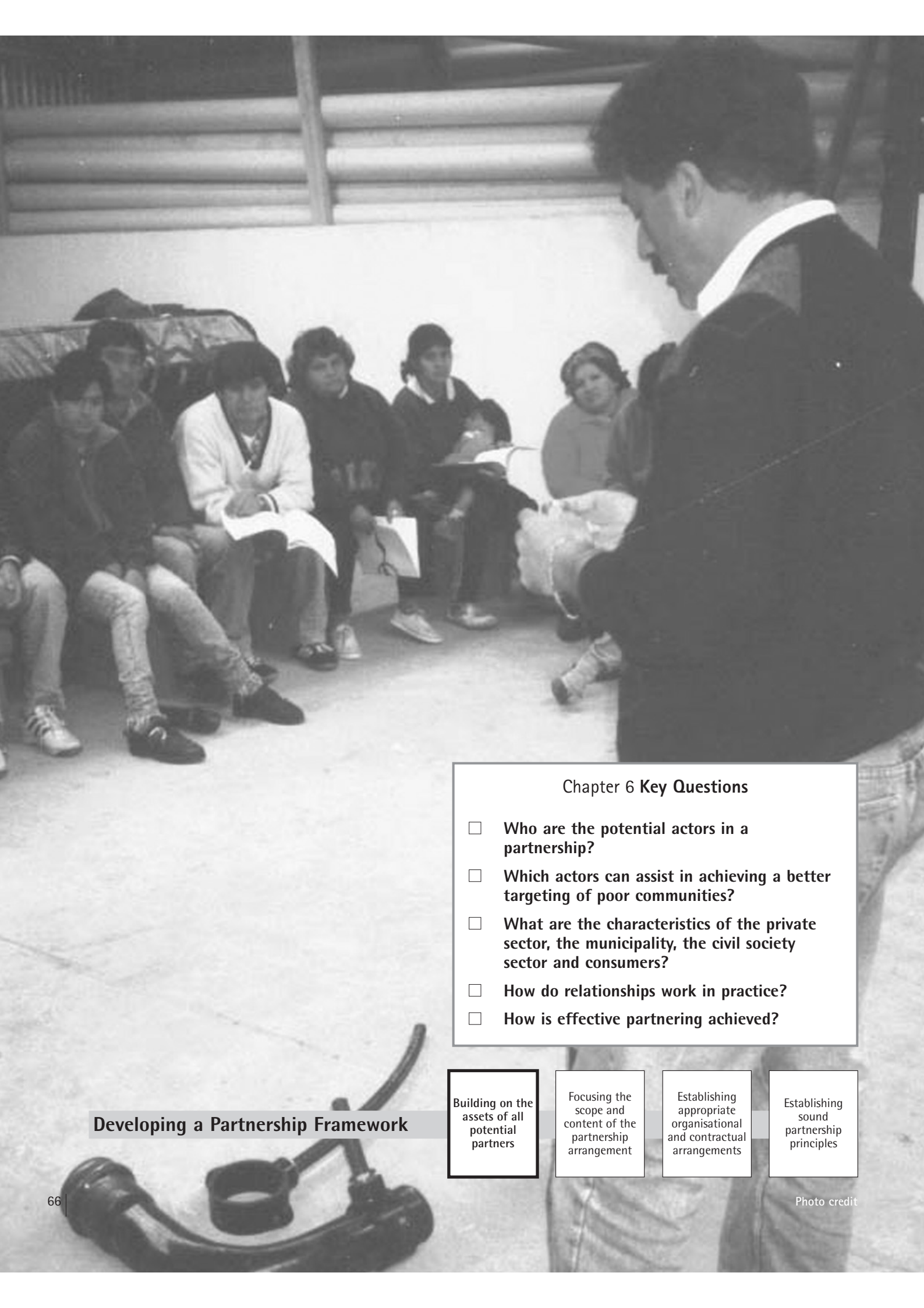


# Part 2

## Developing a partnership framework





### Chapter 6 Key Questions

- Who are the potential actors in a partnership?
- Which actors can assist in achieving a better targeting of poor communities?
- What are the characteristics of the private sector, the municipality, the civil society sector and consumers?
- How do relationships work in practice?
- How is effective partnering achieved?

## Developing a Partnership Framework

Building on the assets of all potential partners

Focusing the scope and content of the partnership arrangement

Establishing appropriate organisational and contractual arrangements

Establishing sound partnership principles

# Building on the Assets of Potential Partners | 6

Janelle Plummer and Steve Waddell

In the pursuit of partnerships focused on achieving sustainable service improvements for the poor, municipalities must explore and expand their knowledge of the opportunities for partnering. While this book explicitly includes the private sector as a potential partner for municipal service delivery, the focus on partnerships for the poor opens up a question about which other actors should be involved in a reconstructed approach. Building on the previous discussions highlighting the importance of integrated approaches to urban management and poverty reduction, this chapter therefore considers the potential of each of the three organisational sectors (government, the private sector and civil society) in partnerships developed at the municipal level.

The following sections outline the nature and diversity of each potential actor, their characteristics and potential roles, and the challenges they face in working together towards the delivery of services in poor urban contexts. In succession, it disaggregates these aspects in relation to municipalities, the private sector and civil society, and then considers the important roles of external agents (donors and specialist consultants).

In particular, this chapter considers the different types of private sector actors involved in service delivery in low-income areas. It describes the large-scale international operators generally associated with public-private partnerships (PPPs), the national level of the private sector, and the small-scale service providers, often overlooked in the PPP framework. This attempt to disentangle the various types of stakeholders within a sector is then adopted in relation to civil society, and the discussion considers some of the key stakeholders from civil society (NGOs, consumers, employees and trade unions).

The chapter argues that there are distinct and fundamental characteristics of each organisation and that effective partnerships combine the key attributes of these actors to respond effectively to the service needs of the poor. It also acknowledges that building partnerships between such different stakeholders is not easy, and stresses that it is necessary for municipal officials – and all prospective partners – to build a better understanding of the potential attributes of each stakeholder.

## Municipal Government

### The nature and diversity of municipalities in service delivery

While it is clear that municipalities differ significantly in terms of capacity, attitudes and functions, it can also be argued that most display certain fundamental characteristics, which are very different from those of private sector or civil society actors. Municipalities have powers of enforcement and taxation (although these are often modest compared to other government levels). They have particularly important leadership powers, through which they can convene various actors and build collective visions. On the other hand, they are often burdened by bureaucratic procedures and political interference, and undermined by a lack of human and financial resources. Many are content with the status quo, or lack the power they need to act; some have never exercised their power because they are dominated by a culture of apathy and resistance to change. These are all fundamental characteristics affecting the effective delivery of urban services.

It is likely that municipalities will need to embark on a process of change if they are to involve other stakeholders effectively and move away from providing services themselves. In order to understand the nature of the change required, it is first necessary to identify the strengths and weaknesses of the municipalities – to assess their capacity to enter into effective and sustainable partnerships with both the private sector and the various actors making up civil society. This analysis will expose the attitudes, issues and concerns harboured by municipalities in relation to the private sector, for instance, and thus earmark some potential partnership difficulties. Conversely, an understanding of a particular municipality's strengths, and the capacity it has shown to innovate, may help to define some of the opportunities and attributes that it will bring to a partnership.

## Box 6.1 Municipal Capacity and the Changing Municipal Role Stutterheim, South Africa

Links to Boxes  
6.1, 7.17, 8.6, 9.6, 11.1, 12.1

The municipality of Stutterheim, located in the Eastern Cape of South Africa, first adopted a 10-year affermage contract\* for the delivery of water and sanitation services in 1993, prior to the democratic elections in South Africa. The contract was formed with Aqua Gold (now WSSA, a joint venture between Northumbrian-Lyonnaise International and a local company, Group 5). The shift towards the private sector as a vehicle for the delivery of municipal services of all types came at a time when the local council was dominated by businessmen who were keen to streamline the municipality and delegate the responsibility for service functions to private sector companies. In the case of water and sanitation, the intention was to delegate the management of all water and sanitation responsibilities. In the apartheid context of segregation in South Africa, this included the provision of all water supply and sewerage services to the people living within the 'white' areas of the town, and the provision of bulk water and the treatment of sewerage effluent for the segregated township areas. It is important to note that the political arm of the council provided the driving force for the partnership arrangement.

After the national and local elections in 1994–95, Stutterheim Council was amalgamated with the administration that had previously been responsible for providing services to the township areas. Despite this vast change and a six-fold increase in population under the municipal jurisdiction, the new Stutterheim Transitional Local Council (STLC) chose to establish in-house capacity to deliver water and sewerage to the underserved parts of the municipality and not to contract the private operator to extend their operations. At the instigation of WSSA, this decision has been revisited a number of times. There is no question that WSSA would prefer to deliver all services at all levels in all parts of the municipality. The current arrangement does not optimise efficiency of service delivery, and WSSA is criticised for being involved in a contract that appears to perpetuate unequal services. Nevertheless, the council has consistently chosen to retain responsibility for delivering and upgrading some tertiary-level water and sanitation services, believing this to be a more cost effective in the low-income areas of the municipality.

At the outset, the council was supported, not led by, the executive arm of the municipality. The partnership was developed in the isolated context of water and sanitation without consideration of the roles and responsibilities for other related initiatives. The role of procurement was passed on to a national engineering consultant and the process was carried out in accordance with standard contracting procedures. However, soon after the contract was established, the old (white-only) council was replaced by a council – democratically elected by all citizens – with different priorities. More focused on the social aspects of their constituency, less experienced in management, and beset by the turnover in key engineering staff, the council has never been able to properly manage or monitor the partnership arrangement or implementation process. The contract itself does not define responsibilities well, and the lack of a regulator in South Africa has resulted in repeated problems over the allocation of costs and responsibilities.

The partnership does not form part of a strategic planning or integrated development approach, and the council has failed to establish any connection between the water and sanitation partnership and economic development activities with the poorer groups in the town (despite the fact that water and sanitation services represent some 12% of the council annual budget and there is a mandate for integrated development planning – see Box 4.3). The municipality plays no substantial coordinating role.

At the time the partnership was established, there was little concern for the mechanics of public consultation or the explicit involvement of stakeholders in the decision to enter into a partnership arrangement. The council had a mandate to manage the town and was not concerned with building a consultative approach or obtaining explicit approval for a decision on delegating management. Effective town management was, however, a key issue, and the council envisaged a key role for the private sector in attaining this end.

The case of Stutterheim provides an illustration of a partnership arrangement that is, to some extent, misread by municipal decision-makers. It also provides an illustration of an arrangement where partnership objectives and roles need to be reoriented to meet the new demands and visions of the post-apartheid council. The primary concerns expressed by council officials in Stutterheim, and echoed by the private operator, concern the capacity of the municipality to act as an equal party in the contract (see Boxes 11.1 and 12.1). This lesson is relevant for all municipalities, particularly those, like Stutterheim, which are managed by political representatives who had no involvement at the partnership formulation stage. Among other messages, it highlights the need for ongoing capacity building throughout the duration of a contract if the political wing of a municipality is to act as an effective decision-making partner, able to optimise its own role and the role of the private sector in changing circumstances.

\* See Chapter 8 for more detail on leases and affermage contracts

Municipal attitudes towards poor communities and NGOs are also primary indicators of how they will behave, and the decisions their leaders will make. While some have experience of participatory processes, few have embraced the strategic change or required community participation to become an inherent process in the formulation and delivery of services. While the traditional model of the municipality as provider has been obscured by community participation initiatives in some situations, rarely has it been transformed.

It is also notable that those municipalities that have pursued associations with both the private sector and the community in water, sanitation or waste services have generally kept these approaches quite separate. With notable exceptions, few have attempted to bring the experience of working with civil society into a PPP. Evidence suggests that this is because the municipal goals of involving the private sector aim to solve financial and institutional deficiencies, while initiatives involving civil society aim to target poverty more directly. These have not generally been unified in the problem analysis or the response. One of the key aspects of a PPP focused on the poor is the integration of supporting initiatives into an innovative, holistic solution.

#### The characteristics of municipalities

Like national and provincial/state levels of government, municipalities display a number of common and distinguishing characteristics.<sup>1</sup> In democratic contexts, the primary interest of the elected leaders is political; councils are ultimately controlled by voters, and by higher political bodies. The level of political control is convincingly illustrated in South Africa where, despite apparent autonomy at the local level of government, the decision-making of elected officials at the municipal level is often determined by national-level political mandates.

Often, where local level democracy is less mature, the interests of the municipality are still determined by the executive arm, and are often bureaucratic. A municipality might be concerned with maintaining the status quo and resisting any change likely to harm existing status and hierarchies. Many contexts demonstrate how these political and administrative interests conflict, and the impacts of a resistant municipal executive on the implementation of new or challenging policies. Municipal administrators' primary concern is not the electorate, but higher levels of management whose concerns are often self-reinforcing.

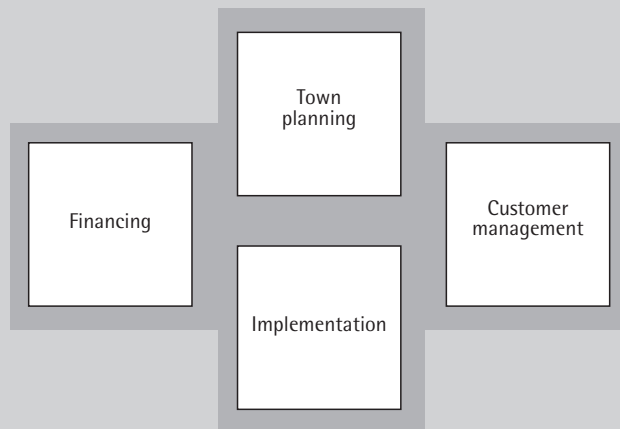
In theory, municipalities obtain their power through legislative, regulatory and enforcement frameworks, and their authority to tax. However, under-resourced local governments, often secure their power through their roles as providers and patrons, and ultimately through the control they have over the allocation of municipal resources. This is particularly relevant in relation to municipal services such as water supply, sanitation and solid waste disposal, as municipal officials often have the ability to determine who gets the service, when they get it, and how much they get. The voting power of the poor does not always bring about a better outcome if politicians exclude marginalised groups or fail to act sincerely on their behalf.

Municipalities bring their important rule-making capacity to partnerships. However, they usually have many established procedures (or rules) to address situations that are very different from those with partnership strategies. One of the great concerns of constituents is that procedures can also fuel a lack of transparency. Some argue that overly-bureaucratic procedures have masked the fact that decades of officials have obtained personal rewards from dubious decision-making. Moreover, dependence on historic and unnecessary procedures is also a primary reason for failure in partnerships and inefficiency. It is not the existence of rules that is in question, but the need to ensure that the rules and procedures by which a municipality functions are changed to create a partnership-supportive environment.

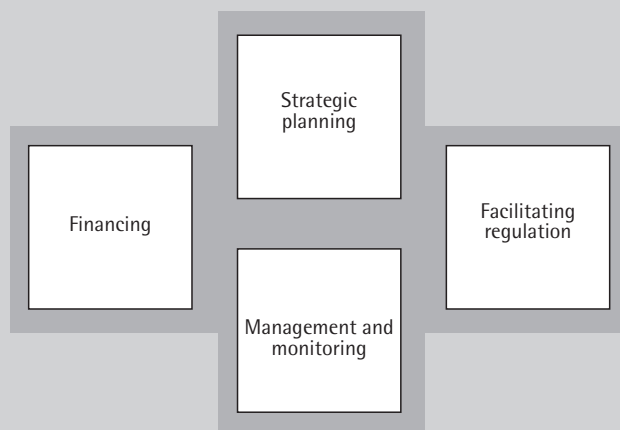
In particular, building partnerships requires a different approach than the usual one to rule-making, with a fully predetermined procedural framework that defines the relationships between actors. While municipalities have a critical

## Box 6.2 Municipal Roles in Service Partnerships

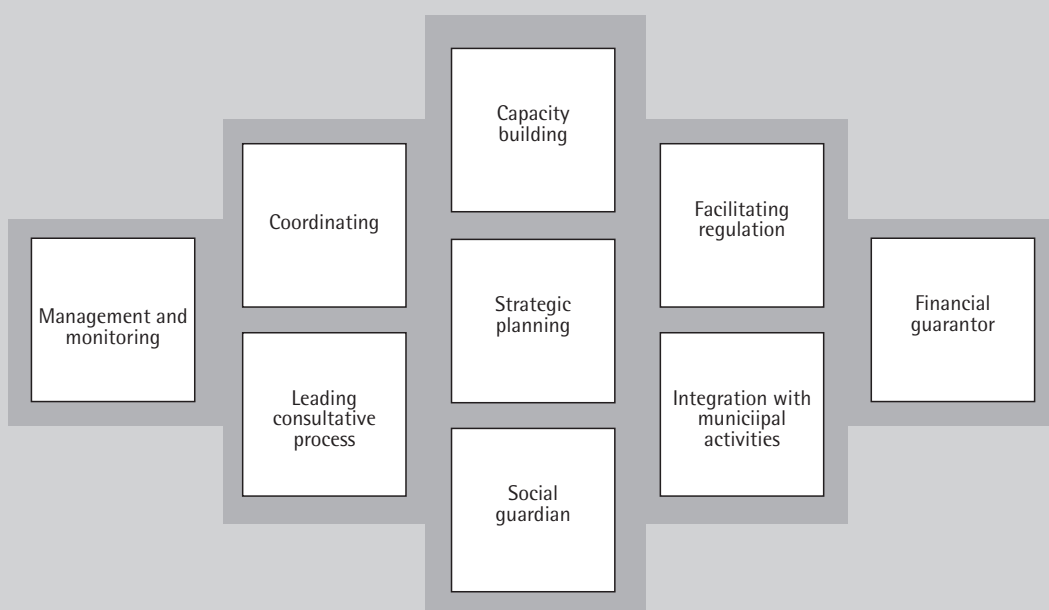
Municipality as provider: the traditional cluster of roles (a)



The municipal partner in a standard PPP: an amended cluster of roles (b)



Expanding municipal roles for the focused partnership (c)



role in bringing their rule-making capacity to develop a partnership-supportive framework, much of the framework evolves as the partnerships evolve.

Democratically elected municipalities are also concerned with very different timeframes than are potential private sector or civil society partners. Their interest in political power means that they make decisions according to a timeframe determined by elections.<sup>2</sup> Service delivery programmes are often lengthy, and private sector partners look for contract durations commensurate with risk and investment. Yet the election timeframe can be quite short. In some states in India, for instance, mayors are elected on an annual basis, and councillors are elected every three years. This forces politicians to focus on short-term, visible results each and every year, often abandoning strategic plans that lead to sustainable long-term improvement. In relation to partnerships, the effects of such short-term thinking on long-term contracts can be detrimental to implementation processes.<sup>3</sup> In order to combat this effect, it is critical for the partnership process to acknowledge this concern, and produce short-term results that can also be achieved within an election cycle.

#### □ The potential roles of the municipality

Municipal partners are in a unique position in partnership arrangements for service delivery. On the one hand they are very dependent on the private sector for investment, cost efficiencies and/or know-how, and on the community for its willingness to play the game, pay its tariffs and participate in operations and maintenance. On the other hand, as the initiators of potential partnerships, municipalities have enormous power. At the outset they are able to determine and direct strategy. They determine, for instance, the extent, nature and scope of the partnership, the actors involved, and the requirements for consultation and community participation. They determine how much of the service mandate to delegate, for how long, in what manner and to whom. While the private sector inevitably builds a stronger presence, at the later stages the municipality oversees the implementation process. The municipality determines the requirements for expansion and service standards, and sets the initial agenda for a pro-poor framework.

Evidence also suggests, however, that municipalities behave very differently with different kinds of partners (e.g., established international operators versus informal small-scale providers), and thus assume very different roles in different service sectors. They exhibit much more self-assurance in working with private enterprise in low-technology activities such as solid waste or septic-tank cleaning than in network service arrangements such as water supply, where they often lack the confidence and skill needed to perform allocated roles (as illustrated in Box 6.1).

Box 6.2(b) illustrates the different roles that may be played by the municipality in service partnerships. Some roles are obligatory and should be performed by the municipality; others may be dependent on the competencies and comparative advantage of other actors that may become involved.

- **Strategic planning** A primary role of the municipality in a poverty-focused partnership is to ensure that activities are integrated, efforts converge and investment is targeted. While it is necessary to have collaborative processes, ultimately this planning role cannot be delegated.
- **Management and monitoring** The management and monitoring role of a municipality will vary according to the service, the type of arrangement and the contract. It is likely that its operational role will be reduced, but it needs to redirect its skills and time towards monitoring the performance of other partners.
- **Financing** The municipality is likely to be responsible for the development of a financial strategy, for raising both operating and capital costs, and for executing the strategy.
- **Regulation** Where the external operating context does not provide an adequate regulatory framework, municipalities will need to decide how the arrangement is regulated and facilitate these arrangements. (For a detailed discussion on regulation, see Chapter 10.)

### Box 6.3 The Changing Municipal Role in Solid Waste Management

Hyderabad, India

The municipality in Hyderabad, Andhra Pradesh, India has established itself as a well-run organisation able to work effectively in community development, and to work with the district to resolve land tenure issues and to create sustainable improvement in the low-income areas of the city. Although the city does not at this time have a democratically elected council, the municipal corporation has successfully embarked on a process of contracting-out solid waste management in the city, radically changing its role from that of service provider, to one in which it works with small-scale private sector organisations to manage waste within the city.

The Municipal Corporation of Hyderabad (MCH) has a sound history of drawing in private sector resources to resolve urban management issues. In the 90s, innovative land-sharing initiatives undertaken with the MCH and poor communities assisted the municipality in resolving some difficult tenure and service problems in core areas of the city. In this exercise, the municipality took on the role of facilitator, aiming to bring together the disparate interests of a private land owner with those of a poor community, to bring about a sustainable solution to squatting in the city.

In 1994 the MCH attempted its first initiative with private sector contracting in the vast task of covering a city where 2000 metric tons of waste are generated daily. The process of shifting from 'provider' to 'monitor' has not been straightforward. Early efforts proved unsuccessful because the municipality did not provide the supervision necessary to ensure contractors met performance standards without attempting to cut corners. The municipality has undergone a steep learning curve, learning lessons through mistakes and experience. This underlines the importance of monitoring and of establishing contracts that can be effectively monitored.

In 1994, the MCH opted for a system which required the contractor to fix its rates for sweeping, collecting and transferring waste. This approach – covering 10% of the city – resulted in the contractors simply bidding low to win contracts, and then employing insufficient staff to carry out the work. As a result, the MCH altered its approach in 1996 to enable easier monitoring. This system was based on a payment per load, which was thought to constitute an incentive for the private sector to clean the area to a higher standard. This system covered 25% of the city. Contractors bid per load (per ton), and the contract was awarded to the tenderer with the lowest bid. Keen to increase the quantities of garbage collected, contractors picked up rubbish from areas outside their allocated zones.

In 1998 the MCH introduced a new programme – which they called the 'unit system' – in which 55% of the municipal area was to be the responsibility of private contractors working on one-year service contracts. For its part, the municipality introduced a process of systematic monitoring. This is carried out twice daily by the conservancy department (assistant medical officers and the sanitary inspectors) of the MCH and the local communities. A public complaints line was established and the council thus continues its role in customer management.

Yet despite the success of this system, the MCH has struggled with its new role in relation to labour. In the midst of strikes, squats and absenteeism, senior municipal officials entered into lengthy negotiations with the unions. Although the MCH was flexible in some respects to change, in the main, little room was given to the union. The MCH relied on its status, and its reputation for strict tactics, to establish union support.

While the contract stipulates that workers are to be employed in accordance with the Minimum Wages Act, this has been difficult to enforce. The MCH is aware that contractors attempted to underpay staff (approx 800–900 rupees fewer than the unit rate established by the MCH) in order to increase their own profit. Therefore, the MCH introduced severe penalties to discourage this practice across the city. The lack of feedback from workers is obviously a drawback, so senior officials have introduced random checks and have cancelled numerous contracts when they established beyond doubt that this feedback was not being sought.

Source: personal Interview, June 2000; Zerah, 1999

In the poverty-focused approach to service partnerships, these four roles are extended (see Box 6.2(c)) to include roles that are vital in ensuring effective and sustainable benefit to poor households and communities.

- **Coordination** The municipality must ensure that appropriate stakeholders are involved, that their roles are clear, and that as disputes arise there is a process for resolving them.
- **Consultation and participation** Municipalities have a responsibility to lead a process of consultation and encourage the active participation of all primary and secondary stakeholders.
- **Social guardian** The municipality has an important role in ensuring that equity concerns are addressed. One of the primary municipal responsibilities is to facilitate a supporting mechanism for the poor, so that their voice is heard within the partnership. A municipality may draw on the services of an NGO, depending on the local situation.
- **Capacity building** Typically, all actors will require some capacity building to work effectively in a partnership. Municipalities will have to decide how this capacity building will be achieved and ensure that the partnership arrangement accommodates it.
- **Integration with municipal activities** Many established partnerships address only one specific service. A key municipal role is to establish linkages and integration with other poverty responses and urban management functions.

A municipality will need to clearly identify the key municipal roles that cannot be delegated, those that – on balance – are best played by them, and those that can be delegated with ease.

#### Constraints affecting the municipal role in partnerships

Municipalities are thus challenged with the new and unfamiliar roles of enabler and facilitator, and very different approaches to the roles of manager and monitor. Various officials and political representatives within a municipality will display different interests and capacities. A municipality's capacity to perform these roles is therefore determined by individual, municipal, partnership and external constraints. These include:

- overly-bureaucratic procedures, inappropriate to partnerships;
- inadequate skills and managerial capacity;
- inappropriate political interference;
- resistance to change;
- inter-departmental competition;
- inappropriate incentive structures; and
- mistrust and scepticism over private sector incentives and NGO approaches.

The human resource and organisational issues affecting their capacity to perform these roles are addressed in Chapters 11 and 12.

## The Private Sector

#### The nature and diversity of the private sector

The term 'private sector' can be used to mean many things. In discussions of PPPs, the term 'private sector' often implicitly refers to multinational companies – large, profit-oriented organisations that operate across borders and report to shareholders. However, the development of private sector involvement in poverty-focused service delivery can and should denote a far broader vision of the private sector – one that includes a range of actors delivering services. The primary characteristic of the private sector is not size, scope or capacity. The key distinguishing characteristic is that individuals, organisations, businesses or enterprises act in the pursuit of profit.

**Box 6.4 Disaggregating the Private Sector**

	Formal/large scale		Informal/small scale
<b>Competencies</b>	Technical expertise Financial resources Management expertise	Technical expertise Management expertise National knowledge Local legitimacy	Local knowledge Innovation with local resources
<b>Benefits</b>	Inflow of finances, skills and technologies Managerial experience Innovation	Building national capacity and expertise Local networks Government links	Generating local socio-economic development impact Creating community ownership Powerful development impact if properly engaged
<b>Market interests</b>	Large-scale projects Market entry Limited risk	Medium-scale projects Secondary cities Working in consortia	Filling gaps in service supply Flexible commercial opportunities requiring limited investment Relatively high risk, but small size Poor households Inaccessible, marginal areas Peri-urban areas
	Water supply	Solid waste Water supply in consortia	Tertiary level Water supply Sanitation services Solid waste collection
<b>Political issues</b>	(Generally) outside the web of local politics: might be less corruptible	Generally very dependent upon local politics and individuals	Outside the political system and therefore less valued and less influential
<b>Other issues</b>	Driven simply by contracts Profits taken out of country Inevitably promote an international culture	Driven by national pride Profits more likely to stay in country Culturally more likely to support national values	Driven by need for personal income Profits usually retained in community More likely to meet very poor's requirements

With regard to the delivery of municipal services, it is useful to consider three different types of enterprise: international, national and small-scale (formal or informal) local enterprise. Although all of these types involve the pursuit of profit, their scales of operations are almost always associated with the distinct competencies and benefits that they bring to a partnership. Within each typology there is undoubtedly further diversity; the categories are not discrete but operate as a continuum, and PPPs may include one or all of these categories in a collaborative effort. The categories are summarised in Box 6.4.

The term ‘private sector’, in relation to municipal service delivery, therefore covers a vast range of profit-making organisations – large and small, formal and informal, in a range of sectors. One end of the private sector spectrum is represented by large international water companies such as Odebrecht-Lyonnaise des Eaux, Vivendi and Thames Water. The other end is represented by the water-vendor with a cart, selling water by the container. In the solid waste sector, the national operators with compactors and large-scale landfill and recycling facilities are contrasted with the small-scale rag-picking cooperatives or itinerant waste-buyers, whose self-employed recycling activities are the basis of their livelihoods. In between these extremes lies a set of profit-making enterprises/organisations whose capacities and interests are all potentially relevant to the different types of water and waste services.

#### The characteristics of international business

In recent years, large international companies (also known as multinationals, transnationals, international corporations) have begun to participate in the delivery of a number of basic urban services, including energy, telecommunications and water and sanitation services. Municipalities are attracted to partnering with multinationals in order to obtain investment, efficiency and skills (see Chapter 3), but fundamentally aim to improve municipal services and build local capacity. Business goals are to make profits and develop new markets on a permanent basis.

International private companies are usually engaged in municipal service provision because they can provide three types of resources:

- 1 professional management expertise in improving service efficiency and quality;
- 2 technical expertise that a municipality (particularly a small municipality) cannot sustain, and access the specialist expertise developed through international research and development; and
- 3 capital for investment in equipment and infrastructure costs.

The potential contribution of these companies cannot be ignored, even by the most sceptical observer. The Argentine, Colombian and South African contexts, as well as many others, all expose the operating efficiencies and improved service quality that can result from effective private sector involvement.<sup>4</sup> International business often (but not always) brings its own capital, and its presence increases international investor confidence. This has significant impact on a municipality’s capacity to fulfil its function. In the case of Colombia in 1995, the World Bank made it clear to Cartagena that private sector involvement was a prerequisite for Bank financing of the water and sanitation sector in that city. This swayed the incoming mayor to renegotiate the existing agreement with Aguas de Barcelona. As a result, the World Bank and the Inter-American Development Bank invested substantial funds in the sector.

What are the characteristics of multinational companies, and what do they bring to service partnerships? The multinationals involved in water and sanitation services, for instance, are characterised by the commercial nature of their operations, by their size, by their market share, by the experience, knowledge and technical know-how they have in the sector, by their access to capital and by the level of international confidence in their capacity.

**Box 6.5 Market Share of Multinational Watsan Operators in Low- and Middle-income Countries**

Multinationals	Market share* Private company share by population served	Example contract locations
Ondeo (formerly Suez Lyonnaise des Eaux) including WSAS and Northumbrian Aguas de Barcelona	41%	Cartagena, Colombia Palmira, Colombia El Alto, Bolivia BOTT, South Africa Stutterheim/Queenstown/Fort Beaufort, South Africa Johannesburg, South Africa Buenos Aires, Argentina Cordoba, Argentina
Vivendi (Generale des Eaux)	29%	Pilot in KwaZulu-Natal, South Africa Tucuman Tunju, Colombia Monteria, Colombia Bogota, Colombia (water treatment plants) Brazil Malaysia Mexico City Havana, Cuba
SAUR (SAUR UK)	9%	Dolphin Coast, South Africa Maputo, Mozambique (+ 4 towns) MoU Gweru, Zimbabwe Vietnam (Hanoi and Bay of Along) Cote d'Ivoire Senegal Conakry, Guinea Mendoza Central African Republic
Thames Water RWE	9%	Jakarta, Indonesia Rancagua, Chile Shanghai, China Izmit, Turkey
United Utilities	3%	Tallinn, Estonia Bielsko Biala, Poland Sofia, Bulgaria Manila, The Philippines
Anglian Water	2%	ESVAL – Region V, Chile Brusque STW, Brazil SmVAK, VAKJC, Beroun, Czech Republic Bangkok, Thailand Lima Land, Manila, The Philippines Hexian, China
Azurix	3%	
Others	4%	

\* Market share (of the private sector share) in low- and middle-income countries

Unlike their municipal partners, who are largely driven by political motives, the large-scale international business sector is primarily interested in financial incentives. It is controlled by owner-stakeholders and driven by profit goals. Private partners gain their power because they can access and provide finance for a partnership, and by their superior skills and knowledge base, augmented by their increased access to information at the local level.

While municipal partners are characterised by their adherence to municipal procedures, the international private operator is concerned with the (bilateral) contract established for the purposes of the partnership. When that contract describes inputs and outputs, the private sector approach focuses on these obligations, rather than outcomes. Evidence from two partnerships in South Africa indicates that the operators managed their roles within the partnerships strictly in accordance with the contracts – even where this was not the most effective approach – and their decision-making was driven by adherence to rules. This hindered other partners from pursuing more general partnership objectives concerned with long-term sustainability, and suggests that an outcome-based approach would have been more effective.

The international operator is concerned with two timeframes. The overall duration of a contract determines the financial decisions and actions of the operator. In many of the older water and sanitation concession arrangements, it has become clear that the programming of expansion mandates to poor areas is seen in the overall contractual context, and thus poor areas that are costly to upgrade have been programmed last. Yet at the same time, every business works within predetermined business cycles, and actions are often tailored to suit quarterly or annual profit reports to shareholders.

While total private sector involvement is still limited in absolute terms, the comparative market share of the largest water companies operating in developing countries and the location of some of their primary operations are indicated in Box 6.5. Due to the attraction of the mega-cities and large urban agglomerations of the South, there is an increasing trend for international operators to set up national offices in countries that are heading towards private sector policies. Many have become involved in small initiatives to establish a foothold in the market, and to learn the idiosyncrasies of the operating context.

While a few international companies currently control the water and sanitation market in developing countries, there is also substantial evidence that each operator has a slightly different set of requirements and interests. Accordingly, each brings different competencies to the municipal function. An early finding of the research leading to this book was that international water operators have very different levels of interest in, capacity for and commitment to delivering services to the poor. While some show an outwards commitment to poor consumers, and are exploring innovative tools and techniques to improve service coverage, others indicate that they do not adjust the level of service or the mechanisms for payment, nor do they consider labour-based technologies in their delivery to poor consumers. One operator representative was dismayed by the idea of the poor as active participants in the development process, and another by the argument that low-income areas and poor communities are diverse and may require individual solutions. Municipal officials involved in selection processes must be aware that international operators are not all the same, and do not have the same interests and expertise.

Analysis of the objectives of a handful of water and sanitation multinationals shows that company mandates focus on business, consumer satisfaction, efficiency and environmental sustainability. The inclusion of environmental sustainability in their mission statements is a reflection of their Northern roots. Yet, despite the fact that in developing countries over 50 per cent of consumers might be living at or below the poverty line, only one or two have included reference to improving services for the poor in their mission statements, or to formally recognising the social dimensions of their function.<sup>5</sup>

The core competencies of international operators generally lie with building physical infrastructure, and with undertaking operation and maintenance in ‘developed’ settings – those with substantial institutional and social infrastructures. This

## Box 6.6 Working in Low-income Areas

### The Rationale and Approach of an International Water and Sanitation Operator

One of the most common and often unanswered questions concerning private sector participation in service delivery to the poor in developing countries is why the private sector would want to get involved at all. On the face of it, the returns are low, the risks are high, the problem is complex and the opportunities elsewhere are plentiful. The following discussion, relating to water and sanitation services, describes some of the key issues raised by an international private water and sanitation operator.

While many international private operators have not shown any interest in entering the water and sanitation market in developing countries, many have and there is an increasing trend towards do so. Box 6.5 outlines the market share of the largest companies as a percentage of the share currently attributed to the private sector. Yet the total private share is still low: unofficial estimates suggest it may be as low as 5%. Given that over two billion people lack access to safe drinking water, and nearly three billion lack access to sanitation, in the eyes of business, a significant market remains untapped.

Given the opportunities offered by increasing globalisation and liberalisation of trade regimes, international companies are entering this market to meet the objectives of their shareholders; their fundamental motivation is not charity but business. *'The water services company acts within the framework of a commercial system and [sometimes] intervenes to the detriment of other types of water provision, since these communities always have access to water one way or another, legally or otherwise....[We] must offer a wide industrial perspective, especially as our long-term mandates involve strong commitment to operations whose results may only be achieved in the long term, and by adopting a customer-oriented approach. A large private operator has the ability to develop comprehensive concepts incorporating all the necessary technical, institutional and financial components for developing sustainable management methods for water and sanitation in disadvantaged areas..'*

Despite the opportunities for the private sector, the problems of delivering water and sanitation (and other services) in low-income areas are marked. Lyonnaise des Eaux, for instance, has identified three main problems in addressing water and sanitation requirements in poor neighbourhoods. Without question, the first of these is the complex problem of land ownership and control. Private operators need to evaluate each case separately in terms of technical and political impacts to determine the risks and opportunities. For the private operator, land regularisation is necessary before the installation of urban service networks. Second is the problem that connection costs are too high relative to the ability to pay. This may be due to expansion costs being passed on to the (poor) unconnected consumers, or it may be due to the excessive installation costs and the difficult nature of the land that the poor often occupy.

The third critical problem for international private operators looking to work in poor areas in developing countries is that customer management costs are too high. This may be due to:

- a high percentage of unpaid bills;
- a high rate of unbilled or fraudulent consumption;
- a low level of individual consumption by users (small bills and high collection costs); and
- high network maintenance costs.

Lyonnaise des Eaux has proposed that the key to unlocking service delivery to the poor is recognising that there are no ready-made (generic) solutions appropriate to all contexts. Its research and development cell stresses that thorough preliminary investigation underlies the process of entering the market, particularly in poor areas, and that each situation must be analysed on a case-by-case basis and addressed through tailor-made responses.

Following its experience in diverse contexts, Lyonnaise des Eaux has recognised that it needs to:

- understand and classify the local conditions (institutional, population and technical);
- understand the commercial aspects relating to charging and collection:
  - the types of assessment and measurement of consumption;
  - the period within which charging and collection should be made;
  - the tariff structure (whether it is progressive, uniform, regressive or according to the level of service); and
  - the method of collection;
- clarify the commercial aspects of investment financing (e.g., by immediate or staggered payments, grants, or external financing);
- clarify the technical aspects of water supply (resources, supplying); and
- clarify the technical aspects of sanitation (on-site systems, collection, final treatment).

also includes clear and well-supported policy, financing and regulatory structures; processes of consultation and planning engaging large numbers of community and other organisations; and the presence of sophisticated professionals among the municipal and other groups that they work with. The degree to which international operators have successfully ‘Southernised’ their operations varies greatly but, even at best, is far from complete.

Multinational interest and roles in developing countries are affected by a number of factors. First, they are concerned with the enabling environment. Chapter 10 provides a description of the key policy, political, economic, legislative/regulatory and administrative factors that affect the development of service partnerships. They are concerned with risk, incentive structures, and cost recovery. One key issue associated with risk arises over the amount of capital investment and the time allowed for repayment; although long durations of concessions give longer periods in which to recapture costs, they also mean an increase in exposure to the risk of major political changes.

Incentive structures can be useful to clarify expectations, but companies also require information to enable them to establish possibilities and limits. The issue of cost recovery is often closely associated with risk, and arises when tariff issues are discussed. The company wants to know that there will indeed be a revenue stream that will provide sufficient repayment.

The potential role of the multinational service provider will be dependent on:

- the demands of the public sector actors;
- municipal capacity;
- ability to pay international rates;
- the risks of the operating context; and
- the local risks the private sector is prepared to take (e.g., risk on operations and maintenance but not on capital investment).

Typically, the role of the formal private sector enterprise may be that of contractor, operator, monitor, manager, lessee, part-owner or financier. The water multinationals traditionally take on standard water production, treatment and distribution tasks in the project cycle such as planning, construction, strategic and practical management, technical design, operation and maintenance and customer management. They may also take on non-traditional tasks such as capacity building and the delivery of non-physical services, usually in collaboration with local organisations. Many international companies argue that if there is a demand for a service then they can provide it, but many others have proved that this is not always successful, and that they are better off sticking to their core functions.

#### **The characteristics of national business**

There is a great deal of variation in the level of sophistication of business in developing countries, but at their core, the nationally-owned medium- to large-scale businesses working in water and waste services in developing countries display the same characteristics as international operators, although on a smaller scale. They are fundamentally concerned with profit, controlled by their owners and driven to improve efficiency in order to decrease costs and increase profit margins. They have access to investment capital, normally varying with the industry and scale of the business, and some will have access to national capital markets to fund expansion.

Yet in many ways, nationally-owned and -managed businesses are a far cry from the large international operators that benefit from state-of-the-art management, technical expertise and experience, and access to greater resources. These large operators provide greater comfort to financial backers or donors. Many national business managers are less skilled than government leaders; many have enjoyed little or no competition for decades, and have thrived on just one or a few

### Box 6.7 A National Solid Waste Operator Biratnagar, Nepal

Links to Boxes  
6.7, 9.2, 12.5

Following the disappearance of the private operator Americorp's managing director from Biratnagar (see Box 9.2), a national operator, SILTE, established itself as a committed and stable partner in municipal solid waste management in Biratnagar. The arrangement under which the operator now undertakes solid waste services in Biratnagar is a complex agreement with the Biratnagar sub-municipal corporation. It comprises the spurious initial contract, a number of informal agreements and an additional service contract. While many aspects of the Biratnagar case are unusual and unlikely to be widely replicated, the very existence of this PPP is instructive to municipalities as it describes the sort of irregular partnerships that can develop. It also describes the formation of a national solid waste management business expanded from traditional engineering consulting services.

Given its history of both international and national operators, the Biratnagar case addresses a number of issues in relation to these different actors. It illustrates, for instance, the sort of inappropriate technical and financial options that might be proposed by international operators inexperienced in the specific needs and problems of developing cities. The initial scheme proposed for Biratnagar offered a technically inappropriate and financially unviable proposition, and there is little question in hindsight that it was unsuitable in the socio-economic context of Biratnagar. Based on figures provided by the UN, Nepal appears to have one of the lowest rates of urban solid waste generation (at 0.50 kilograms per capita per day), and this is expected to increase only marginally by 2025 (World Bank, 1999). Despite this, the original operator suggested, and the council accepted, a proposal relevant for the waste generation rates of highly developed cities in the North. One of the simple lessons of the Biratnagar case thus relates to the lack of viability of high-technology proposals and the high levels of investment proposed at the outset. The national operator was quick to amend the proposal to include more appropriate solutions for the landfill site, the compactors were replaced by simple tractor trailers, and the household containers have been simplified. Knowledge of what is financially and technically viable in the Nepalese context has been a critical element in the sustainability of the initiative.

The Biratnagar case also demonstrates that the capacity of national operators can be problematic. Neither the municipality nor the operator have had experience in managing an integrated solid waste management programme. Both parties have had to learn from experience and experiment with systems and procedures. The main capacity deficiencies have been concerned with contract formulation and negotiation, technical analysis of waste management operations, financial analysis and management, integrated waste management practices, public consultation processes, alternative waste management systems, the role of NGOs and CBOs and community participation in waste operations.

As a result, the mayor of Biratnagar argues that the current scope and content of the partnership is probably limited in the medium to long term. He argues that the national operator does not have the resources and technical capacity to undertake all the waste-related activities required by the city. However, in relation to the existing service, there is also some question over the capacity of the operator to replicate the initiative and significantly increase the scale of the operation. In particular, the makeshift and ad hoc nature of the operations (seen in the proposal for leasing a site for a compost plant from a friend) and the personal attention paid to each facet of the operation by the general manager, suggest that significantly greater coverage and replication may not be sustainable without increased systematisation.

While the operator is not skilled in working with the poor and the various dimensions of poverty reduction, it is noticeable that the scale of its operations has enabled it to develop small-scale and ad hoc initiatives with the poor where it sees a potential benefit to its operations. Be it in a small way, its ability to adopt new processes and involve new actors is a particular dimension of the way the initiative has developed. The primary area of concern in relation to the poor is the terms and conditions of the employment of (poor) individuals. In many partnerships one of the key benefits of the private sector is the ability to promote and sustain better work practices. While it may be argued that conditions are not worse than municipal conditions, it is also notable that the national private sector operator has not promoted or felt any obligation to improve health and safety arrangements for workers.

The partnership arrangement is a complex one filled with uncommon practices. Yet despite this, the mayor reports that the majority of councillors are quite satisfied with the performance of the partnership, and that the council is in favour of further private sector initiatives in service delivery. From an objective viewpoint, however, there would appear to be fundamental problems with this solid waste initiative that are not being addressed by municipal decision-makers. Foremost among these is that the partnership, under the current terms, is unviable and unsustainable for the operator.

clients who are highly dependent upon inter-personal relationships. In the context of municipal service delivery, with the clear exception of solid waste management in Latin America, experience is limited.

Despite this, and for many other reasons, there is a growing trend towards national private sector participation (PSP) in municipal service delivery. This participation appears to arise where national enterprises are included in large consortiums as local partners (often as a tender condition); where international companies will not risk local economic conditions; and where enterprises are expanding their competencies to fill gaps in an existing market. To some extent, the first circumstance applies to water supply, and the latter to non-network (including both solid waste and sanitation) waste services.

In the case of solid waste management, there is a vast range of successful national businesses of various scales operating and managing solid waste services in cities in developing countries. Indeed, while there is an increasing interest from international operators – keen to enter lucrative and established markets, or keen to merge urban water and sanitation with solid waste activities – the norm in municipal solid waste management over the last few decades has been for contracts to be won by national companies. In Latin America and the Caribbean, where many large cities have undertaken large-scale contracting-out, 40–50 per cent of the urban population is served by private operators.<sup>6</sup>

Other companies have arisen through expansion from one business to another, often in response to market demand. This is exemplified by the initiatives of a pipe-manufacturer-turned-network-installer in Warangal in India,<sup>7</sup> and SILTE in Nepal. Originally a consultant engineering firm, SILTE expanded its activities into solid waste management in Biratnagar and, later, Kathmandu. While this was originated in dubious circumstances (see Box 6.7 describing the fraudulent conduct of the international operator), the initiative has sustained itself due to the level of local knowledge, the (forced) low level of investment and an unambitious approach to sweeping, collection and transfer activities. On the other hand, SILTE has struggled because of the lack of finance, skilled management and experience in the service sector, and because of an overly-ambitious contract that their inexperience led them to sign.

Working alone, the national private sector – whether of a large or a medium scale – can offer opportunities that municipalities might not be able to achieve with international operators. Since the success of national companies is closely associated with national economic and business performance, they often have a greater commitment to projects. Typically, they do not require guarantees, are willing to take on more risk, and are willing to work in lower-profile locations – perhaps even in less lucrative secondary cities – than their international counterparts. While they may bring fewer skills and lower levels of investment, their contribution may provide a sound basis, and a more level playing field, on which to launch a private sector partnership.

In the delivery of municipal water and sanitation services, by far the most common involvement of national businesses is in consortia comprising international operators. National businesses bring a number of key benefits to such consortia, and many international operators place a great deal of value upon having a well-established and astute local partner. Benefits include:

- knowledge of the local context, problems and idiosyncrasies, including local traditions and etiquettes;
- local contacts and networks – who's who and how the system works;
- local legitimacy that enables better interaction with government; and, frequently,
- better knowledge of the technical viability of project solutions.

In South Africa, the association between the national construction company G5 and Ondeo-Lyonnaise has resulted in a successful international and national profile. The national partner brings local legitimacy that allows the partner to interact with government as a constituent as well as a business. It can also lead to greater confidence on the part of

**Box 6.8 Water Tanker Service Delivery in Peri-urban Areas**Links to Boxes  
6.8, 6.15

Lima, Peru

The participation of small-scale independent providers, together with a successful community mobilisation programme on the periphery of Lima, has contributed to a significant upgrade in the quality, quantity and reliability of water supply to poor residents of the informal settlements.

In the late 80s, poor households in the municipality of Villa María del Triunfo obtained water from tankers informally providing urgently needed water to the rapidly expanding hillside settlements in the outlying areas of the city. The only option was for residents to pay high prices for untreated water delivered by water tankers. The settlements were riddled with water- and faecal-borne diseases because of the poor water quality, and skin complaints because of the arid conditions. In 1990, an outbreak of cholera prompted the government to take action and an agreement was made to channel EU (Spanish) aid finance into a potable-water supply programme. This programme comprised a number of physical improvements, as well as social and institutional development components.

The most innovative characteristic of the programme was the creation of a tri-sector partnership involving the municipality, the communities and the private water-tanker drivers. The decision to include previously exploitative small-scale providers recognised that this fleet of ad hoc tankers represented an asset and not a liability to be discarded. The design of the programme for safe water thus strategically included these small-scale water suppliers as a vital link in the arrangement. Efforts were then made to regulate the quality and price of the water supply to ensure that the system 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 SEDAPAL (Sanitation and Potable Water Company of Lima). 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. The tankers are annually contracted by the COVAAPs (the community management organisations) to provide regular water to the water reservoirs, built as a storage facility, to which a small independent network is then 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. They have invested US\$6000–9000 per vehicle. 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, monitoring of the service is carried out by the Directorate of Environmental Health (DIGESA) in the national ministry, which monitors the quality of water supplied at the pump and the conditions of the tankers, and issues an authorisation for water transportation. The municipality regulates and monitors the service at the local level.

Initially operated for some years in the informal sector, the tanker enterprises were brought under the umbrella of the programme in 1996. This required them to become registered businesses and perform in accordance with the standards established by the programme and the municipality. A key characteristic of these businesses is their lack of managerial and administrative capacity. They have had no opportunities for developing skills in formal accounting and management or technical proficiency. Consequently, they noticeably lack a knowledge of their responsibilities as water distributors and in relation to taxation and fees.

Although the tanker drivers argue that there is not much difference in their profitability (and they must pay taxes), establishing themselves as formal sector businesses has improved their access to credit, enabling them fund expansion of the businesses. It has also allowed them to expand their client base to include commercial businesses, not just the COVAAPs in the local settlements. They have also been able 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 SEDAPAL, and thus ensure their own sustainability as service providers.

Apart from the benefits for these SSIPs, the people of the peri-urban areas of Lima have been the primary stakeholders to benefit from the initiative (in all its facets), including the partnership with the water tanker drivers. A good quality service now reaches the households in the marginal areas (both in terms of terrain, distance and informality) of Lima. Over 300,000 people now have improved access to safe and adequate drinking water. The process of community empowerment in this context is described in Box 6.15.

government that the partnership is serious, since the national business keeps a much greater proportion of its business within the country and will be heavily affected by non-performance.

Involvement in non-exploitative partnerships<sup>8</sup> clearly benefits national businesses. Not only are such partnerships lucrative (and present risks that are acceptable to international businesses), but the transfer of management know-how and environmental technology can be invaluable in preparing the national business for independent activities elsewhere. Governments often seize these advantages, and actively promote consortia that involve national companies as a strategy to build the capacity of their national business sectors.

#### The characteristics of small-scale and informal service providers

In many parts of the world, small-scale independent providers (SSIPs) – or informal service providers (ISPs), those who work only within the informal sector – have long been the providers of water and waste services to large sections of urban populations.<sup>9</sup> Municipalities have, at least implicitly, relied on the range of services that this private sector group has provided, be it water supply through tankers (see Box 6.8), sanitation services by way of vacuum trucks or manual latrine cleaners, or solid waste services through local sweepers and small collection vehicles (see Box 6.9). Despite this important role, municipalities have done little to influence the development of these operations, for good or ill. On the one hand, these ISPs fill gaps in municipal service provision, and their services are in urgent demand. On the other hand they are ignored. Their informality, the vast differences in their standards of service, the constraints of the regulatory context, and the fact that they generally deliver to politically marginalised and perhaps illegal settlements, means that it is easier to overlook their existence than work with them in the supply process.

In terms of the private sector debate, it is notable that small-scale independent providers have been delivering a fully private service to high numbers of poor households for decades. However, rarely do we witness a partnership arrangement in which the municipal (or line) agency is responsible for the urban service, and rarely do we see any official recognition of the role ISPs play within the city. In contrast to the increasing attention being paid to municipal labourers – often a subject of great concern in the formulation of PPPs – the impacts of formal private sector involvement on independent providers are rarely addressed. On the contrary, ISPs often have their investments expropriated by newly-appointed concessionaires without compensation (see Box 7.11 illustrating the *aguateros* in Paraguay).

In many cases, the important role played by small-scale independent providers in developing cities has been overlooked in the push to attract the capital investment and managerial skills that come with large-scale operators and long-term contracts. However if municipalities are to work successfully towards an overall poverty strategy, it is absolutely essential that they recognise the complementary roles of these smaller private entrepreneurs. The poverty analysis and the technical analysis of existing services should therefore include a detailed assessment of the existing role and impacts of small-scale service delivery to the city and to poor communities in particular. With this information in hand, municipalities are in a better position to devise arrangements that build on local capacities.

Box 6.10 outlines some of the types and characteristics of small-scale independent providers working in water, sanitation and solid waste services in developing cities. They provide a diverse collection of services in a highly competitive market. Activities tend to focus on activities in the secondary and tertiary sectors (with the exception of borehole operators, or the few small-scale private networks) as small-scale independent providers tend to operate in distribution and collection at the local level; there is a clear distinction between water, sanitation and waste service providers. They rarely provide services in more than one sector.

The small-scale enterprise is typically an informal, independent, subsistence, self-employed or family-based arrangement, managed on a day-to-day basis and providing a service that requires low levels of investment. Most have developed in

## | Box 6.9

**A Micro-enterprise Profile****Billy Hattingh Solid Waste, South Africa**

The Billy Hattingh solid waste removal scheme came about in 1992–93, prior to the South African democratic elections as a result of the relationship between Billy Hattingh (BHA), a local entrepreneur, and two local banks. The objectives of the initiative were to assist in the development of micro-enterprise among black communities in South Africa, to improve environmental conditions for poor communities, to strengthen the communities served, and more generally, to promote the growth of the small and medium enterprise sector in South Africa. The strategy for realising this objective has focused on establishing innovative solid waste micro-enterprise in otherwise unserved urban communities (formerly township areas). The initiative assists unemployed but interested individuals from the previously disadvantaged groups in South Africa, to work towards the development of an effective and profitable business.

The scheme relies on a facilitator to seek interested local authorities (such as Tygerberg and Greater Alberton) to enter into a tripartite partnership arrangement. This contractual arrangement is between the facilitator (at the outset BHA, now Tedcor), the municipality and the selected solid waste entrepreneur. The aim of this arrangement is to provide a formal structure for local waste services, underpinned by a formal connection to an established entrepreneur. Once a local authority and a community were selected, a steering committee was formed (consisting of local civic leaders, the municipality and Billy Hattingh). This committee is responsible for the selection of the entrepreneur. Candidates must be unemployed and resident in the community to be served, and that they must be willing and able to employ local labour in the business.

Local banks have undertaken to provide financial support for all approved projects facilitated by BHA. The financial support includes a loan for a truck, tractor or trailer and a 30m<sup>3</sup> storage container, as well as other necessary appliances and equipment. Maintenance and repairs are carried out by the supplier of the equipment or by a dealer approved by Billy Hattingh. BHA is responsible for the monthly reporting and for ensuring proper financial management of each micro-enterprise. This includes ensuring not only that the loan financing is successfully obtained and repaid, but also that all taxes, personal contributions, compensations, insurances and so on are separately accounted for and used solely for this purpose.

Following a competitive tender, the entrepreneur signs a contract with the municipality undertaking to provide a service in a defined area, and the municipality pays a monthly fee directly to the operator. The municipality retains responsibility for the service and the collection of service payments from residents. The term of the service contract is normally five years. The contract provides strict performance standards outlining the services to be provided, including that the entrepreneur shall collect all waste deposited in designated waste containers from every collection point within the designated area once a week; that they should provide a litter-picking service; that they should sweep and remove all debris and sand from all surfaced roads, footpaths and sidewalks etc.; and that they should deliver and collect waste bags without containers. The liaison committees responsible for monitoring performance include municipal representatives, BHA (now Tedcor), the entrepreneurs and community development forums, and as such communities have been given a defined role in the delivery process.

In order to ensure that entrepreneurs have the capacity to fulfil all the tasks associated with their enterprise, BHA provides training and development services and in the past has provided the technical and financial training necessary. This capacity building is a critical phase in the overall process, improving skills in business management, personnel management, industrial relations and waste and transport management. This training has been developed to suit the nature of micro-enterprise operations.

All stakeholders – communities, council officials, the entrepreneurs, trade unions and the financing banks – have provided positive feedback on the initiative. In Khayelitsha (on the outskirts of Cape Town), prior to the introduction of the initiative by the Tygerberg council, the lack of door-to-door collection and frequent removal of waste from communal skips, combined with illegal dumping and indifferent communities and workers, had resulted in very poor environmental conditions. At this time the cost of a far inferior service was in the order of US\$0.30 per service per month, and this has been reduced to US\$0.18. Since the micro-enterprise scheme was launched, conditions have improved radically, service is reliable, communities are working in support of a clean neighbourhood, residents are proud to invite people to their homes, former dump sites have been converted into taxi ranks and parks, and the people employed through the initiative are empowered and are now able to provide adequate incomes for their households. The success of the scheme has spread, and a number of councils have entered the scheme, meaning that a large number of solid waste micro-enterprises have been established.

response to demand; they must win their customers' loyalty, maintain their equipment effectively to maximise their efficiency, and innovate and adapt in order to stay in business in a competitive market.<sup>10</sup> As a result they are often knowledgeable about users' ability and willingness to pay, and about the specifics of local conditions – what works and what does not. With the exceptions of those who operate exploitative monopolies, a characteristic of SSIPs is the demand-responsive nature of their service.

Conditions obviously vary according to context, but in terms of water supply, small-scale independent providers frequently work in the expanding peripheral areas of cities. These areas are settled informally and are not served by networks. These marginalised poor communities and households require small quantities of water for domestic (and sometimes agricultural) use. They find ways to pay for it, and it is now well established that they are often willing to pay, or have to pay well over the price paid by the non-poor for their water supply. The consumption patterns and the preferences shown by consumers reinforce the need for flexibility, as the livelihood strategies of the poor adjust in accordance with varying incomes and expenditures. Small-scale service providers also serve non-poor customers residing outside the network area, and poor communities in core areas of the city. Many of the inner areas of cities have no access to water due to the unaffordable nature of water connections, the illegality of the settlements, the marginal nature of the land, or the political difficulties of accessing network supply. In a range of Latin American, Asian and African cities, evidence suggests that the ISPs operate a competitive water distribution market for the poor, and they work in parallel with, but rarely in association with the monopolistic, large-scale, private or public sector water operators.

Levels of sanitation services vary considerably throughout the South. Even within Africa, the extensive networks of Southern African cities, such as those found in Zimbabwe, stand in stark contrast to East Africa, where most cities lack sewerage networks. For the overwhelming majority of poor citizens, access to clean and effective sanitation services is limited (generally more limited than water), and SSIPs fill the gaps in this provision. As with solid waste, workers in sanitation services (often called 'conservancy workers' when employed by the government) tend to be very poor themselves; they operate vacuum trucks for the cleaning of septic tanks, or clean latrines manually to remove sludge. The work is poorly paid, has a low status and is detrimental to their health. Other entrepreneurs have established public toilet (or shower) facilities that, apart from providing a service to the general population, provide a safe alternative facility for women and girls, otherwise accustomed to squatting in unsafe neighbouring areas at night.

Solid waste services provided by SSIPs include sweeping, door-to-door collection, area collection by handcarts, rag-picking and recycling. Often, the poor provide these services to the non-poor or better-off poor, who are willing to part with small sums to avoid having to undertake these tasks themselves. Evidence in Hyderabad and Bangalore in India concerning CBOs that arrange for poor householders to collect waste indicates the demand for lane-level solid waste services, and shows that mechanisms can be arranged for payment. In each case, householders paid the waste collector a small monthly fee for the service.

Evidence suggests that a number of factors, closely linked to the informality of SSIPs, constrain their inclusion in government-initiated partnership arrangements. These include:

- lack of inclusion of SSIPs as stakeholders in the strategic approach to the partnership;
- lack of legal provision for SSIPs, even in the context of policies encouraging private sector participation;
- drive to formalise business activity, which can put small-scale operators under financial stress (if taxation systems are biased and they do not have the financial management support necessary to undertake their trade in the formal sector);
- lack of access to credit or a sound financial base;
- fear that their efforts will be expropriated in the future;
- lack of capacity of their customer base (e.g., low levels of literacy, unemployment and the lack of physical wellbeing and empowerment) makes their clientele vulnerable to crisis;

**Box 6.10 Informal Service Provider Profiles**

Independent providers of water

Who are they?	Benefits for the poor	Constraints
Standpipe operators Water-carters (handcarts, donkey-drawn carts) Water tankers Water resellers Private borehole operators Small networks	Filled a service gap left by formal providers Flexibility and adaptation to local conditions Technical approaches suitable to the community and location Economic options suitable to the community and location Employment comes from the community Money for the service stays close to the community Local entrepreneurial talent is developed	Legal uncertainty Lack of recognition of their contributions Risk of investment being expropriated by the concessionaires Usually they are unorganised, which means many relationships (rather than one with a larger company) must be managed
<b>Independent providers of sanitation services</b>		
Who are they? Latrine cleaners Public toilet operators Vacuum truck operators Sludge treatment plant operators	<b>Benefits for the poor</b> Flexibility and adaptation to local conditions Technical approaches suitable to the community and location Economic options suitable to the community and location Employment comes from the community Money for the service stays close to the community Local entrepreneurial talent is developed	<b>Constraints</b> Risky investment, particularly if large-scale private operators are likely to displace them from the market Legal uncertainty Lack of recognition Work conditions harmful to health Usually they are unorganised, which means many relationships (rather than one with a larger company) must be managed
<b>Independent providers of solid waste services</b>		
Who are they? Sweepers Collectors Drivers Rag-pickers	<b>Benefits for the poor</b> Service areas that cannot be serviced by conventional city-wide methods Cost effective Affordable Flexible Employment comes from the community Money for the service stays close to the community Local entrepreneurial talent is developed	<b>Constraints</b> Often not effectively integrated into the city-wide system Often suffer from the lack of access to micro-credit (and technical assistance) Usually they are unorganised, which means many relationships (rather than one with a larger company) must be managed

- lack of land tenure in the areas serviced by the SSIPs, which means that the type of service they provide is limited;
- lack of coordination between SSIPs in addressing blockages;
- lack of SSIP associations that can effectively interact with large-scale operations; and
- lack of business management skills.

Despite these impediments, SSIPs bring substantial benefits to cities and to poor communities. For instance, they typically:

- reach the households that formal service providers have failed to reach;
- reach physically marginal areas (e.g., flooded marshlands, steep hillsides) that are not served by networks or formal providers due to technical constraints on network infrastructure and/or a lack of land tenure;
- are flexible and can provide, either individually or through market forces, the type of service that customers demand (and can afford);
- adapt to changing circumstances to ensure they make a profit;
- are particularly knowledgeable about the constraints of local conditions and communities; and
- are often efficient due to the high density of the settlement.<sup>11</sup>

It is important for municipal officials to note that SSIPs already play a role in service provision in their cities. Where they are not exploitative, small-scale providers that fill gaps in existing services, represent a significant resource that frequently meets the differentiated needs of poor consumers. Sectoral reform that focuses on increasing private sector involvement should recognise that small-scale providers are an essential part of this sector. The strategy developed for service partnerships should consider, through unbundling approaches, how SSIPs are brought into the partnership in the short, medium and long term, the formal and informal relationships between these partners, and the impacts of this change on the poor. Understanding of what SSIPs provide and why is a key starting point. Over time strategies may also need to define mechanisms for assisting these service providers to find new areas of employment or enhance their businesses, whether through skills training, income generation activities or the development of alternative approaches.

#### Potential roles of the private sector

Given the diversity of the individuals and organisations included in the term 'private sector', it should be no surprise that there is a huge number of potential roles for the sector. In relation to water and sanitation services or solid waste management, municipalities can test whether the private sector – in its broadest sense – has the capacity to carry out technical roles, such as design, construction, operation and maintenance, whether it has the financial resources to bring revenue (for long-term investment or ongoing operations) to the partnership, and whether it has the managerial and operational skills to take on overall operational and customer management. Municipalities must also investigate the capacity of the private sector to engage in participatory processes and generally work with poor communities in the city.

#### Challenges to effective private sector engagement

Although evidence reveals the substantial benefits of engaging the private sector, there are some particular challenges to its effective participation. These often arise out of using the formal private sector for tasks that are beyond its core competencies, and out of the difficulty of constructing effective interfaces between the stakeholders. Unlike small-scale providers, international and national private sector enterprises may not:

- have experience of and empathy with the poor;
- have staff who are skilled in working with poor, heterogeneous urban communities;
- feel comfortable with the divergent characteristics of municipal or civil society partners, and prefer instead to go it alone;

**Box 6.11 The Roles of an NGO in a Water and Sanitation Partnership**

The Mvula Trust, South Africa

Links to Boxes  
6.11, 6.12, 6.26, 8.13

The mission of the Mvula Trust (see also Box 3.4) is to improve the health and welfare of poor and disadvantaged South Africans by increasing their access to safe and sustainable water and sanitation services. Its strategy is to support the development of good practice in the sector by testing and advocating sustainable models of cost-effective delivery and management. In 1997, Mvula Trust entered a consortium as the institutional and social development (ISD)-lead service provider for the Build, Operate, Train and Transfer (BoTT) contract for the delivery of water to poor peri-urban and rural villages in the Eastern Cape of South Africa. The provision for this ISD role, termed 'organisational development', was included from the outset in the Terms of Reference (ToR) as one of the key roles in the partnership arrangement and delivery process.

Under the BoTT arrangement, the ISD tasks for which Mvula Trust is responsible include:

- *Establishing sustainable community-based organisations.* Community leadership is considered a critical dimension of the BoTT approach. This task area is aimed at establishing effective communication channels between the community, the municipality and service providers. It is achieved through the structuring and organisation of a project steering committee and village water committee, and by working with local government to ensure that communication between community organisations and the council are established and effective. Mvula Trust appoints specialist community workers to adapt participatory methods with each individual community to enhance existing organisations and to facilitate decision-making regarding services.
- *Facilitating agreements and cost recovery mechanisms.* The ToR for the ISD services links the establishment of effective CBOs to the customer service agreements that are necessary for the works to proceed. ISD workers are responsible for working with communities to explain proposals, make revisions and ultimately sign off the customer agreement. The ISD provider is also responsible for building awareness in cost recovery. This area of work involves liaison with the community to establish agreement on overall costs and the development of options with the community for the payment of tariffs. Mvula Trust is also charged with the identification of poor households unable to afford tariffs, and with setting recommendations for how tariffs will be covered to ensure that they are included in the benefits of the improved service.
- *Providing health and hygiene promotion.* Utilising participatory methods, and starting with an analysis of existing health patterns, baselines, identification of primary health problems and health-related behavioural changes, the health promotion activities are developed around one key behaviour that undermines health in the community. The work thus includes identification, planning, implementation, monitoring and evaluation. Indicators are framed in terms of increased knowledge of health and hygiene issues within the communities.
- *Undertaking monitoring and evaluation.* This programme aims to monitor and evaluate the outcomes of BoTT activities in each community during the operation and maintenance phase of the works. Utilising participatory methods, the ISD team identify problem areas related to the water supply scheme and suggest solutions and recommendations for refurbishment.
- *Developing the water service provider role.* The development of a water service provider (WSP) as a long-term organisation to operate the water system is the primary mechanism for the delivery of service improvements. The ISD team plays a key role in establishing the development of the WSP and the institutionalisation of the WSP in the community. Allied to this is capacity building to ensure that the proposed WSP is able to carry out the role defined in the national regulatory framework. This includes, for instance, customer liaison, management and cost recovery.
- *Facilitating labour procurement.* This component of the work aims to promote local employment through the procurement of labour from each community. The ISD provider role facilitates this process by strengthening the established CBOs (in this case the Project Steering Committee) to act as brokers in the procurement of manual labour for construction works, and by supporting the community in its liaison with the contractor. Communities are expected to form a labour desk and formulate business plans in accordance with BoTT procedures. Capacity building is provided to ensure that nominated labour desk members from the community are familiar with the tasks involved and the procedural limitations of the work.
- *Building local ownership.* The contract provides for the hiring and training of previously disadvantaged individuals and companies to carry out the works, and for them to gradually gain share ownership in the management company.

The Mvula experience of facilitating these ISD activities has been mixed. The emergence of disagreement within the partnership arrangement – especially where partners have not appreciated the importance and implications of community based approaches – has created ongoing problems for Mvula in achieving the sustainability it places high on its agenda.

- appreciate the need for time to undertake participatory processes; or
- appreciate the social and cultural differences between international corporations and local settings, and between business and society.

In particular, the private sector often has difficulty with methodologies that involve poor householders and communities as decision-makers and participants. There is an underlying belief that the business knows best. With the right operator, and if approached creatively with support from other actors, these differences may be important sources of innovation.

## Civil Society Actors

Over the last decade, the role of civil society in development initiatives has gained increasing acceptance, and this shift has been taken up in a few PPPs focused on the poor. These initiatives have recognised the central place of consumers, the critical supporting role of NGOs and the important political role of trade unions. While these are just three types of organisation from a wide range of civil society individuals and organisations, they perform greatly differing roles in the formulation of partnerships and are therefore discussed in detail below.

### Non-governmental Organisations

#### The characteristics of non-governmental organisations

There is as much diversity in the NGO sector as in the municipal and private sectors, discussed above. International, national and local NGOs, with vastly different mandates, display very different levels of skills and experience, and thus offer very different competencies to service-oriented partnerships. Some are staffed by social and technical professionals, some by volunteers, and others by a mixture of the two – all in an effort to bring benefit to others.

Despite this massive diversity, when compared with the public and private sectors, NGOs also reveal a set of fundamental and unique characteristics (see Box 6.23). Unlike the private sector, which is driven by a profit motive, the primary interest of (legitimate) NGOs working with the poor is social.<sup>12</sup> Many organisations (large and small, international and local) work without profit, generally undertaking their role with the purpose of promoting justice and equity and improving the quality of the lives of vulnerable and marginalised groups in the society. Adhering to ideology is often an important characteristic of such organisations – many struggle with their roles and the validity of certain actions. In the main, their work is carried out for public rather than private benefit.

Like private sector companies, the scope, skills and overall capacity of NGOs will largely determine the roles they can perform within a partnership, and just as with private sector companies, many municipalities are wary of NGOs and their roles with the community, particularly when past relationships and experiences have been ineffective and confrontational. Many will not be clear about the benefits that the NGO sector can bring to a service partnership. Yet over recent decades, poverty reduction projects in a number of sectors have exposed the benefits of NGO involvement in replicating initiatives.

NGOs work to a timeframe that is very different from that of the public and private sectors. Their over-riding concern with the sustainability of service improvements often makes their vision long term. This is often reflected, for instance, in their commitment to the time element of effective participatory processes. In practice, this ideal vision is often affected by the short-term and tenuous nature of their funding. Only well-established NGOs are usually able to work within a timeframe that brings about their sustainability objectives.

Primary assets of many NGOs include their dedication and capacity to work in diverse and often difficult situations with few resources. Because of these characteristics, many NGOs working with urban poor communities build a level of trust

## Box 6.12 Key Issues for NGOs: The Experience of The Mvula Trust South Africa

Links to Boxes  
6.11, 6.12, 6.26, 8.13

The Mvula Trust has been involved in the institutional and social development component of BoTT for four years. During this time it has identified a number of important issues that jeopardise its ongoing involvement in PPP approaches to the delivery of water and sanitation services to the poor. Foremost among these are:

- *The lack of commensurate objectives and vision.* One of the fundamental areas of conflict for an NGO working with private sector partners is the diverse nature of their goals. If the objectives, vision, and organisational mandates of the private sector and the government cannot converge, Mvula doubts that the arrangement will be sustainable or will meet its own policy objectives. Experience to date in the BoTT suggests that the main areas of disquiet are those that the NGO prioritises. These include, for instance, participatory methodologies, sustainability, handover and replicability. Mvula has found that these goals frequently conflict with the efficiency objectives of the private sector, but it asserts that this efficiency is short term, and needs to be reconsidered in terms of the long-term sustainability of the outputs. In the lead up to BoTT, the project preparation stage did not provide opportunity for partners to air their concerns and agree approaches at the outset. Mvula emphasises the importance of establishing non-negotiable items at the outset. In this situation it is possible to resolve problematic issues or withdraw from the arrangement.
- *The problem of transparency.* One of the areas that Mvula finds untenable is that the project itself promotes transparency and accountability, but the private sector is unwilling to present arrangements in a transparent manner. The Mvula experience with communities in BoTT suggests that its own reputation is put at risk because the consortium is not willing to openly declare expenditure, income and profit, and is not willing to subject itself to transparent monitoring and performance evaluation. From the Mvula perspective, this is essential not only to ensure that the principle of transparency is equally applied to all aspects of the partnership and service, but to ensure that Mvula is not unknowingly involved in exploitative practice.
- *The issue of profit.* A key policy question facing the Mvula Trust is how it should address profit, and how to determine an acceptable level of profit. It is widely accepted that the private sector brings with it a profit incentive, and that profit brings with it efficiency. Improved efficiencies are a key goal of the private sector to ensure that it is able to decrease costs and improve its profits. However, the lack of transparency with regard to profit places the NGO partner in a consortium in which the private sector partners may have increased their profit margin to a level that the NGO finds exploitative and unacceptable. Second, the NGO is carrying a large portion of the responsibility but the profit is being absorbed by the private sector organisations. (In the BoTT consortium, all other lead service providers are shareholders in the consortium, but Mvula Trust declined the opportunity to be a shareholder out of concern that it could negatively influence or compromise its role.) Mvula currently functions on a non-profit basis within the BoTT. It is currently considering whether such activities should subsidise the advocacy and policy work it undertakes as a core function and/or whether BoTT should be used as a source of finance to create an organisation that is sustainable for 5–10 years.
- *The learning and knowledge agenda.* In order to meet the Mvula mandate for effective learning and dissemination of best practice, it is necessary for partners to subject the partnership arrangement to objective evaluation. Such a commitment has not been forthcoming and as a result there is no adequate monitoring of private sector partner performance, which would enable problems to be aired and resolved, and lessons to be learnt and disseminated.
- *Planned internal decision-making.* It may be inevitable that opposing views will be formed within the NGO, especially where decision-making at the highest levels of management is overtaken by bidding processes at the local level. In Mvula, a division arose between those who adopted a purist approach aimed at maintaining the integrity of the community-based method of delivery, and the PPP camp, which adopted a practical approach aimed at improving services for large numbers by partnering others to provide services. While the advocates of the practical approach argue that they had a social responsibility to be involved, to influence the agenda and to bring about the best possible solutions, there is nevertheless an unhappy air about the association with the partnership consortium.
- *Acceptable company policy.* Mvula Trust is concerned that its partners should uphold the same ethical work practices that it does.

with the poor that is rare for a government agency or private sector company. Much of the work carried out by NGOs focuses on incremental service improvements, and typically this is based around community mobilisation and capacity building. Compared with the public and private spheres they generally show superior skill in communication and thus they are frequently, but not always, ideal facilitators for action at the neighbourhood level.

International NGOs working in service delivery, such as WaterAid, are strong organisations with their own networks at the funding and local levels, and are frequently involved in both policy and implementation. Many international organisations are still opponents of PPPs, but increasingly they are entering and enriching the debate with their perspective. Despite their caution, many have recognised that widespread improvements to urban living conditions can only be brought about through widespread replication of local initiatives, and the overall capacity of the bulk supply. Too many times they have installed taps to find there is no water to flow through them, or organised solid waste collection to find there is no effective city-wide disposal.

Local NGOs are usually involved in the direct implementation of projects and provide valuable, trusted links to poor neighbourhoods. Many will be part of a local civil society network. The linkage between levels, however, is highly variable.<sup>13</sup> In urban areas, the mandates of many NGOs will be centred on one particular concern: advocacy, literacy, micro-credit, health or children's welfare, for instance. Many will have dedicated themselves to this issue and have established credibility and specialist expertise. A primary problem arising in relation to the delivery of services is that the NGOs best placed to work with particular communities may not always have the technical skills to work effectively in physical service provision. This issue of technical knowledge and the ability to communicate options to the poor is becoming increasingly important. Some NGOs expand their scope of work and develop this capacity, but this is not always successful or sustainable, because it is highly dependent on individual skills and attitudes.

#### **The potential roles of non-governmental organisations in service partnerships**

The role of the NGO in partnership arrangements for service delivery is therefore generally associated with communities, particularly poor communities. The efficacy with which NGOs can perform roles will vary according to the capacity and interest of the organisation and specific individuals, and according to whether or not it has an established relationship with a community. The first book in this Municipal Capacity Building Series<sup>14</sup> proposed that the potential roles of NGOs include mediation, facilitation, coordination, capacity building, community development, dispute resolution and post-project sustainability. These and other key roles are discussed in relation to service partnerships below.

#### **Project formulation and development**

NGOs can make a very important contribution to the initial formulation and development of partnerships and service improvement projects in low-income areas. For instance:

- NGO advice in project formulation often leads to more appropriate service responses. Community decision-making is dependent on capacity and communication. Experience suggests that communities making decisions over service options are facilitated by NGO involvement, as NGOs are more familiar with community capacity and needs.
- NGOs can provide knowledge about the appropriate programming and sequencing of activities in relation to capacity building, and can assist in the effective coordination of social, institutional and infrastructure-related activities.
- NGOs often have experience that enables them to understand the role of ISPs in service delivery, and may be able to facilitate institutional arrangements that bring ISPs into partnerships rather than marginalise them.
- NGOs will probably be best equipped to understand a community's own resources – such as labour and finances – and how to integrate these into the overall formulation and development of the arrangement.

**Box 6.13 Factors Affecting NGOs: The Experience of IIED**

Buenos Aires, Argentina

[Links to Boxes](#)[3.5, 5.5, 6.13, 7.2, 7.3, 7.11, 7.18, 8.12, 9.8](#)

In Buenos Aires, the local NGO IIED-AL has been involved in poverty reduction activities, and specifically the improvement of water and sanitation services in Barrio San Jorge, for nine years. IIED-AL involvement in service upgrading originated because the government and line agencies did not have the resources or incentive to undertake works in the *barrios* of Buenos Aires. The network installed in the *barrio* functioned (and was funded) independently.

In 1993, when the Aguas Argentinas (AA) become the concessionaire for water and sanitation network services in Buenos Aires, it did not immediately look to the low-income areas to expand their coverage. Typically, the *barrios* are informal and poor communities without legal land tenure, living in irregular settlement patterns. Under the contract, AA was responsible for serving only the periphery of the settlement, and then only to legally recognised buildings. However, when AA recognised that it was necessary to start to address the specific problems of low-income settlements, the Barrio San Jorge provided a unique opportunity. In this *barrio*, AA found three important conditions: a small network had been constructed, NGOs and CBOs were established locally and working together on community development, and the municipality was willing to support the operator's involvement.

From its perspective, IIED-AL felt it would be prudent to work with the concessionaire to improve water and sanitation services for the poor, and to promote replication across the *barrios* of Buenos Aires. The question became 'how' not 'whether' it would be involved. How else were water and sanitation services to the *barrios* going to be improved? How could AA be assisted in working in low-income areas to the mutual benefit of all parties (the communities, the concessionaire and the government)?

The collaboration between AA and IIED-AL functioned on a number of levels; the NGO had two different arms. IIED-AL perceived the arrangement to be somewhat precarious because it had no ongoing contractual arrangement with the operator. In the first stage in 1995, IIED-AL and the community transferred the newly constructed independent water and sanitation network in Barrio San Jorge to AA in exchange for a connection into the city-wide system (the construction cost of the network was US\$150,000). Following this, IIED-AL undertook short-term contracts (directly with AA) to undertake specific pieces of work. It was involved, formally and informally, in a number of activities such as promotion of activities in low-income settlements; environmental and social assessments; capacity building of Aguas Argentinas managers; sensitisation of AA staff to work in low-income settlements; explaining the codes of working in low-income settlements; and supporting the community development cell established in AA with an IIED-AL representative.

The experience of working with the private sector has been mixed. On the one hand it has been problematic. A level of mistrust and scepticism clouded the perspectives of both parties. The process introduced some risk into the well-established IIED-AL organisation and activities. At times, its reputation was threatened as colleagues in the NGO sector (with little exposure to such private-NGO links) saw IIED's association with Aguas Argentinas as questionable. Many NGOs perceive IIED-AL as working 'for' and not 'with' Aguas Argentinas. This has undermined important collaborations with other NGOs and IIED's role in the local NGO network. Departing from its established activities, IIED had to embrace a number of challenges to work with AA, a process which temporarily destabilised the organisation. Despite these difficulties, IIED-AL concluded that it was worthwhile to help promote the process of institutionalisation of community issues and low-income approaches in a privately-operated utility – especially one responsible for water and sanitation services until 2023.

Benefits then became evident. The partnership activities with IIED-AL undoubtedly helped AA to extend services to low-income areas. The lack of explicit extension mandates to low-income areas meant that the operator could opt to delay such improvements for years. The work with IIED-AL, and the confidence this has lent to AA, has meant that more poor people are receiving services (and improvements to the quality of their lives) at an earlier stage, and perhaps more than would otherwise have been intended. AA has also gained the confidence to work with other NGOs, CBOs and consultants.

Various lessons have emerged from the IIED-AL experience, each of them instructive for local authorities seeking to focus partnerships on the poor and looking to the NGO sector for support to this end. These include:

- Recognising the conflict many NGOs could face if they are to enter into formal or informal associations with the private sector. It is not a simple or natural step for them to take. Many NGOs will resist such a move, and this link may not be possible in the short term.
- Considering the nature of the contractual relationship with the concessionaire. NGOs invest their reputation in such a venture. For NGOs with a poverty reduction mandate, this must be accompanied by some commitment from the operator that its work will be used to the benefit and not the detriment of the poor.
- Considering, in the long term, how NGOs will be compensated for work that supports the concessionaire. It is essential for NGOs to be involved in, and agree, as many provisions as possible before the contract is signed. Without this it becomes a powerless partner.

### Capacity building

Most CBOs that play a meaningful role in development processes have been empowered through the capacity building work of NGOs or external agents. NGOs can enhance community skills in leadership, literacy, public speaking, teamwork etc., such that communities are able to formulate and articulate decisions confidently in unfamiliar environments. At an organisational level, capacity building activities by NGOs may mean making an organisation or activity financially sustainable (for instance, the day-to-day operation and maintenance of a communal water tap). In some partnerships, this may mean that the NGO takes on a role in ensuring that the CBO is formalised. In the BOTT in the Eastern Cape in South Africa (see Boxes 6.11 and 6.12), the NGO Mvula Trust is one of the partners of the contracting consortium, and they are specifically responsible for institutional and community development.

By and large, business organisations with their profit-maximisation goals are comparatively heavy-handed at working with communities, and are not interested in their capacity. The capacity building role of an NGO may also include capacity building for the partners. The lack of skills in relation to social and institutional dimensions, and in terms of interacting with poor communities, suggests there is a critical need for greater flows of information from competent NGOs to the private sector. This requires a society-friendly environment and a desire on the part of the other partners to learn.

### Community interface

NGOs are normally suited to interfacing with the community.<sup>15</sup> In service delivery projects where the private sector becomes involved in low-income areas, skilled community workers must carry out interactions with the community. The private sector is often heavy-handed in this regard, and while some municipalities have built this capacity through recent experiences with community participation, the NGO sector may still be best placed to take on this role. NGOs can particularly assist in forming a bridge at the early stage by building trust and confidence. Locally established NGOs are often the entry point for communities and can facilitate the process while all the parties become familiar with one another. In some partnerships this role is extended and the NGO becomes the regular conduit for all discussions with communities. Participatory information collection is a key starting point. While this may result in consistency and increased trust between other partnership members, this can place the NGO in an impossible position – especially when it is the bearer of bad tidings or fundamentally disagrees with the message it must impart. For example, in the South African BoTT project, Mvula Trust was opposed to the introduction of pre-paid meters for poor communities, but was contractually obliged to discuss proposals with the community.

### Awareness building

A primary role of an NGO in a partnership is helping communities to understand processes and options. This includes building awareness of the various roles and relationships of the partners under the contract, and of the broader legislative framework. It should include information and awareness that enhances choice. Institutional relationships are often complex and can provide a shield of protection. In consortium arrangements, it is vital that poor communities know who is responsible for which tasks, and that these organisations are accountable to them.

### Advocacy

Even with improved awareness, a poor community may still not have the capacity to act as an equal partner at the outset, and an NGO can help represent and explain their interests and perspectives. While this may lead to conflict and disagreement over some central issues, the ultimate goal of sustainable service delivery is more likely to come about if communities are adequately represented in the partnership. In this respect the NGO plays an important advocacy role.

**Box 6.14 Disaggregating Service Consumers**
**Water supply**

	Destitute	Very poor	Poor	Non-poor
Primary interest	Survival	Basic service	Affordable service	Service provided at lowest cost
Livelihood requirements	Access	Flexibility	Better service Flexibility	Reliability
Primary constraints	Homelessness	Insecure tenure Occupy most marginal land	Possible insecurity of tenure	None
Capacity to pay**	No	Basic rates, with flexibility in payments	Basic rates, probably most of the year	Yes
Capacity/willingness to participate	No	Yes, with support	Yes, maybe dominant	No willingness
Level of service required**	Communal, free	Varies, but likely to change constantly.	Immediate access, maybe household connection	Household connection

**Sanitation services**

	Destitute	Very poor	Poor	Non-poor
Primary interest	Survival	Basic service	Affordable service	Service provided at lowest cost
Livelihood requirements	Access	Access	Close access	Hygiene
Primary constraints	Homelessness	Insecure tenure Occupy most marginal land	Lack of land for sanitation facilities	None
Capacity to pay**	No	Basic rates, would not prioritise as for water	Basic rates, probably most of the year	Yes
Willingness to pay**	No	No	Some households	Yes
Willingness to participate	No	May not prioritise	May not prioritise	No willingness
Level of service required**	Communal, free	Varies, but likely to change constantly	Immediate access, not highest level of service	Household connection

**Solid waste services**

	Destitute	Very poor	Poor	Non-poor
Primary interest	None	Basic service	Basic service	Household removal
Livelihood requirements	No waste	Little waste, not prioritised	Some waste, but rarely prioritised, flexibility	Hygiene
Primary constraints	Homelessness	Interest Dumping creates public health hazard	Interest Dumping creates public health hazard	None
Capacity to pay*	No	Basic rates, would not prioritise at all	Basic rates	Yes
Willingness to pay/participate	No	Some households with capacity building	Some households with capacity building	Pay (some_ Participate – no
Level of service required**	Communal, free	Free	Basic service	Household service

\* Willingness to pay will vary much more significantly and is not included here

\*\* Level of service required often expressed differently by men and women

**Service provider**

The NGO may also be well placed to take on other poverty reduction activities that reinforce and supplement physical interventions in communities. The importance of hygiene promotion, for example, is well established as an important linked activity. NGOs are often best placed to conduct related activities in relation to community capacity building. In some cases, this may lead to the formation of a community NGO or CBO (such as a cooperative) to take over tasks at the neighbourhood level.

 **Cost recovery**

Perhaps one of the most difficult issues for NGOs is the promotion of cost recovery. Some find it difficult to work with cost recovery principles, while others are concerned more with ideology and determining what is affordable. Frequently, an NGO is the most appropriate actor to work with communities to develop a culture of willingness to pay for a service to ensure sustainability.

 **Monitoring and evaluation**

Closely associated with their roles as advocates for communities, NGOs can perform important roles in monitoring and evaluating progress and impacts at the local level. They are probably best equipped to implement participatory monitoring approaches with communities, and can provide an important role in representing communities for some regulatory issues.

 **Conflict resolution and arbitration**

The role of the NGO as a community interface is frequently extended to that of arbitrator when disputes arise between the private sector and community organisations. This can place NGOs in a situation where there is a conflict of interest, irrespective of their contractual relationships.

 **Funding channel**

Some NGOs have the skills and experience to take on the role of a funding channel. This is likely to be on a small scale; few partnerships envisage the NGO as the conduit for large-scale infrastructure projects, and few NGOs have sufficient project-management or business capacity to handle these projects. They may, however, be the most trusted agents for handling money for community development.

 **What are the primary challenges for non-governmental organisations working in partnerships?**

The process of working with the public and private sectors is neither straightforward nor natural for most organisations in the NGO sector. In many recent policy discussions, assumptions have been made about the capacity and willingness of NGOs to participate in and lend their support to pro-poor initiatives. Many are not able or willing to do so. The mandates and attitudes of many NGOs are so far removed from the private sector that they will shy away from entering such arrangements, while others have acknowledged that the poor will benefit from the role such partnerships can perform. And, as in the private sector, many NGOs have only limited capacities.

The challenge for capable NGOs and for other partners seeking NGO support is to address and resolve the conflicts associated with:

- divergent ideologies, project objectives, methods and work practices;
- mistrust and scepticism built up prior to partnership approaches;
- conflict resolution between communities and private operators;

- funding mechanisms and availability;
- restraining NGOs from publishing and disseminating their partnership experiences;
- profit margins and lack of transparency;
- relegating interaction with NGOs to middle management, and marginalising them from decision-making processes;
- ignoring the timeframe needed for institutional and social development;
- the concern for long-term impacts and effectiveness compared with short-term efficiency; and
- internal conflicts over reputation, credibility and compromise.

In order to promote NGO involvement, municipalities formulating partnerships need to identify incentives that will attract potential NGO partners. NGOs need to be reassured that they will be given equal priority and status so that their voices will be heard (see discussion in Chapter 8 highlighting the implications of contracts and structured relationships). They need to see that mechanisms are in place to ensure that partnerships are community-friendly and exhibit a social commitment (e.g., financial commitment to monitoring and evaluation, policy debate, dissemination of best practice), and that the partnership reveals a commitment to capacity building and sustainability. As such, many will argue that key process and content agreements (such as community participation) should be acknowledged at an early stage.

## Consumers

### The nature and diversity of consumers

Increasingly, initiatives aimed at improving urban services recognise the importance of disaggregating the consumer base, targeting efforts to meet a range of needs and obtaining payment reflective of both the cost of the service standard they receive and their ability to pay. There are at least two types of consumers of basic services in the urban context of developing countries. In the first instance, a fundamental distinction needs to be made between the haves and the have-nots. Non-poor and poor consumers display vastly different service needs and marked differences in capacities that profoundly affect their requirements and their participation in neighbourhood and city-wide delivery processes.

In the main, it is expected that the non-poor should remain detached from the practical implementation aspects of service delivery, pay their bills without incident and behave as informed consumers. However, it is clear that such expectations are inappropriate for poor consumers, and customer aspects need to be appropriately restructured. In the past, this challenge was often avoided. Operators met contractual obligations and prioritised service upgrades for non-poor consumers, as they posed the lowest risks. Alternatively, many projects failed to meet objectives because they made little differentiation between the wealthy and the poor in the organisation of the delivery process and the partners involved. Business approaches have been applied inappropriately in poor communities, or alternatives have been experimental, ad hoc or out-of-contract initiatives.

The fundamental differences between non-poor and poor consumers must be understood in terms of physical, social, political, institutional and economic factors. The most visible is the marginalisation of poor consumers within the city. Although many marginalised and poor households are situated beyond the areas that are geographically defined as slums or squatter settlements, the vast majority are concentrated in underserved areas on marginal land, often without security of tenure. Typically, network services have not been extended to these areas. Water supply may be communal or illegally obtained, sanitation services may be rudimentary and threatening to personal health and safety, and solid waste services may be non-existent or may not be prioritised. Unlike their wealthier urban neighbours, poor residents often lack access to education, health care and income-earning opportunities. They have been marginalised from the benefits of economic growth elsewhere. Their social status is inevitably low, exacerbated by their inadequate and often unhygienic living conditions. They are generally politically marginalised; they lack access to information and are excluded from most decision-making structures.

## Community Mobilisation and Management

Lima, Peru

Links to Boxes  
6.8, 6.15

Box 6.15

One of the notable characteristics of the EU-funded programme established to improve water supply to the outlying areas of Lima, was the role the community adopted. The empowerment process led to it becoming the consumer and the client of the water tanker delivery service (see Box 6.8), and to more generally take responsibility for the management, operation and maintenance of its own water supply system.

Following some successful pilot work undertaken independently by the NGO Ecociudad in the early 1990s, a potable water supply project (the APPJ project) was developed with assistance from the EU with a budget of US\$15 million. The primary objectives of the programme were: to establish a sustainable and reliable water supply for the marginal urban settlements of Lima, through the physical construction of reservoirs and the installation of local distribution networks through the settlements; the integration of water tanker supply system in a large number of areas; and to participate fully as key stakeholders through the mobilisation of the community, able to take on a management role upon completion.

Civil society is both the beneficiary and the organiser/supply manager of the process. With technical and capacity building support from local NGOs, communities first assist in the construction of the reservoir and network by providing unskilled labour for digging trenches and the construction of standpipes. They then form water committees called COVAAPs in each sector in which a reservoir is built.

The COVAAP (Vigilance Committee for Drinking Water) is ultimately responsible for the management of the water supply system. It must be formed by the end of the construction phase to take on the responsibility for management, operation and maintenance. The COVAAPs act as community-based water suppliers. Those requiring water to be transported to their reservoirs purchase water from the tanker drivers (at a price capped by the municipality) and this water is sold via the distribution network to each household.

There are a number of distinctive models for these 'water committees' depending on their access to water and the decision-making process of the community, but where there is no other source, they have a private-civil society contract with the water tankers. They all act as profit-making enterprises, but one sub-contracts to the private sector, and the other conducts the distribution process itself.

In the private COVAAP model, as seen in Huaycan (with a 3400-metre network, 40 communal standpipes and 50 cubic metres reservoir), the operation of the infrastructure and services is contracted to an association of water tanker drivers for a one-year period. It pays a monthly fee of US\$58 to the local water committee and undertakes to provide an agreed service to the inhabitants of the area. Water is sold to the households, by the container, via a water attendant employed by the contractor. The COVAAP agrees the tariff at which water is sold for the duration of the contract. This water supply system is provided at a tariff that is 20% cheaper than other community models.

In the community COVAAP model, water tankers are contracted by the COVAAP to supply the water to the reservoirs. COVAAP then takes responsibility for the administration of the system, the maintenance of the system (both the standpipes and the reservoir), and for selling the water from the standpipes to the consumers in its area. The COVAAP is comprised of representatives of the local committees' central authorities, the community promoters and the public works committee promoted by the NGO, and a community representative. Because this model gives the community control over the supply process, it is the most commonly adopted model. A second community COVAAP model obtains the water directly from the SEDEPAL network.

The NGOs play a critical role in capacity building and facilitating communities, as well as a primary service provider role. This includes, for instance:

- executing the construction works;
- promoting the organisation and participation of the local communities in performing their roles;
- providing training on the administration and management of the water system;
- facilitating and managing the labour provided by the community for the construction process;
- organising local capacity building to mobilise communities; and
- organising health promotion activities with the communities.

Currently in its final stages, the initiative has resulted in the completion of 250 micro-projects (each serving 120 households), providing water to some 300 households and a total population of over 1.5 million. Total community contribution via a labour input is estimated at a value of US\$3 million.

On the other hand, non-poor consumers generally have some level of access to services, have jobs and regular income, and enjoy a higher social status – all enabling them to access the services they need. Working with the wealthy is good for business because they can afford a highly transactional relationship in which they simply pay someone to provide a service. Research in many industries has demonstrated that business processes and products can be too expensive for the poor.

#### **The characteristics of consumers and community-based organisations<sup>16</sup>**

The discussion earlier in this chapter draws attention to the heterogeneity of urban communities, the diversity of groups and households within the low-income bracket and the interdependence exhibited between households for services. It stresses the problem of capacity and the need for capacity building if poor consumers are to be able to pay for services and exercise rights. When considering the relative characteristics of consumers as actors in the partnership, it is essential that the poor are not considered as one homogeneous group, but are disaggregated to acknowledge their different vulnerabilities, capacities and coping strategies. Recognition of this diversity (and the need for proper assessments) will inevitably challenge some widely held views – among private operators particularly – that the poor can be viewed as one consumer type (a type that often only reflects the needs and capabilities of the most vocal members of the community). Box 6.14 sets out some of the characteristics of able and marginalised groups. It points towards a massive variation in the problems, needs, capacities and willingness of service consumers in poor urban contexts.

As individuals, consumers are simply a multitude of voices. In a PPP, an individual's resources and importance can seem minor, yet as a group they are a force and asset to be taken seriously; disaggregated consumer voices form a group that collectively may represent a market that it is possible to work with. In order for such voices to be heard, it is necessary for consumers to form interest groups or user groups to interact with other partners. In many poor urban areas these groups may be established CBOs with broad development agendas (neighbourhood committees, lane committees, people's organisations or women's groups, for instance) or a group that is developed to address a specific municipal service concern (an infrastructure committee, a water committee, a solid waste committee, etc.). These two types of groups have fundamentally different attributes but the success or failure of an existing or newly-formed committee will depend on the degree to which it represents the marginalised as well as the vocal elite. This requires mechanisms that ensure that the whole community is included, and capacity building to ensure the members are empowered to participate in a meaningful way.<sup>17</sup>

As vehicles of accountability, CBOs are important at all income levels. However, for poor people whose voices are not usually heard, effective CBOs can be critical in interacting with service suppliers. As aggregate groups, organised CBOs (perhaps working with NGOs) and networks of CBOs can:

- provide a vehicle for low-income consumers to articulate their needs and requirements;
- promote contextually specific solutions suitable to particular areas;
- influence construction, operation and maintenance and cost-recovery approaches;
- promote a livelihoods (rather than sectoral) agenda;
- create momentum for change; and
- encourage suppliers to meet (sometimes very) low levels of demand.

#### **The potential roles of poor consumers**

The potential roles of consumers in the delivery of water and waste services in urban areas are dependent on individual household capacity and collective organisational capacity. The disaggregation of consumer categories and representative organisations in relation to their resources and competencies is essential to ensure that roles are appropriate.

## Community Collaborations

Córdoba, Argentina

Links to Boxes  
6.16, 8.9, 10.7

Box 6.16

Following the introduction of a water concession in Córdoba (see Box 8.9), in 1998 the Municipality of Córdoba collaborated on a number of small pilot projects aimed at connecting poor communities much sooner than was envisaged under the long-term plan for extending the piped network. The pilot projects were carried out as tri-partite arrangements between the municipality, which contributes finance, the water operator, Aguas Cordobesas, which contributes technical assistance, and the community, which contributes voluntary unskilled labour. They have been funded by an investment grant from a special local development fund and a federal job creation scheme, under which long-term unemployed men are able to get work in unskilled labour.

Relying on clandestine connections to the piped network, the households of Barrio Estación Flores commonly experienced water shortages and low pressure, and many residents became dependent on water purchased from private tankers. Attempts to obtain legal connections to the network had repeatedly failed, so in 1999 an ad hoc committee, Ente Promotor, was created to access a US\$48,000 grant from the municipal fund in order to connect to the piped network. Despite internal problems between this ad hoc water committee and the established CBO, which wished to control the fund, bids were invited, a selection process held and the municipality approved a grant transfer to the committee. The work was carried out using the voluntary labour of the community. Aguas Cordobesas provided an inspector of works. A total of 550 households in 16 blocks were connected with 4500 metres of pipes. The work took longer than originally envisaged because of the need to ensure that all households dug trenches outside their homes. Delays were also caused by disagreements over who was responsible for trenches across streets and crossroads.

The committee was successful in reducing the overall cost of the project by ensuring that appropriate materials were used (such as small-diameter pipes) and arguing for lower cost for lower levels of service. (The final cost of the works came in 10% under budget, and was equivalent to just USD78.36 per household connection – less than one-quarter of the standard connection charge of US\$350 (including water-meter), levied by Aguas Cordobesas on households in the city for work carried out directly by its own contractors.

A second example is provided by Barrio Quebracho, a community of 640 households that has acquired a health clinic, primary school and community centre by the efforts of the residents themselves, without any government support. Up until the pilot scheme was launched, municipal and private water tankers supplied households and there were no illegal connections. The typical monthly household water purchase was three 4000-litre units at US\$10 each, giving a total expenditure of US\$30. Because of the recession, the male unemployment rate in mid-2000 was over 75%. An ad hoc committee was established in 1998 and accessed a US\$100,000 grant from the municipal fund. This committee was accountable to the municipality's Department of Community Participation. Two private companies placed bids to supply materials. The municipality purchased the materials from the winning bidder on behalf of the community and these supplies were then deposited. Work was successfully completed by the end of 1999. Aguas Cordobesas supplied two foremen to supervise the work of local residents, which consisted of digging the trenches outside their respective homes, and a number of unemployed labourers taken on for the construction period. 6000 metres of pipe were laid to a depth of 1.2 metres, all using labour-based construction techniques.

For many years, households in Barrio San Ignacio had been supplied with water by illegal connections to the piped network. An ad hoc water committee was formed in 1998 and a US\$70,000 grant was obtained from the local development fund in order to purchase materials. In mid-1999 some 40 local men employed under the federal job creation programme, Plan Trabajar, began work under the technical supervision of Aguas Cordobesas. However, political divisions within San Ignacio soon led to disputes between the local community organisation and the ad hoc water committee over the management of the project. Accusations arose concerning alleged misuse of the municipal grant. When the Plan Trabajar programme came to an end in December 1999, residents refused to complete the work by providing voluntary labour. By mid-2000 the project was paralysed with only half of the work completed.

The results of these small-scale collaborations have been mixed. Two experienced delays caused by conflicts over the control of funds. The ingredients of the successful projects were that the community participated in the project by supplying voluntary labour, the leadership employed transparency in the management of grant aid, a non-political approach was followed that encouraged the participation of community members in the project, and a centralised leadership was willing to reprimand members who were unwilling to make their own personal contribution to the communal effort.

### Participants in decision-making

The most important role of the consumer is as a participant in the decision-making process. Yet despite consumer capacity to innovate, this is the role most often ignored in top-down supply approaches. In people-focused approaches, consumer participation in decision-making at the project formulation stage helps to build ownership and to ensure that solutions, for example service levels, are aligned more closely to needs, and that costs and cost-recovery approaches are more cognisant of livelihood strategies. This runs contrary to the traditional view that a 'universal' approach – in which all households, irrespective of capacity, are provided with direct connections – is inevitable. These decisions are generally made by the council and operator, and not by the people. In order to reinforce the important role of the consumer, it is necessary to introduce mechanisms for this engagement (for instance, participatory processes, representatives on steering committees and regulatory boards), and to bring about attitudinal change among other stakeholders. Box 6.17 provides an illustration of community shareholding in Nelspruit, South Africa.

### Participants in the construction process

Some poor groups may prefer to reduce the costs of services by contributing labour, and becoming directly involved in the construction process. In a number of innovative projects such as the one at El Alto, big water operators are recognising the importance of community labour as a means to increase the number of service subscribers, and for promoting ownership of installed infrastructure. These communities pay a lower connection fee if they provide labour for the digging of trenches. In other schemes, such as that at Córdoba, communities themselves have initiated schemes so that they benefit, much earlier than intended, from the service upgrade under the concession arrangement. While this is still not always the case (some large international operators openly admit they do not wish to get involved with unskilled labour), the case of El Alto, described in Box 7.6, illustrates how successful such community construction efforts can be.

### Participants in the management, operation and maintenance of installed services

Effective community organisations (as illustrated by the Lima case in Box 6.15) may take on operation and maintenance roles for basic facilities and equipment. They may also see the benefit of assuming management roles, especially where facilities are communal. Management may include a role in billing and revenue collection. Such arrangements are often formalised through the development of consumer cooperatives or NGOs structured for this purpose. Where this is carefully planned, it can result in far better cost recovery than that achieved by operators. In Port-au-Prince in Haiti, for instance, a successful NGO initiative was scaled up to provide 100,000 poor households with access to communal standpipes. Water committees were formed and took responsibility for determining requirements, facilitating construction, hiring the standpipe operator, resolving community grievances and organising maintenance. With community agreement they have developed a system in which they charge more than the operator's price and reinvest the profits in other community services. Their visible success has led to an institutionalisation of committees and the empowerment of all the communities involved.

### Participants in cost recovery

An increasing focus on payment from the poor for services has often become synonymous with their participation. There is much discussion about how the poor can and do pay for their services. However, one of the lessons of poverty reduction projects and community participation in service delivery projects is that participation means decision-making first, and payment second. Requiring the poor to pay without involving them in the decisions that lead to those services is inappropriate. In this context, developing cost recovery within poor communities can be introduced in a number of ways, through communal or individual approaches. These are explored further in Chapter 9.

## Community Shareholding and Empowerment

Nelspruit, South Africa

Links to Boxes  
6.17, 6.18

Box 6.17

When Nelspruit, the capital of Mpumalanga province in South Africa, decided in 1996 to embark on involving the private sector in water supply and sanitation, it faced a number of challenges. The specific developmental purpose was to extend water infrastructure and services to those underserved, but it was also necessary to empower the local community and ensure their participation in the process of delivery. The municipality came up with a number of innovations in a public-private partnership. These included community shareholding in the concessionaire company, a dedicated development fund that would benefit from the returns on the project and that would focus on local economic development, and systematic attempts to build skills among the labourers involved in the project.

First, a creative arrangement for community shareholding mixes the expertise of the private service provider with local knowledge and interests. At the core of this arrangement is a special purpose company created by the winning bidder, Biwater, to act as concessionaire. To begin with, 26% of the shares in this company, the Greater Nelspruit Utility Company (GNUC), were owned by Biwater Operations, a South African subsidiary of the British water operator Biwater; 64% were owned by Biwater Capital, the company's Dutch subsidiary; and 10% were owned by SIVUKILE, a community-based consortium of local civic, youth and women's organisations.

But the contract provides for changes – subject to a due process of approval by the municipal council – that would facilitate a growing share for SIVUKILE, as well as for employees. The contract requires that Biwater Operations must, throughout the contract term, hold a significant share of 26%, but the Biwater Capital shareholding can change, especially in the interest of community empowerment. This therefore provides for an organisational structure for community involvement in the short term, with the prospect of majority ownership in the longer term. The aim is for SIVUKILE to eventually own 51% of the GNUC, with Biwater owning 49%. One of the functions of SIVUKILE is education and training on a large scale, based on the specific opportunities offered by the project.

Biwater's participation in the utility company enables the latter to meet various financial commitments in terms of the contract, such as a substantial performance guarantee, to grow in line with the consumer price index; contract implementation fees paid at the signing of the contract; and concession fees, to be paid annually to the municipality. The company also brings international expertise, gained from its involvement in 55 countries, to the management of water services in the poor areas of Nelspruit. SIVUKILE, in turn, brings a knowledge of the community, and links with key stakeholders, to the project. It provides also a vehicle for gaining skills through the association with Biwater.

GNUC assumed responsibility for operation, management and maintenance, and for obtaining the capital investment necessary for the expansion of services as detailed in the contract. The GNUC then subcontracted Biwater Operations as an operator, and is able to enter into sub-contracts to ensure the execution of the project. The principles of this sub-contracting are slanted towards empowerment of local small contractors and the use of local labour.

Apart from the shareholding arrangement, local empowerment is also facilitated through a community development fund, to which the consortium must contribute some of its returns. The amount to be contributed by the service provider will rise in line with consumer price inflation. Part of the agreement is that, wherever possible, preference will be given to emerging contractors. The focus is therefore on small, medium and micro-enterprises as vehicles for local economic development. The chairperson of SIVUKILE, Dr Patrick Maduna, emphasised that this fund's activities would be focused on the community as a whole, and not on individual gains. He believed that a community focus would also enhance the empowerment of individuals.

Empowerment also occurs through contract conditions aimed at building local labour skills. The contract covers the interests of municipal employees affected by the arrangement, and seeks to maximise their benefits in the interests of the broader community. Training and staff development feature prominently, and provision is made for equity schemes. The latter will enhance local shareholding automatically as the project grows and continues.

Monitoring functions are the responsibility of the council, and it will have a continuing role (with the GNUC) in setting tariffs, and controlling the quality and the levels of capital investment proposed by the GNUC to meet its performance requirements. As the elected representatives of the local community, this role holds the potential to help ensure optimal local benefit, and adherence to the contract conditions aimed at community shareholding and empowerment. The institutional arrangements are therefore structured so as to engage local stakeholders in the concession company, and to ensure that benefits are derived from the project for the community and workers.

### □ The challenge for consumers in partnerships

The traditional government-led approach to service delivery often makes government itself responsible for representing consumers' interests – in fact, a distinction between the two is not often made, and this is why consumers, especially poor consumers, have been the recipients of services prescribed by officials. Given the undeniable fact that municipalities have their own interests as well, substantial conflicts arise when government is responsible for setting the rules of the game as well as representing consumers. The case studies throughout this book demonstrate ongoing confusion about the distinction between government and consumers, largely because consumers are not organised as a distinctive voice. The Gweru case (see Box 9.5), however, demonstrates through its extensive consultation process that the municipality understood that it could not simply assume that it represented consumers' interests, and to some extent (with the exception of the issue of service standards), it set out to understand the interests of numerous stakeholders including consumers, and act as a broker of interests.

The two fundamental constraints to incorporating consumers into service partnerships are their lack of organisation and skills. As long as consumers remain uncoordinated, individual voices with no understanding of municipal service provision issues, there is no way to meaningfully include them in a partnership. Creating an inclusive organisation – that is operationally and financially viable for the long term – brings many benefits. Perhaps the most important one is that it builds a legitimate role for the people who use the services. This facilitates the development of appropriate solutions and increases the commitment to pay for the services. Poor communities lack capacity, however, and a significant challenge for partnerships is to ensure that skills and organisational development are established to enhance the capacity of these consumers.

Despite the potential value of CBOs, they have their own problems. One is that they may not focus upon representing their communities, but rather only on specific people or factions within a community. This raises the importance of building their capacity to be more open, and also of engaging – and building – other potentially important organisations such as women's groups. Recognition of the heterogeneity of the consumer group suggests that municipal service partnerships should use different approaches for the poor and the non-poor, and that this should be clarified in partnership agreements. This is not easy, however, given that both municipalities and the private sector have established working practices that do not always make this distinction, and do not always allow other actors to enter the partnership. CBOs and NGOs can play an important role in ensuring the sustainable delivery of services and should be included as partners. With notable exceptions, this is a challenge few projects have yet to accept.

### Employees and Employee Representatives

The shift towards the increased participation of the private sector in municipal services is frequently concerned with the impact on existing municipal employees. Increasingly, the tendering of contracts emphasises the importance of worker re-employment and worker terms and conditions, and requests specific proposals as to how each bidder would address these issues. Depending on the arrangement, a shift to private sector involvement may result in a new management, a new employer and new roles for workers in service provision.

In many countries, there is no formal barrier to simply discharging employees, and the vast majority of municipalities suffer from overstaffing. Most prudent municipalities, however, believe that employees deserve due consideration and fairness; in others, substantial political reasons lead municipalities to address employees' concerns. Moreover, there are simple implementation issues to factor into the decision-making process. Some current employees will have a critical role in ensuring that the process of reorganising municipal service delivery is smooth. Consequently, both private operators and municipalities are likely to want to build an agreement with employees as a prerequisite to the final contract.

## A Story of Labour Relations

### Nelspruit, South Africa

Links to Boxes  
6.17, 6.18

Box 6.18

The municipality of Nelspruit has had to engage in complex and extended negotiations with trade unions about the water services concession with a private consortium, aimed at extending coverage to the town's poor areas. The protracted negotiations brought to the fore the need for due consultation with labour, and the complexities of negotiation with unions, especially in situations where trade unions are well organised and institutionally well established. Even though the project has gone ahead, it remains the source of much controversy and trade unions question its appropriateness and successes.

When the local council announced in 1996 its intention to explore PSP options, it obtained cooperation from the local branch of the South African Municipal Workers Union (SAMWU). The early drafts of proposed project documents all attempted to assure workers that their employment conditions would not be jeopardised, and included an extensive section on workers' rights, labour conditions, employment equity and recognition of collective bargaining laws and procedures. In part the council consulted the local union as a stakeholder, while in part South Africa's labour legislation compelled it, as an employer, to engage in such elaborate interactions with organised labour.

The local unions briefed their national office about these developments, and soon the latter became an integral part of the process. At national level, the union officials were in principle opposed to the partnership, and their terminology reflected a categorical opposition: they branded it 'privatisation', profit-seeking that showed scant concern for service provision to the poor.

The differences between the municipality and SAMWU became so fierce that the council suspended negotiations with the preferred bidder in late 1996. The provincial government established a team of provincial politicians to engage with the different parties, and in February 1998 a 'water summit' was held, involving the council, provincial politicians and trade union officials. SAMWU's approach here attempted to make PSP a fallback option, with public provision being the preferred option. The council concluded that this offered no meaningful solution to their capital financing needs. By April the differences were still not resolved, and the council decided to re-enter its talks with the preferred bidder, without union agreement.

A series of meetings followed between the national government department responsible for local government, the South African Local Government Association (SALGA), and the national leadership of the Congress of South African Trade Unions (COSATU), to which SAMWU is affiliated. A framework agreement was concluded in late 1998, presumably as a guide to the conditions under which partnerships at the municipal level would be acceptable to labour, government and organised local government. However, differences about the authority and meaning of the agreement soon became apparent, as COSATU insisted that no partnerships should proceed unless approved by a newly-formed sectoral forum established under the terms of the agreement, whereas the government and SALGA insisted that the agreement had not made partnerships subject to such approval.

Nelspruit did submit its draft contract however, and the national department's legal advisor argued the case for it was consistent with the agreement. Although union officials, continued to object the council decided to go ahead with the process and the contract was signed in April 1999.

Subsequently, union officials have continued to question the arrangement, and there have also been a number of reports by trade union sources claiming that the private service provider is not honouring the contract. Occasionally, public exchanges still occur, and labour sources insist that infrastructure extension is slow, services are unreliable and costs are escalating. These claims are denied by the council and the service provider.

The opposition from SAMWU and COSATU must be placed in a national context. They see this scheme as a pilot for their national anti-privatisation campaign, fought on a number of fronts nationally by COSATU. Therefore, the resistance to the Nelspruit proposals must be viewed in conjunction with resistance to similar strategies against national privatisation and partnerships, as well as private sector participation in other municipalities.

This makes negotiations very difficult for the local council, and also increases the risk for the private operator. In each partnership negotiation process, an assessment must be made of whether national trends have this effect, and whether the council will gain more from engaging in the partnership than from succumbing to the external pressure. It also underscores the importance of gaining external support from higher levels of government to help create an environment conducive to PSP.

### **The nature of employee workforces**

Municipal service employees are usually either professional/managerial staff or unskilled and semi-skilled employees (such as sweepers, collectors, conservancy workers, labourers), of whom there can be large numbers. The former are usually small in number, usually without collective representation (a union or association), and have more transferable and desirable skills. It is also likely that they will be informed to some extent, and will have formed a view on whether or not they are in agreement with the shift to a private sector operator. The less skilled employees typically work in poor conditions, with facilities, equipment or clothing that usually inadequately reflect health and safety concerns. In many developing countries conditions are extremely bad. Income levels are also extremely low. A sweeper in Nepal in the case illustrated in Box 6.7, for instance, earns approximately US\$25 per month.

In most situations, a local government-workers' union or association will represent their interests. However, their characteristics can vary greatly. Sometimes they are simply 'management unions', under the effective control of management. In some contexts, such as in Nepal where trade unions are in their infancy, workers are represented by weak organisations. In other highly politicised contexts such as South Africa, the trade unions are key stakeholders in partnership negotiations. National and public sector unions have had a key role in defining the approach to municipal services, and private sector approaches can only occur after direct municipal delivery options have been considered. In some cases, local unions have gone along with private sector participation plans, but were later over-ruled by national bodies that opposed the new arrangements in principle.

### **The potential roles of employees**

Employees and representative organisations can be included as key participants in any service redesign process. They have several potential roles in the reorganisation of municipal services. The following section considers the role of employees in developing a new service arrangement.

### **Opposers**

Depending upon the local context, employees can successfully oppose changes in the arrangement of municipal services. Within unions, there are at least two groups of concerned people: union staff and union members. If the union is somehow simply dissolved, union staff will be without a job. Given that they are the intermediaries between management and employees, this can heavily influence the negotiations. However, recognising that the basic goal of a union to improve the welfare of its members is usually taken seriously, staff's concern for impacts upon the union's members – often reinforced by employee members at the negotiating table – must be taken seriously. The ability of employee representatives to reach an acceptable agreement will almost always involve a membership vote.

### **Cautious supporters**

Although the union's focal concern is its members' welfare, union members in municipal services are generally from poor communities. Moreover, employees are also consumers of municipal services and are perhaps among the most knowledgeable about the problems with service delivery. Therefore, once their own employment concerns are addressed, if they are convinced that the change will result in improved services they may become supportive of it.

The Gweru case study demonstrates what is potentially possible when employees are fully engaged and a positive process can be established. All employees were guaranteed jobs on terms at least as favourable as those they had with the municipality (the municipality stopped employing unskilled labour five years ago and is thus no longer overstaffed), and many foresaw more opportunities in terms of personal and career development with the international business partner than with the municipality. This led to cautious support for the changes. Attaining positive outcomes depends on the

## Multilateral Initiatives

### PPIAF, The World Bank

The Public-Private Infrastructure Advisory Facility (PPIAF) is a multi-donor technical assistance facility aimed at helping developing countries improve the quality of their infrastructure through private sector involvement. Launched in July 1999, PPIAF was developed on the joint initiative of the governments of Japan and the UK, working closely with the World Bank. PPIAF is owned and directed by participating donors, which include bilateral and multilateral development agencies and international financial institutions. PPIAF was built on the World Bank Group's Infrastructure Action Program and has been designed to reinforce the actions of all participating donors. PPIAF is managed by a small Program Management Unit in the World Bank.

PPIAF pursues its mission through two main mechanisms. First, it channels technical assistance to governments in developing countries on strategies and measures to tap the full potential of private involvement in infrastructure. Second, it identifies, disseminates and promotes best practices on matters related to private involvement in infrastructure in developing countries.

PPIAF can finance a range of country-specific and multi-country advisory and related activities in the following areas:

- framing infrastructure development strategies to take full advantage of the potential for private involvement;
- building consensus for appropriate policy, regulatory and institutional reforms;
- designing and implementing specific policy, regulatory and institutional reforms;
- supporting the design and implementation of pioneering projects and transactions; and
- building government capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers.

PPIAF assistance can facilitate private involvement in the financing, ownership, operation, rehabilitation, maintenance or management of eligible infrastructure services. Eligible infrastructure services comprise roads, ports, airports, railways, electricity, telecommunications, solid waste, water and sewerage, and gas transmission and distribution.

All of PPIAF outputs fall within the following categories.

- Infrastructure development strategies: studies intended to guide governments on options for expanding private sector involvement in infrastructure. This includes national, sub-national and sectoral studies within a country.
- Consensus building: activities aimed at building consensus among stakeholders for appropriate policy, regulatory and institutional reforms.
- Policy regulatory and institutional reforms: advice on the design and implementation of specific reforms, including studies and drafting of instruments.
- Pioneering transactions: Support to the design and implementation of particular projects or transactions that are pioneering in some important respect, reflect some measure of innovation, and offer potential demonstration effects.
- Capacity building: activities aimed at building government capacity in the design and execution of private infrastructure arrangements and in the regulation of private service providers.
- Global best practice: activities focusing on the identification, promotion and dissemination of best practice to the international community in general, rather than to a specific country, on matters relating to private sector involvement in infrastructure in developing countries.

For small proposals (involving PPIAF support of US\$75,000 or less), applications are evaluated on a rolling basis and the Program Management Unit will aim to notify proponents of the outcome of the evaluation within two weeks of submission. For medium and large proposals (involving PPIAF support of over US\$75,000), applications will be batched on a quarterly basis and the Program Management Unit will aim to notify proponents of the outcome of the evaluation within six to eight weeks of the submission deadline. If a proposal is rejected, an explanation will be provided to the proponent.

Applications for PPIAF support can come from any source. In the case of country-specific activities, however, the beneficiary government must approve all requests for support. An application form for PPIAF support can be downloaded or completed online through the PPIAF website ([www.ppiaf.org](http://www.ppiaf.org)) or can be ordered from the Program Management Unit. Proposals will be assessed against the criteria specified in PPIAF's charter, which is available on the website or can be requested from the Program Management Unit. Those criteria include consistency with PPIAF's mission, government commitment, additionality, donor coordination, value for money, and environmental and social responsibility.

early and regular engagement of employees; this is advisable whether the unions are strong or not. The sooner employees are involved, the better the prospects of finding a workable arrangement. Business partners must be sensitive to the need to address the legitimate concerns of employees. Some business partners simply will not be sensitive, and this can be verified by their past practice and interviews. Municipalities will need to decide whether this is the sort of organisation they want to contract to.

#### Creative innovators

In some locations, the role of employees has sparked discussions that have led to more creative solutions than originally contemplated. One option is for establishing employee-owned businesses, to free them of government administrative traditions that often suppress entrepreneurial energy. Often this requires new managers who can build an entrepreneurial environment and have experience with private sector management. In Cartagena, an extremely modest form of this was demonstrated by employees having a small percentage ownership in the new business. In South Africa there are processes to building substantial share ownership of the service consortia over several years by consultants and capacity builders from traditionally marginalised communities.

Although this type of approach poses some complexities, it has the added benefit of creating organisations that are more aligned with employees' interests (and possibly consumers'), and present options for greater equity. As locally-owned organisations, they keep the wealth they generate in the community, and present an opportunity to strengthen the local private sector.

#### The challenge for employees in service redesign

There is a basic challenge to both initiators of service redesign and employees: how to develop a mutually respectful role when the initiative will inevitably be very disruptive for employees. It is natural for initiators to view employees as a problem, since the current employee structure stands between their idea and its realisation; and there is a natural tendency for employees and their representatives, concerned with their jobs and the impacts of change, to react defensively.

It is essential, therefore, to introduce processes through which employees, employee representatives and employers can learn about each other's concerns and views, and about potential opportunities within the partnership framework. Employees who take a simple oppositional position face public anger when they are perceived as a privileged status quo interest group. Employers who push ahead regardless of legitimate employee concerns face the same problem. It is imperative for both parties to spend some time exploring and defining options to address their respective concerns.

## External Agents

#### International donors and funding agencies

International donors frequently play a key role in driving partnerships involving the private sector. Donor interest in partnerships for the delivery of infrastructure and services has certainly increased significantly over recent years, and the focus has settled on, inter alia, water and sanitation services and solid waste management. Support for partnership formation comes through:

- sectoral reform programmes, focused on creating an enabling or encouraging framework for private sector participation (through policy development and regulatory frameworks);

## The Role of the Donor

El Alto, Bolivia

Links to Boxes  
6.20, 7.6

Box 6.20

In February 1997, at the request of the government of Bolivia and prior to a concession contract being awarded for the delivery of water and sanitation services in Le Paz-El Alto, the Water and Sanitation Program – Andean Region (WSP-AND) launched the El Alto pilot project in partnership with SIDA (the Swedish International Development Agency). When Aguas del Illimani was awarded the concession later the same year, it joined the partnership and the pilot project became known as IPAS (Peri-urban Initiative for Water and Sanitation). The collaboration involves a range of actors, coordinated by IPAS and funded by various institutions and agencies. The following table outlines the roles of each partner.

Partner	Institution	Role in the El Alto pilot project	Financial contribution
Aguas del Illimani (ADI)	Private sector	Infrastructure expansion (40% of the contribution) Social intervention (60% of the contribution)	US\$4.4 million (81.5%)
Ministry of Basic Services and Housing	Government	Initiated and supports the project; assesses replicability in Bolivian cities	
Municipalities of La Paz and El Alto	Government	Oversees implementation; ensures compliance with building standards	
Prefecture	Government	Coordination between La Paz and El Alto	
Centro Interdisciplinario de Estudios Comunitarios (CIEC)	NGO	Identified neighbourhoods for the pilot project	
Consultant anthropologists	Private sector	Contracted by the operator to study consumption needs/patterns in low-income areas	
Caja de Los Andes	Micro-credit institutions	Credit for connections and internal installations	
Mutual La Primera	Community	Each neighbourhood chooses its own technical and financing options	
Neighbourhood organisations – Juntas Vecinales			
Swedish International Development Agency (SIDA)	Bilateral agency	Funds an expert in condominium system	US\$900,000 (16.7%)
Water and Sanitation Program – Andean Region (WSP-AND)	International partnership with multi-donor funding	Provides technical assistance (institutional strengthening and documentation) and monitors the project	US\$160,000 (1.8%)

The role of external agents was critical to the emergence of an innovative and pro-poor solution. As a technical support agency, it was envisaged that the WSP would facilitate the transfer of know-how on low-cost water and sewerage systems to Bolivia from neighbouring Brazil (see Box 7.6). The WSP thus provided the technical capacity to take the PPP in new technical and social directions, and SIDA provided the funding needed to support the development process.

Over the four-year involvement, the role of WSP in El Alto has evolved. Initially it provided expertise to the partnership, filling skill gaps to ensure that the initiative moved forward. A small team of WSP technical staff and social mobilisers, all recruited within Bolivia, worked hand-in-hand with the operator and communities to establish a supportive context, and a technical expert familiar with the Brazilian model was brought to Bolivia to provide the technical knowledge and long-term experience of the condominium approach being replicated. This focus shifted towards transferring skills to ensure the sustainability of the initiative once inputs were complete. Many of the WSP staff now work for the operator.

More recently, WSP has been working with the government of Bolivia to introduce policy and a regulatory framework that will allow the condominium approach to be replicated. By establishing a successful pilot in a difficult location, the partnership has proven that alternative forms of service delivery can increase the access of the poor to services, and WSP have facilitated capacity development at policy level necessary to introduce a new regulatory framework embracing appropriate technical and social norms and standards. As an independent (non-private sector) actor, the role of WSP thus moved from downstream practical inputs to upstream strategic inputs – a role that might in the future bring widespread benefit throughout Bolivia.

- private sector development programmes;
- infrastructure development; and
- municipal reform and decentralisation processes.

These international development programmes are created by agencies that are extensions of governments, in development terms (and notwithstanding the internal agendas of bilateral donors). Donor interests in partnership formation may be driven by their interest in:

- promoting the role of the private sector in economic development and reducing the role of the state;
- mobilising private sector investment in the context of decreasing aid flows;
- creating a more efficient, predictable and conducive environment of aid funding and technical assistance;
- promoting institutional change in key sectors;
- promoting private sector participation in service delivery to the poor; and
- promoting efficient, equitable development.

Over the past decade, a number of agencies – the World Bank in particular – have provided direct assistance in the formulation of partnerships, and have made their own funding conditional upon private sector involvement (see Box 7.12 on Cartagena). This direct action has been supported by extensive policy formulation and analysis, and research into the key financial and economic aspects of existing transactions. A number of service sectors, including energy, water and sanitation and solid waste, have produced toolkits to provide guidance on basic issues and processes.<sup>18</sup>

More recently, however, donors have begun to merge their interest in private sector development with poverty reduction mandates. The World Bank and the Water and Sanitation Programme (WSP) have led this process through a number of global initiatives, conferences and workshops (see Box 6.19 for a description of the work of Public–Private Infrastructure Advisory Facility).<sup>19</sup> In the water and sanitation sector, WSP will soon publish guidelines for the development of pro-poor transactions. Donor activity is by no means limited to these examples. The UNDP PPPs for the Urban Environment (PPPUE) initiative promotes local skill development through a global learning network, and local government capacity building in three selected countries (Nepal, Namibia and Uganda).

In many of the most innovative partnerships that have tackled delivery in poor areas, donors have played a central role. Indeed, the importance of the donor as a fourth partner in public–private–civil society initiatives should not be underestimated. It raises questions of sustainability as reliance on the technical assistance takes hold, and replicability as the donor performs key social and institutional roles.

In El Alto, for instance, WSP and the Swedish International Development Agency (SIDA) have been involved in influencing the agenda from the outset (see Box 6.20). WSP objectives are primarily concerned with community capacity building and developing an approach for replication. To this end they have worked with the operator Aguas del Illimani to develop a condominal sewerage approach and then to institutionalise the lessons learnt. WSP employed three or four technical staff. While the project is currently learning from early decisions, the pilot has provided a model of integrated, participatory planning and implementation, empowered communities and introduced alternative technologies.

The role of donors in partnership development includes:

- provision of funds for technical assistance;
- gap-filling, where the competencies of the actors do not correspond with project objectives;
- general guidance on options, particularly in relation to poor areas;
- definition and dissemination of best practice; and
- facilitation of new initiatives as a part of broader sectoral reform.

## The Role of Consultants in Restructuring Water and Sanitation Services

Johannesburg, South Africa

Links to Boxes  
4.4, 6.21, 8.5, 9.1, 9.3

Box 6.21

In common with most emerging economies, water and sanitation services in South Africa are politically sensitive. While the benefits of successful structural change in the water sector are significant and wide-ranging, the consequences of failure can be very serious. With such high stakes it is important that client organisations make the best use of the expertise and experience available from specialised consultants with a track record of similar projects. When the Greater Johannesburg Metropolitan Council adopted its IGOLI 2002 plan for restructuring municipal functions (see Boxes 4.4 and 8.6), and determined that a private operator would be procured to manage and operate the new utility, the council recognised the importance of consultants and undertook an international procurement for suitable international experts to act as lead consultants for the water and sanitation restructuring process.

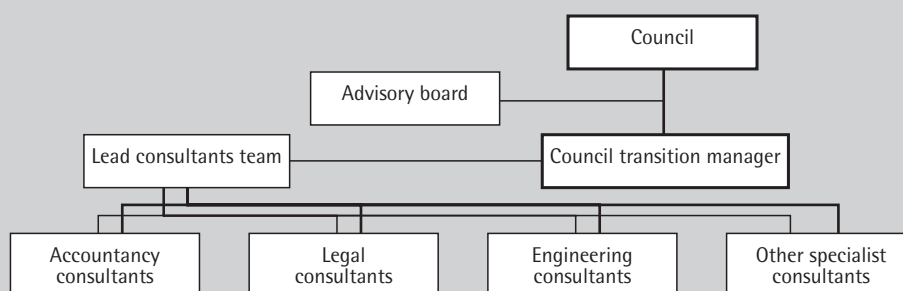
The contract was won by a joint venture led by the Halcrow Group of the UK, with VKE Consulting Engineers and Malani Padayachi and Associates of South Africa. HKC Investments (financial analysts) and the Palmer Development Group (operations modelling) joined the lead consultancy team at a later stage.

The lead consultants' role included:

- preparing the transition programme;
- defining the role and terms of reference for other consultants, assistance with procuring and managing consultants;
- advising the transition manager on strategic issues;
- designing the management contract, and managing the procurement process for the private operator;
- preparing the bid data room;
- preparing the pre-qualification shortlist and evaluating the bids;
- operational and financial modelling, and feasibility analysis; and
- preparing the initial strategic business plan.

An early task of the lead consultants was to identify the need for additional consultants and to assist in their procurement. In total, 16 separate specialist consultancy firms were engaged during the process, including international legal counsels, local legal advisors, accountants, engineering consultants, communications consultants, human resource consultants and information technology/revenue consultants.

In Johannesburg, instead of the typical lump-sum contract for consultancy services, the council appointed the lead consultants on a time-scale basis, with packages of work being contracted-out as the project progressed. This flexible approach worked well for both council and lead consultants, and was almost certainly considerably cheaper than a lump sum would have been.



While the success of the process owed a great deal to the council's leadership and the flexible approach of the transition manager, the structure and approach adopted by the council had a number of clear advantages. The lead consultant's role was that of a true advisor to the transition manager. This person was involved in the detail of the issues, and in the development of ideas, and was responsible for driving the process. This resulted in much greater ownership of the solutions by the council. The lead consultants were engaged with flexible terms of reference that recognised that the scope and extent of services was difficult to define at the start. They were able to respond to events in a flexible and efficient way. In addition, sub-consultants were contracted directly to the council, but the management and coordination of consultants was shared between the transition manager and the lead consultants; and by procuring the sub-consultants individually, the council was able to select the best specialist firms for the tasks. This would not have been possible with a traditional consultancy approach, in which the client organisation must accept the team assembled by the winning consultant.

However, with the exception of the pilot work of the Business Partners in Development (BPD) Water and Sanitation Cluster see (Box 6.22), WSP and some work by the Inter-American Development Foundation, there are few initiatives in which donors have actively pursued the potential of combining the public, private and civil sectors. The agenda of many donors clearly promotes PPPs, but in the past has fallen short of addressing poverty issues or promoting a place in the partnerships for civil society. This is an emerging area of interest.

#### Specialist consultants

Few municipalities will have all the skills necessary to prepare and complete a complex partnership with the formal private sector, and most municipalities in developing countries are probably best advised to seek specialist expertise in the development of partnerships with international and national private firms and organisations (such as WSP). As such, a primary external agent frequently involved in the development of partnerships is the ‘expert’ who is brought in to a municipality to provide specialist skills, guide the process of partnership development, and/or supplement skills in particular technical areas. Both logic and evidence suggest that the role of the consultant is critical in the formulation of long-term partnerships involving the private sector.

The long duration of some arrangements, such as concessions, suggests that it is pointless (and overly ambitious) to expect municipalities to develop in-house expertise in defining a partnership arrangement – especially if this process happens only once every 20–30 years. Buying this expertise at key points in the process is more cost efficient, and allows municipalities to focus on developing in-house skills for other functions.

Second, some of the skills required in partnership development are extremely detailed in nature. Experts who do nothing else but prepare or negotiate water and sanitation contracts bring extensive specialised experience. Apart from their ability to identify and deal with the critical issues assertively, their involvement levels the playing field – ensuring that the experience in project formulation and negotiation of private operators is matched by a similar level of expertise on the public sector side. Evidence from Gweru, for instance, shows that the role of the consultant was important in building the confidence of the council and taskforce to carry out their tasks and make decisions, and the presence of an independent, donor-funded specialist was seen as an important mechanism for promoting transparency and assuring the public that the process did not involve corrupt practices.

The inclusion of consultants in the process does not eliminate the fact that municipalities must develop a general level of awareness and understanding of partnerships and their implementation. Nor does the hiring of consultants remove the burden of management from municipal staff. The use of external expertise must be carefully planned, effectively coordinated and meaningfully absorbed into the decision-making process.

In those countries inexperienced in privatisation processes, and where detailed skills are required, it will be necessary to bring in international advisors. This can be a costly process requiring external funding support. In some rare cases in which municipalities are well managed and financed, the cost of specialists might be accepted and absorbed into the transaction cost. However, for the vast majority, the question of appointing external consultants brings with it the question of funds. Donors and funding organisations such as the United States Agency for International Development (USAID), SIDA and the South African Municipal Infrastructure Investment Unit (see Box 10.2) have filled this gap in some municipal initiatives, providing both funding and advice on the identification and appointment of advisors. Yet, to procure this support, municipal managers must have contacts and awareness of such processes, and this is not always the case for those that need the support most.

The potential roles of advisors in the development of partnership arrangements will depend on the primary objectives established by municipalities. Some may appoint advisors from the outset to assist in the overall planning and development process. In addition, others may be appointed to advise on:<sup>20</sup>

## Business Partners for Development

| Box 6.22

### A Global Initiative

Sustainable development is a global imperative, and strategic partnerships involving business, government and civil society may represent a successful new model for the development of communities around the world. Business Partners for Development (BPD) is an informal network of partners who seek to demonstrate that partnerships among these three sectors can achieve more at the local level than any of the groups acting individually. Among the three groups, perspectives and motivations vary widely, however, and reaching consensus often proves difficult. Different work processes, methods of communication and approaches to decision-making are common obstacles. But when these tri-sector partnerships succeed, communities benefit, governments serve more effectively, and private enterprise profits. The result is a win-win-win situation, which is the ultimate aim of BPD and its divisions, or 'clusters'.

One of four sector clusters within the BPD framework, the Water and Sanitation Cluster, aims – through focus projects, study and the sharing of lessons learnt – to improve access to safe water and effective sanitation for the rising number of urban poor in developing countries. Focus projects are the mainstay of the cluster's work. They yield lessons that inform project fieldwork, help the cluster measure the partnership's efficacy, and identify priority research areas, including technology and terrain, land tenure and non-payment culture. Through focus projects, the cluster seeks to illustrate that – by pooling their unique assets and expertise – tri-sector partnerships can truly provide mutual gains for all. Governments can ensure the health of their citizens with safe water and effective sanitation, while apportioning the financial and technical burden. Corporations can showcase good works while ensuring financial sustainability over the long term, and communities can gain a real voice in their development.

### □ Lessons from the Focus Projects

The Water and Sanitation Cluster's eight focus projects respond to the specific demands and conditions of the communities they serve. As a result of these dynamics, each project's objective is a work in progress. They include: a drinking water supply and sewer system in the El Pozón quarter, Cartagena, Colombia; water supply improvements to Marunda District, Jakarta, Indonesia; restructuring public water service in shanty towns, Port-au-Prince, Haiti; developing water supply and sanitation services for marginal urban populations, La Paz and El Alto, Bolivia; innovative water solutions for underprivileged districts, Buenos Aires, Argentina; sustainable water and wastewater services in underprivileged areas, Eastern Cape and Northern Province, South Africa; management of water services, Durban and Pietermaritzburg, South Africa; and upgrade and expansion of local water networks, Dakar, Senegal.

The secretariat has determined that the best way to learn from the focus projects is through a three-angled line of inquiry. The iterative and complementary approaches are as follows.

- *Sector-by-sector analysis.* The workshop series provides an example whereby each sector was brought together to conduct its own SWOT (strengths, weaknesses, opportunities and threats) analysis of working in partnership with the other two sectors. The actors from the different sectors approach the partnerships in different ways. They have different expectations, fears, capacities, skills and strengths. As the theory suggests, these combine with their other sector counterparts to enhance the projects. Though initial findings are fairly straightforward to an outside observer versed in these types of relationships. The most critical factor is overcoming the stereotypes of different sector counterparts. It proves critical to make concrete assessments of the contributions that individual sectors make, and to build up their confidence in making these contributions.
- *Theme-based review.* This approach attempts to address the impact of the tri-sector relationships on specific project components or project themes. In 2000, a survey was commissioned of the way the partnerships impact on cost recovery in poor areas. Perhaps as testimony to the infancy of the partnership approach, the analysis at the local level of how the partnerships were impacting on specific themes should be deepened. The cluster continues to encourage the partners and partnerships to clarify their working relationships. It also intends to use their experiences to make recommendations to others embarking on a similar tri-sector approach. Activities for 2001 in this area include research and surveys on partnership and alternative approaches to service provision, partnership and land tenure; partnership and regulatory frameworks; and partnership and education/awareness campaigns.
- *Local-level analysis.* This project-by-project or partnership-by-partnership analysis has resulted in the drafting of internal partnership analysis reports that have attempted to document the successes, impacts, challenges and wider contexts of each individual project. The challenge for the secretariat with this approach is that the partnerships are actually living organisms that change on a daily basis. Structures put in place and definitions of roles, responsibilities and budgets are all influential in (and also significantly different between) the eight focus projects. Equally, external events, changes in staff, findings in the communities and other externalities have an impact on the way the partners work together.

- social issues (the capacity of poor consumers, impacts on workers, social impacts);
- economic and regulatory issues (market structuring, promotion of competition, tariff design, regulatory mechanisms, monitoring, economic instruments);
- legal issues (legislation and regulations, bidding documents, the drafting of contracts);
- technical issues (assessments, specifications and contract requirements);
- environmental issues;
- financial issues (projections, bankability, documentation and sales promotion); and
- the contract negotiation process.

It is important that municipalities build the capacity to effectively appoint and work with advisors. They must take responsibility for the selection by understanding which skills and experience they need. Although experience in the South is now increasing, there is a risk that specialist consultants will not be experienced in issues concerning the poor (and frequently models used in middle- and upper-income countries have been inappropriately recommended). Care should be taken, and donor support enlisted, to ensure that consultancy teams are balanced, include social expertise and have experience in the South.<sup>21</sup>

Once funding is identified, the process of appointing advisors is an important municipal task, involving the preparation of terms of reference, tendering, evaluation procedures and contracting their services. This World Bank toolkits on water and sanitation<sup>22</sup> outline the method of ‘packaging’ advisory contracts (be it through consortium or individual contracts) and of structuring fees (be they output-based or percentage-based), and provides indicative terms of reference for legal counsel, engineering consultants and financial advisors.

## Partnering

### Comparing assets of potential actors

The potential actors in service partnerships (described above) all fit within one of the three organisational sectors: the public sector, the private sector and civil society.<sup>23</sup> In order to maximise the potential of a partnership, the municipality must aim to develop an understanding of the comparative attributes of these potential partners. The framework illustrated in Box 6.23 presents the characteristics described earlier and juxtaposes fundamental differences.<sup>24</sup> While any specific organisation will not perfectly reflect these qualities at all times, the framework provides an analytic tool for comparing the assets of potential partners.

The comparative table sets out the characteristics and allows further consideration of the relative strengths and weaknesses of each organisational sector in relation to the poor. In a competitive environment, business is good at maximising efficiency, and civil society is particularly good at working with poor communities striving for equity. These characteristics arise from the fundamental attributes that distinguish organisations in one sector from those in another.

In relation to water, sanitation and solid waste services (as well as energy and telecommunications) there has been an increasing shift from an approach that only included one organisational sector – the municipality or another public agency – to one where municipalities and the private sector have joined forces in public–private organisational partnerships. In so doing, the arrangement draws on a much wider range of competencies and skills relevant for service delivery and offsetting the weaknesses inherent in each organisational sector. Yet the comparative table, and evidence from service partnerships, tell us that there are still gaps in the traditional public–private package – gaps that can be filled by drawing in the competencies of the civil society sector. Box 6.24 illustrates the development of this process and the increasing inclusion of various actors within service delivery partnerships. In the development of innovative inclusive

Comparing the Attributes of Potential Actors

Box 6.23

Comparing the general attributes of actors

	Government	Business	Civil society
Primary interest	Political	Economic	Social
Primary form of power	Legislation, taxation and enforcement	Money	Traditions and values, voting power
Primary goals	Stable civil society	Wealth creation	Establishing rights
Framework for assessment	Legality***	Profitability	Justice, equity
Primary form of organisation	Governmental	For profit	Non-profit
Stakeholders controlling action	Voters/rulers	Owners	Communities and members
Primary basis for establishing relationships	Rules	Transactions	Values
Framework for organisation	Administering	Managing	Developing
Primary timeframe	Election cycles	Profit-reporting/ business cycles	Sustainability/regeneration cycles

Source: Adapted from Waddell, 2000

Comparing attributes in a municipal partnership focused on the poor

	Municipality	International business	Small-scale service providers	NGOs
Primary interest (in the partnership)	Political Financial Physical/Environmental	Economic Financial	Economic Financial	Social Physical/Environmental
Forms of power (in the partnership)	Regulatory control Hierarchy/status Tradition Payment	Money	Local knowledge	Values Reputation
Primary goals (in the partnership)	To maintain the status quo To improve the environment	To create profits To generate more work opportunities	To make a living	To improve the quality of life in poor communities
Framework for assessment	Legality Political recognition Individual profitability	Profitability	Profitability	Equity
Primary form of organisation	Bureaucratic	For profit	For profit	Non-profit
Stakeholders controlling action	Voters Senior management	Owners/managers	Their clients	Communities NGO leaders
Basis for establishing relationships	Procedures	Transactions	Job	Values
Framework for organisation	Administering	Managing	Operational	Developing
Primary timeframe	Election cycle	Profit-reporting/ business cycle	Immediate job	Sustainability/funding cycle

approaches to municipal services, the key for municipalities lies in the creation of an approach that taps the strengths of each sector and offsets their inherent weakness through the allocation of roles and a decision-making structure.

### □ Fulfilling municipal objectives

Integrating the competencies from each sector thus forms the basic rationale for partnering. When these attributes and competencies are considered in relation to a municipality's core objectives, it is possible to see the very different contributions the organisations from different sectors can best make towards each objective. Box 6.25 provides a basic framework that enables a municipality to consider the specific competencies, attributes and capabilities of potential partners in relation to municipal objectives (illustrated in Chapter 3 and discussed in detail in Chapter 7), and to see that a combination of these core competencies is likely get much closer to fulfilling these objectives than if any one of these partners acted alone. A municipality can therefore begin to design a contextually specific partnership based on the assets that each partner brings to the table.

As we have seen, economic and financial objectives can be largely solved through the inclusion of the private sector's core competencies. The private sector brings a focus on efficiency, profit and programme to the partnership, and it is concerned with maintaining its comparative edge and business reputation. At the same time it may have access to capital assets, is often able to mobilise capital, and focuses on financial viability at the outset and throughout the process. Its very presence, as we have seen, promotes confidence for investment and donor support (and vice versa). An NGO, on the other hand, through its ideology and work practices is often less concerned with economic realities and is rarely able to raise the kind of capital needed for network services. Municipalities need massive organisational and management restructuring and skills development to create commercial operations that enable them to meet these economic and financial objectives, and in so doing become quasi-private entities.<sup>25</sup>

Yet when the focus shifts to political objectives, the municipality itself holds most of the cards for meeting them, through an ultimate power of veto and control over the allocation of resources, and the ability to convene stakeholders. To some degree they can be supported by NGOs, who are able to mobilise community support by building awareness and understanding of the benefits of particular approaches. One of the great attributes of the private sector is often its ability to sidestep unwanted political interference.

In relation to social objectives, NGOs have detailed knowledge of the poor and vulnerable groups, experience in delivering services to low-income areas, and an understanding of demand-led participatory processes. They also have a reputation for justice and equity, and their established relationships with poor communities often facilitate community understanding and ownership of delivery mechanisms. While municipalities will have varying degrees of experience (often dependent on the strength of the NGO sector), the private sector has rarely developed this experience. Despite private sector protestations that it can simply develop the skill, evidence suggests that civil society organisations can assist in mediation and are central to the success of community mobilisation.

Municipal institutional and environmental objectives cover a variety of issues, and each sector has a fundamental role in their fulfilment. The municipality itself offers important capacities in meeting institutional objectives: without its political will and its role as the champion of change, it is unlikely that a reform process can be initiated. To municipal capacity building, the private sector contributes a focus on effective management and coordination, and often, knowledge-transfer skills, while the NGO partner might contribute to the institutional objectives by building the capacity of community organisations.

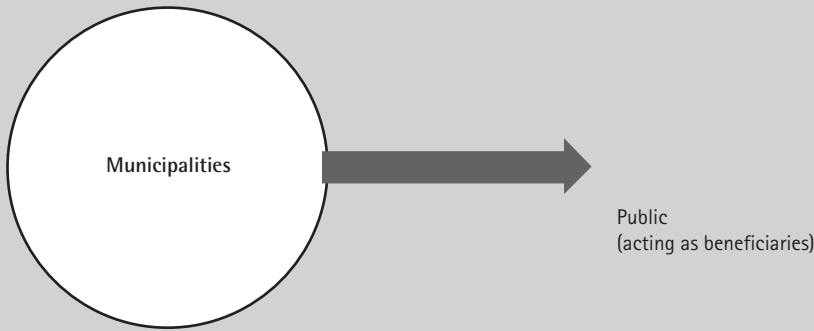
All these objectives contribute to more effective service delivery. However the most explicit municipal objective is often to improve the quality, reliability and sustainability of services. While municipalities have a competency in this area, the

### Locating Partners in the Service Delivery Process

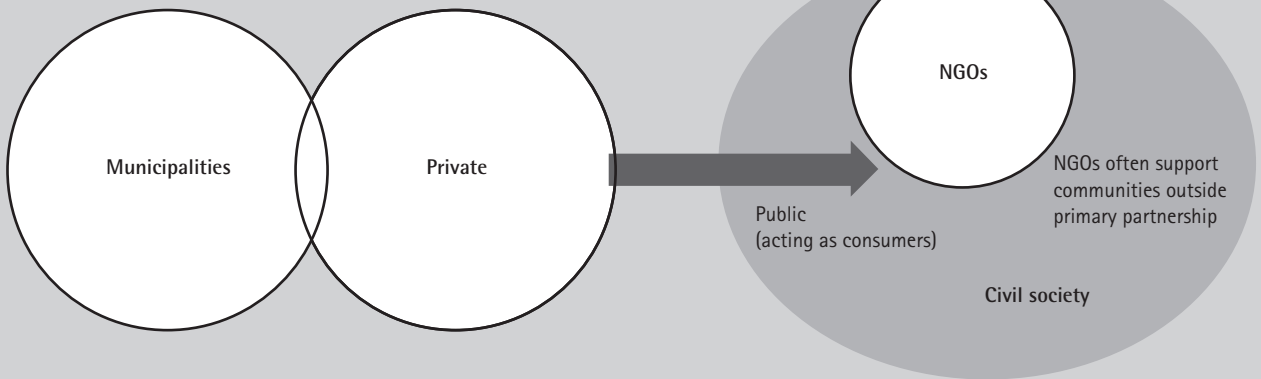
Box 6.24

#### Changing Roles and Relationships

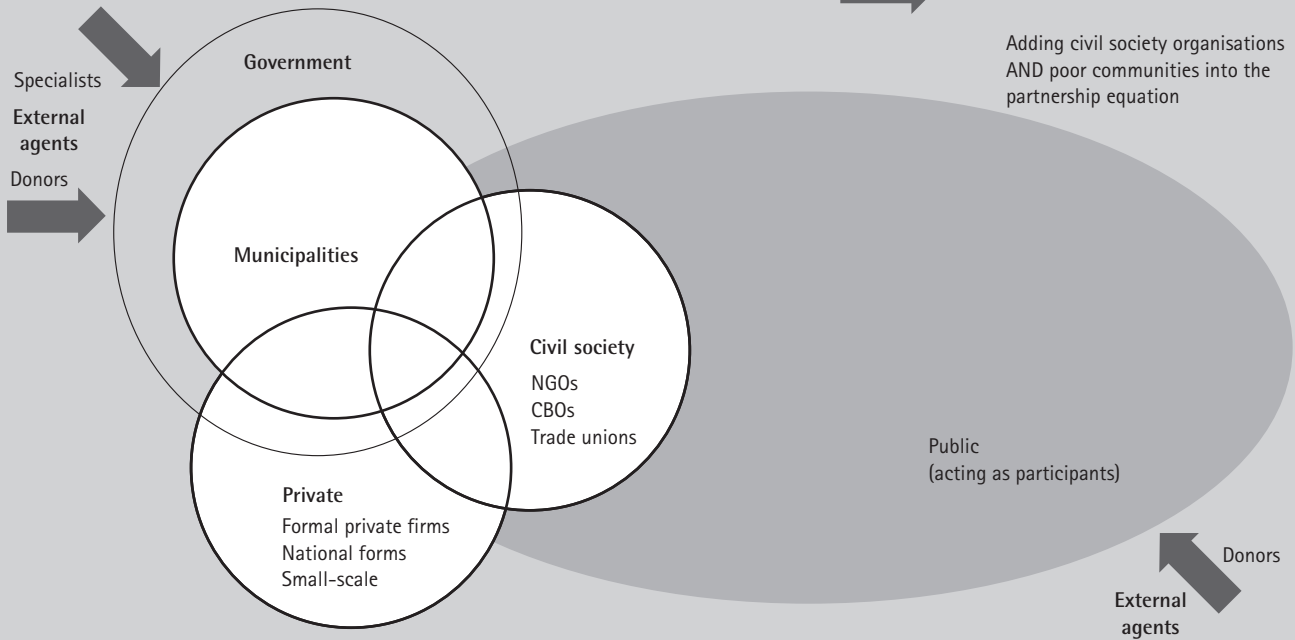
##### The municipality as provider



##### The typical public-private partnership



##### The integrated partnership focusing on the poor



rapid deterioration of urban infrastructure in developing countries points towards greater need. Together with the efficiency focus described above, the private sector brings specialised skills and knowledge, new technologies and advanced management approaches. In many situations, the NGO sector will bring experience of delivering tertiary-level services and a focus on sustainability. These competencies should then be supported by municipalities, allowing them to focus their attention on legal issues such as the resolution of property rights and the regularisation of ISPs.

Yet despite the generic validity and usefulness of this framework, in practice it is important to recognise that since municipal objectives are diverse and the core competencies of partners will vary in any given context, the allocation of roles may create partnerships with very different structures and sectoral arrangements. Municipalities should not be trying to commit the private sector or NGOs to specific predetermined roles, but instead they should look at the comparative assets of the actors available, and allow the boundaries between actors to shift in relation to competencies. The core competencies framework is a very helpful starting point in establishing where these attributes lie.

## Relationships in Practice

### The nature of relationships in practice

Relationships between partners are difficult to manage and take time to develop. The different assets of each organisational sector that forms the rationale for partnering come with other differences that are also sources of potential conflict. It is critical that these differences should not be eliminated or somehow suppressed, since once they disappear the rationale for partnering also disappears. Rather, the differences must be coordinated and integrated to work together.

Achieving a good working relationship requires addressing stereotypes. NGOs are assumed by others to be difficult to work with because of the importance they place upon core community values; the private sector is often thought of as being concerned only with profit; and municipalities, as governing agents, are often considered to be inflexible and bound by 'red tape'. These stereotypes, while having some truth, tend to emphasise negative characteristics observed by external parties to the exclusion of positive ones.

Conflicts arise in partnerships when there is a chronic imbalance in the capacities and powers of the partners, and when there is little recognition of the contribution each partner makes. Conflict may arise from the sheer scale and competency of a private sector organisation in relation to a municipality, or simply from the different power bases and competencies of organisations. For example, the private sector's self-confidence and technical expertise can often intimidate others. Its superiority in particular aspects can lead it to act arrogantly. Imbalance creates fear, and fear can lead to conflict. Level playing fields must be created. In Stutterheim (see Box 6.1), the newly-elected councillors perceived this imbalance in a partnership, and their relative incapacity in the face of a strong private sector partner led to a weakening of communication channels and ultimately to a breakdown in trust and confidence between the private sector operator and the council.

Another critical element of relationships between sectoral organisations is the role of individuals. Individuals can make or break relationships. At least at the beginning, most successful partnerships are built around the drive and effectiveness of key individuals, and many falter when these individuals depart. Alternatively, some individuals may be the reason that projects do not progress. For example, corrupt municipal officials can colour the perception of a municipality. In such circumstances, primary motives/interests are not political, but personal; the primary form of power is not the law, but status; the municipality is not concerned with legality, but levels of personal compensation for leading officials; and the primary goal is not development, but maintaining existing hierarchies and the social status of officials.

The other important characteristic of relationships between partners is that they are dynamic. As capacity increases, partnering capacity improves and mutual recognition emerges, the nature of the partnership, and the various relationships within it, will develop. Such change may create effective sustainable partnering, or it may be resisted, or it may result in the dissolution of the partnership.

#### **Developing and sustaining relationships**

The ideal partnership is based on shared decision-making and mutual commitment. While this may be self-evident, its implications for the structure of the partnership and behaviour of the partners is not always well understood or accounted for. It is necessary to heed the following lessons:

- **Take a learning approach** Relationships work best when actors are willing to learn about one another and about how to work together. In practice, municipal, private and civil society actors do not naturally learn from each other.
- **Ensure extensive up-front discussion** For organisations (and individuals) to become familiar with one another, it is necessary to explore capabilities, and the different uses of words and meanings.
- **Expect mistakes** Mistakes will always arise, and accountability should include identifying lessons and revisions to the process. The learning approach greatly facilitates handling conflicts when they inevitably arise.
- **Clarify individual objectives and build mutual commitment to them** Partnerships necessarily focus upon a collective objective, but, in practice, partners each have their own objectives as well. A company that does not reach profit targets, an NGO not responding to equity concerns, or a municipality incapable of working with its constituency are not effective partners. Collective evaluation processes should be put in place to measure performance regularly and identify ways to address variations.
- **Design around current and potential comparative competencies** Assessments should be made about the competencies that are present, those that are needed, and how to fill the gap. The core competencies framework for organisational sectors can be useful for guiding this analysis and action planning.
- **Treat difference as an opportunity** Differences are sources of frustration, but when a traditional business better understands the livelihoods of the poor and an NGO better understands engineering complexities and management approaches, better system construction and maintenance processes can be developed.

#### **The mechanisms of interaction**

Lessons from innovative partnerships suggest that interaction can be assisted by the following:

- **Building collective partnership capacity and trust** Partners must display trust and commitment to the process and the ends. Mechanisms (such as group workshops) that help each organisation to understand how the others work and their respective objectives are useful tools in building a working relationship, and enable individual organisations to clarify their own objectives and key concerns.
- **The role of individual champions** In practice, the partnership depends on the willingness and flexibility shown by individuals. Key individuals can create an effective working relationship; when supportive or unsupportive individuals change, the dynamic of the partnership changes.
- **Inclusive, formal structures for decision-making** In large complex partnerships, to ensure the weaker stakeholders have a voice and can influence decision-making, formal vehicles (steering groups, working committees, evaluation committees etc.) must be formed at strategic and operational levels, include all formal partners, and create openings for informal stakeholders. In smaller arrangements where scale, mandate, time and expectation are less ambitious, projects might be sustained through ad hoc arrangements.
- **Transparency within the partnership** Transparency within the partnership is essential to build trust and commitment. Specific mechanisms for communicating, sharing information, monitoring and evaluation, and partnership reviews

**Box 6.25** Aligning Sectoral Competencies with Municipal Objectives

	Supportive attributes / Competencies of potential partners that support the fulfilment of objectives*		
	Municipal	Private sector	NGOs
<b>Economic objectives</b>	Balancing fees in relation to other services Ensuring value for money	Efficiency-focused Profit-focused Business reputation Programme-focused	Distribution of economic benefits (and work) to poor communities
<b>Financial objectives</b>	Access to donor funding/soft loans Some have access to bond markets Can determine cost recovery policy Mandate to create regulatory environment	Capital mobilisation Capital assets Focus on financial viability Generate confidence in potential lenders	Able to enhance cost recovery in poor areas Realistic assessments of ability to pay Access to donor funding Enhances ability to create cost-effective solutions
<b>Political objectives</b>	Can determine allocation of resources Can lead stakeholder consultation	Ability to clarify costs and financial implications of political choices	Able to build trust in poor communities
<b>Physical/ environmental objectives</b>	Knowledge of existing infrastructure and operations Can determine performance standards Control land tenure arrangements	Specialised technical knowledge and skills Access to new technologies	Able to enhance entry to underserved neighbourhoods Able to promote understanding of service options Able to promote sustainability focus Knowledge of poor communities and vulnerable groups Able to promote empowerment and build community capacity Able to steer coordinated responses
<b>Social objectives</b>	Local knowledge May have knowledgeable community development staff Control land tenure arrangements Worker re-employment		Detailed knowledge of poor consumers Delivery of services to low-income areas Concern for vulnerable groups Relationships with poor communities Concerned with values and justice Demand-focused
<b>Institutional objectives</b>	Mandate to instigate change	Managerial capacities Can promote improved access to technology and skills	Mobilisation of community organisations

\*Objectives are outlined in Chapter 3

help to create this explicitly, but an implicitly straightforward and open approach needs to be adopted within the partnership.

- **Appropriate contractual mechanisms** Contracts are necessary as formal mechanisms to define relationships, but their successful application will depend upon parties understanding that they are in a process of ‘co-production’ – one where they are mutually dependent in finding optimal solutions for all concerned, and making the outcomes successful for all. Partnerships that depend solely upon contracts are bound to fail, as parties will focus upon following the letter of the contract rather than its intent.
- **Building independent capacity** The building block approach to developing stakeholder capacity (discussed in Chapter 5) allows stakeholders to separately identify issues and opportunities before having to articulate them in a broader forum.
- **Clear definition of roles and responsibilities** Defining responsibilities at the outset is critical in establishing an even partnership platform where each partner brings their specific skills to the table. There needs to be a process to ensure that these roles are explicitly understood and acknowledged by each partner, and that a sense of value is placed on the contribution of social and technical inputs. Flexibility is also required to enable changes in roles and relationships between partners.
- **Ensuring strong relationships to parent organisations** A primary difficulty is establishing a balance between the partners’ commitment to the partnership and conflicting commitments to their parent organisation. Internal mechanisms need to be established to keep relations within organisations sound: many partnerships have floundered when the partnership cell becomes marginalised from its own organisation.
- **Developing mechanisms to measure success** Mechanisms to measure the different objectives of each partner need to be created in relation to overall partnership targets.

A range of mechanisms (both processes and structures) can be established to formally support the partner relationships. These must arise from the trust and confidence that should lie at the foundation of the partner relationships.

## The Process of Partnering

The process of partnering concerns the development of effective stakeholder relationships. Evidence suggests that there are a number of keys to a successful partnership – e.g., time, stakeholder engagement and capacity building – and each is dependent on the others. At the outset, this means ensuring that all the stakeholders that can be engaged, are engaged in the process of design and development. Local partners, be they private sector or NGOs, may play a key role in the early stages.

The process of partnering is important in all partnerships, but especially in those requiring extended relationships. The large-scale, long-term and complex nature of some partnership arrangements requires ongoing relationship building to involve all stakeholders in working together towards the agreed objectives and to ensure ‘learning by doing’. It is inevitable that each partner’s expectations, roles and capacities will change. Hence, partnership strategies and frameworks must be flexible, and they should prioritise learning and partnership capacity building.

Relationships will also change in form and extent over the duration of the partnership. Partnering should not be envisaged as a static process that always requires the same inputs, involvement and commitment from all partners. Rather, it should be seen as a process that changes as needs and capacities change. The process should encourage appropriate and evolving relationships.

In the early stages of developing a service partnership, the question is not what type of partnership, but whether there should be a partnership at all. Municipalities will need to involve stakeholders from civil society, in particular, in the

**Box 6.26 Diversity of Partner Objectives**

BoTT, South Africa

Links to Boxes  
6.11, 6.12, 6.26, 8.13

One of the primary hurdles being experienced in the South African BoTT partnership in the Eastern Cape (see also Boxes 6.11, 6.12 and 8.16) is that the partners in the consortium have vastly different objectives and there has been no explicit or conclusive process to develop some sort of convergence and common ground. As a result, the partnership has continued but with significant partnering problems, and has not functioned as effectively as it might have.

The partners argue that the whole initiative to date has been sustained because individuals in the key organisations have facilitated the process. The following table provides a summary of the divergent objectives (as given by each partner), the roles of the main partners in the consortium and the various risks each perceives.

Partner	Role	Objective	Risk
<b>The consortium manager</b> [Amanz' Abantu Services]	Project management Client/community liaison/ local government Representation of ISPs Accountability/client, stakeholders and shareholders Overall implementation and responsibility Contract management/ development	Service delivery Business development Meet shareholder expectation (profit/work etc.)	BOTT fails/is perceived to fail Reputation Linked to single contract Technical/financial/social
<b>Construction contractor</b> [Group Five]	Construction as per design and specification	Customer satisfaction Group/client/Amanz' Abantu To provide water on time, to specification Employment (local labour) Profit	Rising costs/lower returns Resources and continuity Budget constraint – stop/ start
<b>Operations and maintenance</b> (O&M) operator [WSSA]	Ensure sustainability through appropriate implementation of O&M and cost recovery	To improve client base – profit/turnover To meet client objectives/ satisfaction Empowerment Human resource development Development of rural skills	Reputation/image Profitability/sustainability Continuity of work Customer perception/ expectation demand Risk/liability linked to overall performance
<b>Technical consultant</b> [Ninham Shand/FST]	To provide design services (design/planning/monitoring, etc.)	To profit financially	Professional liability Non-payment for work done Reputation Risks linked to overall consortium performance Rework (waste)
<b>NGO – institutional and social development</b> [Mvula Trust]	ISD implementation Advocacy/policy debate Research and development	To create an environment for disadvantaged companies and individuals to work in To develop models for sustainability To project/represent the community client	Reputation (name) Compromise values Unclear messages/instructions

processes of problem identification and objective definition, in exploring the factors that currently affect service delivery, and in understanding the current methods of formal and informal service provision. Encompassing consumers (particularly poor consumers), trade unions and NGOs will inevitably result in more targeted solutions. Promoting the widest possible understanding of the problem, the potential solutions and their impacts on individuals is vital to the development of an approach that benefits all parties. A variety of tools and techniques will be necessary to establish this participation. The participation of the poor can be ensured through the participatory assessment of their livelihoods. This will involve individual, group and community interactions.

Once it is agreed that a partnership approach is appropriate, it is necessary to engage stakeholders in a structured process of discussion, feedback and decision-making to determine the basic framework of the partnership and the process to be undertaken to operationalise it. The process of defining the principles, purposes and key elements of the partnership will need to be undertaken with as many potential partners as possible. It will require engagement with individual organisations in small forums, and then in larger forums, to agree a collective way forward.

Ideally, formulating a strategic approach to PPPs should involve potential private sector partners and national and local private stakeholders, as their views on financial viability will keep the process in check; it will also introduce them to the municipal objectives. However, if a medium- to long-term arrangement involving the international private sector is envisaged, it is unlikely that the potential partners would be present through this process, and municipalities should ensure that the private sector viewpoint, at the very least, is well represented through consultants or other advisors, and that specific forums are established to discuss plans and obtain feedback from private firms. The process of procurement discussed above will also involve a large number of stakeholders. Here, it is essential that transparency be achieved by establishing an open and inclusive process with communities and tenderers.

Once partners are selected, relationships need to be developed and fostered. It is not sufficient to leave the process of partnering to chance. Group workshops that familiarise each partner with the assets and capacities of other partners, and joint definition of roles and responsibilities, are essential parts of establishing sustainable relationships. Capacity building sessions to this end should be planned for and instigated. Yet municipalities should be aware of the fundamental conflict between establishing definitive contracts for private sector partners, and creating the flexibility needed to ensure that relationships and roles are appropriate and able to evolve. Preparation is often the key, especially in understanding the potential of NGOs and small-scale providers that may complicate the large-scale private sector partner's vision of its own role. It must be made aware of the type of broad partnership involving civil society that is envisaged, and be given the opportunity to explain its position and approach from the outset. Phasing is one easy way of developing commitment and establishing relationships without necessarily incurring the additional long-term cost of early uncertainties.

Municipalities should also recognise that consultation and participation are not the same, and the partnership framework should reflect this understanding. While community participation will vary with the context – including social, cultural, political, historical and institutional factors – it should be taken to mean that partners/stakeholders are involved directly in decision-making events and that decisions can be affected by their contribution. Effective participation is difficult to achieve, especially where stakeholders have different capacities. Effort should be made to identify those marginalised from the process, and to involve them through targeted initiatives. Moreover, care must be taken to make participants clearly accountable for their roles; hence the part they play must be as clear as possible and quite specific about the value they are supposed to add.

**Box 6.27 The Experience of Partnering**

KwaZulu-Natal, South Africa

One of the eight pilot projects included in the BPD initiative is located in the KwaZulu-Natal province in South Africa. This PPP pilot was established in early 1999 with the development of a collaborative agreement between the municipalities of Durban and Pietermaritzburg, Umgeni Water (the regional water board), the Mvula Trust (an NGO dedicated to the improvement of water and sanitation services for poor communities), Vivendi Water (an international water utility with experience in the operation and management of municipal water and waste water services) and the Water Research Commission (a national body sponsoring research on water-related issues). The overall budget for the KwaZulu-Natal project is approximately US\$2 million, and derives from the contributions of the partners who undertake to provide human and financial resources as well as third party funding for the NGO partner.

The primary objective of the partnership is to better understand the dynamics and potential impacts of tri-sector partnerships and to draw up some guidelines for future implementation. The idea is to demonstrate that tri-sector partnerships between business, civil society and government at all levels provide win-win benefits to all three parties, that they can be much more widely used, and that they can be successful in small- or large-scale projects. During the three years of the project, the partners are working on six pilot areas, which cover a broad range of typical situations encountered in poor urban and peri-urban zones, and they are focusing on the provision of adequate, acceptable and affordable levels of water and sanitation services, community education about water conservation, health and hygiene, operation and maintenance, customer management and the involvement of the communities in the achievement of these objectives.

While the mood during the preparatory stage of the pilot was cautious – the memorandum of understanding that forms the contractual basis for the partnership took nine months to discuss and agree – the partnership has developed substantially during the three-year implementation. Most PPPs do not rely on mutual exchange, but are bound by contractual relationships typical of commercial arrangements. This BPD KwaZulu-Natal pilot project provides evidence of a more genuine partnership involving a wide range of partners skilled in very different areas.

In the KwaZulu-Natal Project the management structures serve to clarify expectations on the part of each of the partners. An outsider's initial glance reveals a fairly wide sense of fluidity and candour. Again, the different organisations do not have a history of working together – allowing time to speak the same language has proved to be a crucial element of the project's development. According to the partners themselves the strength of their relationships has emerged from the time that project partners spent getting to know each other.

The partnership appears to be responsive and is evolving, though not without questions about the role and expectations of Mvula Trust. Mvula's role appears to have changed from being a partner with the over-arching responsibility for the community side of the project, to that of a partner with responsibility for managing the community side of the project. As the partners have become used to working with each other, some cross-over has emerged: Vivendi gets involved in education issues and Mvula gets involved in customer management, and thus the contractual relationship has an informal flexibility to it.

The partnership is one of shared responsibility with a voluntary agreement between the parties to share the overall responsibility for implementing tasks, and to be jointly accountable. Most importantly, the initiative has benefited from the genuine spirit of collaboration that has grown progressively. There now seems to be an unambiguous recognition of the need to strengthen the partnership concept with tri-sector teamwork in addressing each of the specific difficulties of service delivery in poor areas. The experience suggests that a well-functioning partnership may not only mean that each partner fulfils its expected role (e.g., the NGO handles community liaison and education, the public sector is involved in law-making and regulatory functions, and the private sector ensures service provision and financing). The free and open discussions that take place within and outside the task team meetings, and the trust built up over time, have allowed the partners' perspectives to change. None of the partners believe that they have the monopoly on social or technical matters; a joint effort prevails.

The lessons learnt in the KwaZulu-Natal pilot are that the partnership's strength stems largely from internal trust and confidence between the partners. This has given it a great deal of momentum. However, in order to build upon this, tangible results need to be generated and then communicated appropriately. Indicators (whether project- or partnership-based) can help the partners to do this. There is now a real recognition that by pooling their unique assets and expertise, the three sectors can truly provide mutual gains for all. Governments can ensure the health of their citizens with safe water and effective sanitation while sharing the financial and technical burden. Private companies can improve their performance while ensuring financial sustainability over the long term, and communities can gain a real voice in their development.

Source: Adapted from the KwaZulu-Natal report to steering committee

## Priorities

Driven by the quest for finance and improved efficiency, the fundamental shift in approach to municipal service delivery toward PPPs often places equity and poverty-related service issues in second place. This has naturally led to a focus upon business alone as the key partner for municipalities, and a lack of recognition of the important role of civil society in establishing partnerships that fulfil all objectives, and are holistic in nature. The efficiency focus has been reinforced by the comparatively strong voice and sophistication of the business sector. In contrast, civil society is still emerging in many locations and often lacks the confidence and experience needed in large ambitious partnerships.

From one perspective, changes in the approach to municipal services can be seen as representing an increasingly sophisticated understanding about the roles and competencies of different types of organisational actors. The development of this approach requires municipalities and other potential partners to overcome ideological barriers. Most importantly, the partnership framework must prioritise discussions about who is to be involved and what roles and relationships are to be established.