

Session 3 : The Recognition of "New" Players

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Outline

Small-scale private providers - a normal and natural progression

The roles of small scale private providers - are they any different?

Creating a fertile framework for small-scale private providers

Sustaining services through realism
(contractualization, economics, social policies)

Rediscovery of Small Scale Suppliers

- Small Scale Suppliers have been part of the system for a long time
- Have only been recognised by the big institutions in recent times
- Need to go back in history and learn the lessons of the past
- How were the challenges dealt with hundreds and thousands of years ago?
- What is different in our times?
- Does this present a new challenge?
- How can SSS be used to best advantage?

What are their origins?

- Entrepreneurial identification of a market opportunity
 - A customer demand to be satisfied
- Logical extension from some other business activity
 - Construction, Consulting, etc.
- Annex to another core business
 - Mining or manufacturing
- Property development
 - Need to service a property development
- Political expedient
- Philanthropic interest

Small Scale Private Providers

What are we talking about?

- Water & Sanitation ✓
 - Micro-service providers – Non Networked ✗
 - Entrepreneurial system operators ✓
 - Contractual system operators ✓
 - Developer based system operators ?
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- Own source of supply/disposal ✓
 - Retailing supplies from "official utility" ✓

Perceived Benefits

- Customer responsive
 - Market driven
- Invest themselves
 - Local private finance
 - Survive without subsidies
- Self-sustaining
 - little or no need for subsidies
- Responsive to poor people
- Innovative solution providers
- Can reach where formal providers can not go
- Problems of land tenure & informal settlements
- Significant contribution to development process

Perceived Challenges

- Degree of informality
- Control of quality
- Control of prices
- Challenge to monopoly supplier
- Integration
 - Quality of installations
 - Compensation
- Need to be regulated

Segmentation

- Small scale entrepreneurs
- Small scale service contractors

- Independent networks
- Sub-networks

Small Scale Service Entrepreneurs

- "*A person who organises, operates and assumes the risk of a business venture*" that sells water (or sanitation services) to customers (households or businesses)

Small Scale Service Contractors

- Individual or organisation that provides specified service to delineated area under prescribed conditions for a defined price under agreement with a contract authority

Network vs Sub-Network

- Network is a complete system independent of any other
- Sub-network is only a secondary network that is connected to the water source of a larger network (often the "public authority")

The roles of small scale private providers - are they any different?

Two parts to the question

- Different from other water service providers?
- Different characteristics if entrepreneur or contractor?

Different from other water service providers?

- Essentially NO
 - Same kinds of opportunities, risks and challenges
- Small scale has an impact
 - Limits benefits of scale
 - Reduces ability to absorb some risks
 - Weakens capacity to engage with authorities
 - Forces a sharp customer focus
 - Drives flexibility and innovation

Different characteristics if entrepreneur or contractor?

- Definitely YES
 - Es largely control their own destiny, Cs do not
 - Es usually grown out of a business opportunity they have identified themselves, Cs respond to situations defined by others
 - Es control their customer/revenue base, Cs do not
 - Es might have a licence, Cs have a contract
 - Es decisions are focused on the business, Cs are split between the business and the contract
 - Etc...?

Creating a fertile framework for small-scale private providers

What do these differences mean for policy and management?

- Understanding these issues is essential to enable small scale service providers to be used to their full potential
- Emphasise the opportunities and overcome the limitations
- There is real potential
- We still have work to do
 - Define the questions
 - Engage more fully

The usual questions – W? W? W? etc

- What's the geographical/societal situation?
- Who is in charge?
- Who Takes what Decisions?
- Who Owns the Infrastructure?
- Who Sets the Price?
- Who Collects the money?
- Who Operates?
- Who Funds what?
- Who Controls what?
- How are differences resolved?
- How and when do you adapt?

Elements of Water Supply and Sanitation Services

- **Political Responsibilities**
 - Allocation of water resources and Policy decisions that impact rights & freedoms
 - Strategic orientation and planning
 - Administration & regulation that ensures fair implementation of political decisions
- **Operational Activities**
 - Service delivery
 - Technical planning
 - Constructing infrastructure
 - Operating systems
 - Customer relations
 - Maintaining infrastructure & systems
 - Financing (capital works)
 - Revenue collection (Cash flow)

Separation of Roles

Three principal roles should be **separated** from each other

- **Political** Policy making & review

- **Administration** Compliance & Regulation

- **Service delivery & Operation** Public operator or Private operator or CSO

Good practical & ethical reasons for this separation

What governments must do

- Set & Review Policies
- Plan, administer and police the common assets and interests to ensure the security, freedom and quality of life of the community that has empowered them.
- Devolution to appropriate level
- List of "tasks"
 - Organising, planning, costing & pricing, social policy, regulation, enforcement.....
- Some specific challenges
 - Time lags, conflicting interests, administration / politics, unintended consequences

What a Private Sector Operator can do

- Perform any of the "industrial" functions of running the service
- Implement specific political instructions
 - If legal
 - If practical
- This is exactly the same for a public operator

**Sustaining services through realism
(contractualization, economics,
social policies)**

Contractualisation - Reminder

Contractualisation (or institutionalisation) is a process **that involves the** creation **and** implementation **of a** chain **of** contracts **and/or other kinds of** formalised agreements, **linking the (majority of)** stakeholders **in a complex** social system, **that are set up to** improve **the** performance **and** extension **of** essential public services.

Does Contractualisation Help?

- It can if:
 - All the links in the chain are designed and worked together
 - All critical "players" are included in the chain
 - Contracts are fair and balanced
 - Implementation is even handed
 - Individuals show Integrity and Leadership

A Success Formula - R X 6 + R

- **R**oles,
- **R**esponsibilities,
- **R**ights,
- **R**ecourse,
- **R**isks
- **R**ewards of parties



The **6 R's**

+ Respect

Key Questions

- Who is in charge?
- Who Takes what Decisions?
- Who Owns the Infrastructure?
- Who Sets the Price?
- Who Collects the money?
- Who Operates?
- Who Funds what?
- Who Controls?
- How are differences resolved?

Key issues for Public Private Partnership Contracts

- A contract is essential but insufficient
- Essential to create and maintain relationships
- Definition of scope and objectives
- **Roles, Responsibilities, Rights, Recourse, Risks & Rewards** of parties ----- **The 6 R's**
- Measurement and control of performance
- Non-performance and penalties
- Tariff and payment
- Financial structures and security
- Quality and execution of contract

Fundamentally the same for public operators

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Critical Subjects for Successful Public Private Partnerships

- Tariff & charges
- Asset management
- Investment
- Economic equilibrium
 - (Long term versus short-term costs & revenues)
- Risk and risk management
- Social and community objectives
- Changing circumstances
- Contract governance and regulation
- Dialogue and facing reality

Challenge of "Partial Scope" contracts

- The contractor has limited autonomy
- Can only perform if others perform
 - Involved in operation but does not control asset design, quality, or replacement
 - Dependant on cash flow, but can't control all costs
 - Dependant on decisions taken by others elsewhere

Realism is Key

- Logically Contractualisation is a concept that can help all parties
- It is not so easy in practice
- Requires a real and complete understanding
- It requires engagement from many actors outside the "sector"
- Real problems will always come up and can only be solved by working together

A contractor is only as good as his principal and a principal depends on the success of his contractor

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