

Supporting Non State Providers of Water Services

Paper for DFID Policy Division

Kevin Sansom, WEDC, Loughborough University

Final draft report

WELL Task: 2765

June 2006

WELL
RESOURCE CENTRE
NETWORK FOR
WATER, SANITATION AND
ENVIRONMENTAL HEALTH

Water, Engineering and Development Centre
Loughborough University
Leicestershire
LE11 3TU UK
WELL@lboro.ac.uk

London School of Hygiene & Tropical Medicine
Keppel Street
London
WC1E 7HT
WELL@lshtm.ac.uk

IRC International Water and Sanitation Centre
P.O. Box 2869
2601 CW
Delft
The Netherlands
WELL@irc.nl
www.lboro.ac.uk/WELL

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Sansom, K.R (2006)

Contents amendment record

This report has been issued and amended as follows:

Revision	Description	Date	Signed
1	First draft	22/02/06	KRS
2	Second draft	16/05/06	KRS

Designed and produced at [WEDC/LSHTM/IRC](#)

Task Management by Kevin Sansom

Quality Assurance by Rebecca Scott

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List of acronyms

CAP	Country Assistance Plan (of DFID)
CBO	Community Based Organisation
CSO	Civil Society Organisation
DFID	Department for International Development
DRA	Demand Responsive Approach
GoU	Government of Uganda
GoI	Government of India
HIPC	Highly Indebted Poor Country
LIC	Low income country
M&E	Monitoring and Evaluation
MTEF	Medium Term Expenditure Framework
MoU	Memorandum of Understanding
NGO	Non-Governmental Organisation
NSP	Non-State Provider
PPP	Public-Private-Partnership
PRSP	Poverty Reduction Strategy Paper
SWAp	Sector Wide Approach
TA	Technical Assistance
VDC	Village Development Committee
WB	World Bank
WS&S	Water supply and sanitation

1. Introduction

1.1 Purpose of study

This paper on Non-State Providers (NSPs) of water services in developing countries is one of a series of papers that include sanitation, education and health services, that have been commissioned by DFID Policy Division in London. Each paper considers the following key issues:

- The scale, importance and comparative advantage of non state provider (NSP) activity in each of the sectors;
- The limits and potential for expanding *state purchase of services* through contracting of NSPs;
- The limits and potential for *donors to directly support NSPs* to deliver services to under-served groups
- The limits and potential for *creating an enabling environment* that facilitates NSPs to deliver services to the poor.

These topics are considered under the main section headings of this paper along with specific questions that were posed for the study and are highlighted in each section.

This paper builds on a previous multi-sectoral DFID funded study on Non-State Providers of Basic Services conducted in 2004 by IDD, Birmingham University, WEDC, Loughborough University, CIE, Sussex University and the LSHTM, that included three case studies from Africa and three from South Asia.

The diversity of different types of water NSPs in the rural and urban sectors that emerge to fill different market niches are discussed in this paper, as well as a potential framework for better engagement between government and water NSPs.

1.2 Water sector context

Water NSPs such as informal private providers and civil society organisations often focus on serving low income and poorly served areas in developing countries, where they tend to have a substantial market share. This applies to both urban and rural areas. This situation arises because in the allocation of the limited government services and resources, preference is usually given to serving the more formal high and middle income areas.

In the provision of water there is significant scope for productive engagement between government and NSPs. For example, public agencies and NSPs often use the same water sources such as groundwater, rivers, and lakes, which are often threatened by contamination or rapid depletion. Different forms of engagement can lead to better management of those sources. Where urban NSPs take water directly from utility pipelines they are in effect customers of the public utility, so there is clear scope for better collaboration to improve services for end users. In rural areas neither government, the private sector nor civil society institutions generally have sufficient capacity to provide adequate water services on their own. It is only through effective collaboration can real improvements generally be made.

Improving the effectiveness of government agency engagement with NSPs to improve services is, therefore, important for all stakeholders who are concerned with poverty reduction.

2. The types, scale and importance of NSPs

Key question - Who are the major non-state providers of basic services to underserved groups, at what scale are they operating, and what activities are they involved in (front line delivery, interfacing with CBOs, supporting state service delivery etc.)?

Non-state providers (NSPs) in water and sanitation services can usefully be divided into three broad types that reflect the main types of NSP activity undertaken:

- Informal private (for profit) water providers (also referred to as small scale independent providers (SSIPs) and small water enterprises (SWEs)
- Civil society organisations supporting community based management
- Public Private Partnership (PPP) operators for water services.

These main categories of NSP tend to be very different in the types of service they deliver and in the characteristics and ethos of their organisations. Each category is briefly considered below, although PPP operators and contracts are considered in the section on State Purchase of Basic Services.

2.1 Informal private water providers in urban areas

In many low-income areas in Sub-Saharan Africa and Asia, people do not have their own utility piped water connection and rely on water obtained from NSPs. A study of ten cities in Africa (Collingnon and Vezina, 2000) reported an average of 47 percent of households used small water providers or traditional sources such as dug wells, as their main sources of water. NSPs in many African cities collectively serve more customers than the public utility, while in some cities in conflict or post conflict situations, NSPs are the only water providers. Water NSPs in a number of South East Asia cities serve between 20 to 45 percent of households (Mackintosh, 2003).

Water sector informal private providers can be divided into two distinct types: (Water Utilities Partnership (WUP), 2003 and Moran and Batley, 2004)

1. *Independent Water Service Providers* are not connected to the utility pipe network and may even compete with it. They generally obtain their water from alternative sources such as their own borewells, then distribute through a pipe network, or through carriers or a single supply point. Many independent providers are unauthorised or unregulated. Some of these independent service providers obtain water from unsafe sources such as unprotected springs and wells, which can present health risks for consumers.

2. *Intermediate Water Service Providers* include private providers or community based organisations, delivering water in unserved areas. Intermediate providers generally obtain water from the utility piped network and either (i) install and manage network extensions or water points in unserved areas, or (ii) buy, carry and deliver water direct to customers willing to pay them (ibid). A wide variety of this type of NSP has emerged to fill specific market niches in urban water supply. Examples of such providers are shown in Table 1. Some urban type providers such as water tankers also provide water to rural areas in times of droughts, or to villages that are near urban centres.

2.2 Informal private water providers in rural areas

Maintaining sustainable water supplies such as handpumps and piped schemes in rural areas in developing countries remains a big challenge, particularly in Africa. Prior to the 1980s it was hoped that local government could maintain rural water systems, but in most cases it did not have the resources, outreach or incentives to maintain supplies.

There are examples of private artisans and mechanics working in rural areas to maintain water facilities, but little is written about them in the literature. Sustainable management arrangements in rural areas are hampered by the low density of water points and the lack of economies of scale for private enterprises to make a living in poor regions. It is for this reason that so much effort has been devoted to community based management. However, if the incentives can be structured effectively, the private sector are likely to be the most suitable stakeholders in the longer term to undertake maintenance activities in rural areas.

A key issue is maintaining an effective supply chain of spare parts. A number of development projects have attempted to support such supply chains, but invariably they fail to continue unless there is some ongoing support and subsidy (Harvey and Reed, 2004).

Support programmes to 'area pump mechanics' have been piloted in countries such as Ghana and Uganda. It was hoped that such mechanics would be able to build up their local business so that they could be financially viable after a while. But initial results suggest that they have not been able to generate sufficient business to survive on their own without some ongoing financial support and co-ordination. A range of different private sector and community based maintenance arrangements are summarised in Table 2.

2.3 Civil society organisations supporting community management

A wide variety of civil society organisations (CSOs) operate in developing countries who are committed to participatory ways of working on water sector and/or multi-sector programmes including the following:

- International NGOs such as WaterAid, Oxfam, Care etc who tend to work with local NGOs and CBOs and often also engage in policy dialogue. Some NGOs specialise in relief work.
- Local NGOs in various forms such as faith based organisations and groups who have a particular ethos or defined ways of working; who usually work with CBOs and may engage in policy dialogue with government.
- Local NGO umbrella organisations who can enable networking, lesson learning and can provide a platform for advocacy or representing the views of CBOs.
- Community Based Organisations (CBOs) who seek to develop and perhaps manage water services in their communities in conjunction with other stakeholders such as NGOs and government, or they may do other activities on a self-help basis.
- CBO federations who can enable networking, lesson learning and can provide a platform for 'consumer voice'.

Other CSOs include philanthropic private sector organisations and sympathetic parts of the media. The CSOs listed above usually operate in underserved areas in or for both rural and urban areas to varying degrees, depending on the civil society traditions and enabling environment of each country or region. In recent decades there has been a substantial growth of

CBOs in the form of water and sanitation committees or similar groups that are created or strengthened as part of government, NGO or donor programmes.

Government water policies in most developing countries support community based management in rural areas and poor urban areas, which accounts for the widespread reliance on these types of NSPs. However, in most cases there is insufficient support for CBOs working in water services, despite efforts to provide more assistance through decentralisation and donor supported programmes.

In rural areas it is more difficult for NGOs and government to maintain adequate links with CBOs because of the distances involved. While in urban areas water service provision by CSOs is hampered by a confusion over whether government agencies should provide services to poor areas and how they should engage with NSPs.

Participatory projects where community groups in poor urban and rural areas are mobilised to contribute to the decision-making, project planning and implementation, as well as project costs are often initially effective. This is particularly true where the process is facilitated by an able intermediary such as an NGO. There are concerns, however, about the long term sustainable management of water services managed by community groups, in terms of managing operation and maintenance of water facilities and revenue collection for effective cost recovery. CBOs can however, be effective partners in shared management arrangements for water services such as those discussed in the Kibera case study summarized in Box 1.

Box 1: Co-operative management of water distribution in Kibera, Nairobi

Kibera is one of the largest informal settlements in Africa, with a population of about 500,000 people and an estimated population density of 2,000 people per hectare. According to a survey conducted by the Water and Sanitation Program in Nairobi in Laini Saba, one of the nine villages in Kibera, the residents consider sanitation and water supply to be the most crucial problems they face.

In response to the water supply problems in the area, Ushirika, a community-based organization in Laini Saba, created a partnership with a local NGO, Maji Ufanisi, to extend piped water services to the area. Maji Ufanisi provided materials and technical expertise, while the local community arranged for labour to lay the pipeline and construct the water kiosks. In collaboration with Nairobi City Council (the water utility), a new distribution pipeline was extended to Laini Saba, which was commissioned in 1998.

A bulk flow meter was installed on the main distribution network where the Ushirika pipe connected, and the Ushirika Co-operative Water Society are issued water bills on the basis of the bulk meter readings. A management committee was set up to manage the water project on behalf of Ushirika. Consumers pay for the water by volume at the new water kiosks. The tariff is higher than the bulk cost price charged by Nairobi City Council but less than other local vendors' prices. Ushirika hire staff to sell the water at KSh2 per jerrican. These staff are paid a proportion of the money they collect according to the water meter at the kiosk. The surplus funds are then invested in other projects funded by Ushirika in Kibera

Source - Sansom et al, 2004

3. Comparative advantages of different types of NSPs

What is the comparative advantage of NSPs in reaching these populations? (value for money? sensitive service? responsiveness to client? etc.)

In assessing the comparative advantage of different types of NSPs we need to consider the benefits, cost and limitations of particular services that they provide and/or the characteristics of the typical contracts that they win. There is a wide diversity of NSPs and contracts used in the water sector, each with their own distinct comparative advantage. Caution is required about making sweeping generalisations, even though there are some common factors that can be drawn out.

In general terms, the private sector (formal and informal) are more flexible in their operations and more responsive to consumer needs, than the public sector. This is due to their commercial orientation and the fact that they are less encumbered by bureaucracy than the public sector. Where NSP services are procured through formal contracts they are usually able to respond better to incentives for improving performance because of their inherent flexibility and the competition incentives. Although it should be noted that some elements of competition and incentives can also be used for public sector agencies, through measures such as performance agreements, incentive payments and benchmarking.

CSOs have comparative advantage in delivering community based services where the state is unable or unwilling, particularly in poor communities. CSOs are often effective in their advocacy activities to influence policy on community based activities, enhance consumer voice and tackle prejudice against disadvantaged groups.

This section summarises the more specific comparative advantages of the main types of NSPs as well as some innovative arrangements that have been piloted. Informal private providers in urban and rural areas are considered, as are CBOs and NGOs. The relative comparative advantages of the typical contracts that PPP operators manage are discussed in the section on State Purchase of Basic Services.

3.1 Informal private water providers in urban areas

The general potential benefits of informal private water providers are set out in Box 2. Each NSP will often have a comparative advantage within its particular market niche. For example, in informal settlements where there is no piped supply and limited access for water trucks, then smaller cart and cycle vendors have the comparative advantage.

<p>Box 2: Success factors of informal private water providers</p> <p>Studies conducted in the four East African cities of Dar Es Salaam, Kampala, Mombasa and Nairobi in 1998 and 1999 listed the following success factors of Informal private water providers in the water supply and sanitation services:</p> <ul style="list-style-type: none">• They are able to respond to the dynamics of market demand, unlike monopolistic public enterprises.• Can access peri-urban or informal settlement areas not covered by the public enterprise.• They are commercially oriented.• They respond to the needs of the market by accessing high population density communities through the provision of different service options• They can operate other businesses in addition to the provision of urban environmental services. <p><i>Source: Collingnon and Vezina (2000)</i></p>
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In assessing the comparative advantage of NSPs we also need to look at the costs of service provision. The urban poor in developing countries usually pay much more in terms of unit costs for their water from NSPs. This is because they invariably do not have piped supplies and they have to pay extra for people small water enterprises (SWEs) to transport the water to them. Average water prices from SWEs in four African cities are \$4 to 6/m³, whereas the prices charged by water utilities in the same cities are \$0.5 to 1.4/m³ (McGranahan, Njiru, Albu, Smith and Mitlin, 2006).

Water utilities are often reluctant to work in informal settlements where the urban poor live because of perceived constraints concerning land tenure, space to lay pipes and the poor's limited ability to pay. But the poor can and do pay high prices for water.

In terms of value for money those service providers who expend the least time, expense and effort to transport a given quantity of water are generally the most cost effective. This invariably means that large piped water networks with high densities of paying customers tend to provide the most value for money. The relative comparative advantage of the different types of informal water providers is shown in Table 1.

Table 1: Comparative advantages of different informal water providers

Type of informal water providers	Comparative advantages	Examples of countries where used
1. Private/community managed pipe networks which are often in informal settlements	Good solution in areas where utilities are not willing/able to work. Unit costs per volume are generally less than other options, except where water is sold at kiosks.	Community managed: Haiti, Kenya, Malawi Private: Benin, Philippines and Mali
2. Private boreholes can be connected to standpipes or small pipe networks	Maybe combined with option 1. Suitable solution in areas where the utility cannot serve, provided the water quality is OK.	India, Kenya and Mauritania
3. On-selling piped water to neighbours can be from yard taps or flexible pipe from neighbour's house	A good option for people who do not have a connection, provided potential disputes can be managed.	Kenya, Cote d'Ivoire, India, Uganda
4. Water kiosk or standpipe vendors – managed by private water sellers or community groups to sell water by the container	A convenient option for people who do not have a connection, although expensive because of the need to pay for somebody to sell the water by the container.	Kenya, Senegal, Uganda and Tanzania
5. Water trucks or tankers - sell water to distributing vendors or direct to consumers	A suitable option where larger quantities of water are required for unserved areas. Much more expensive than piped water.	Haiti, Mauritania, Tanzania and Uganda
6. Animal-drawn carts vendors selling water to consumers or water carriers from donkey, camel or horse-pulled carts	Suitable where water must be carried some distance, but much more expensive than piped water.	Senegal, Mali, Mauritania
7. Handcarts - selling water direct to consumers at or near their homes	Expensive compared to above options above, but suitable where access is a problem.	Indonesia, Kenya, Vietnam, Burkina Faso
8. Water carriers by hand or cycles - who sell water directly to consumers at or near their homes	Expensive compared to above options, but suitable where access is a problem.	In most LICs including Mali, Kenya, Uganda, Tanzania and India

Source: Derived from Collignon and Vezina (2000) and Lyonnaise des Eaux (1998)

Public water utilities can support such informal private providers by extending the piped water network closer to the customers of the NSPs and providing suitable water collection points. These NSPs will then not need to transport their water so far and can reduce the prices charged to their customers. The first option in the above table - community/private managed pipe networks in informal settlements is worth governments and donors providing more support. Other means of supporting these types of NSPs are discussed in the enabling environment section.

3.2 Informal private water providers in rural areas

Providing reliable and sustainable water supply services in rural areas in low income countries remains a big challenge. High rates of non-functionality of water facilities are common, so adequate maintenance and cost recovery is often a key concern. Table 2 is a summary of the potential benefits and limitations of current rural maintenance management options and some innovative approaches that are worthy of further consideration.

Table 2: Potential benefits and limitations of rural water maintenance options

Maintenance option	Potential benefits	Limitations/consequences
1. Community based mechanics CBM) (voluntary basis or receive small payments)	They are motivated by their community Fast initial response to problems Can make communities more self-reliant Lower cost (if they provide a good service)	Not likely to be able to do major repairs Lack of financial incentive for mechanics Skilled staff often migrate away Difficulties in accessing spare parts Often needs on-going support & subsidy
2. Area pump mechanics (ABM) or circuit riders APM s serve an area and visit villages when called by the CBO. (Eg Uganda, Ghana, Kenya and USA)	More financial incentive than CBM Fewer people to train than CBM Competition can lead to improved services Concentration of limited skills and resources Village caretakers can focus on simple tasks	Requires good training Often needs on-going support & subsidy Some difficulties in accessing spare parts
3. Lease concept (Water company owns & maintains hand pumps for a fee from each HH) Eg Angola	Financial incentive for operator Better access to spare parts Concentration of limited skills and resources	Community may not get best value Some regulation should be provided Often needs on-going support & subsidy
4. Water Assurance Scheme (Communities can opt into scheme of paying local company for maintenance) Eg Kenya	Regulated by local government Financial incentive for operator Better access to spare parts Concentration of limited skills and resources	Often needs on-going support & subsidy Not clear how competition will be ensured
5. Privately owned hand pumps (People pay per jerrican) Eg Uganda	Financial incentive for operator Concentration of limited skills and resources	High cost of water Some regulation should be provided Often needs on-going support & subsidy, or a cheap alternative source for washing etc
6. Output Based Aid (Eg piped systems in East Africa)	Subsidies can be targeted to poor or remote communities Competition can lead to improved services Better access to spare parts Concentration of skills and resources	Model yet to be proven for rural water supplies Some regulation should be provided Requires on-going support & subsidy

Source: adapted from Harvey and Reed, 2004

The options that seem particularly worthy of further testing include the Area Pump Mechanics (with village caretakers), the water assurance schemes and output based aid. The latter two options are being explored further in East Africa.

3.3 Civil society organisations

The broad areas where CSOs can contribute and have comparative advantage include:

- Increasing accountability and demanding that citizens are protected by the law;
- Influencing policy - linking grassroots work to policy making;
- Delivering services where the state is unable or unwilling;
- Tackling prejudice and changing behaviour (eg challenging the heavy demands placed on women in collecting water).

(Source: DFID policy paper on social exclusion, 1995)

There are three main types of CSOs; international NGOs, local NGOs and Community Based Organisations (CBOs). Each can provide more specific comparative benefits that are not usually not provided by other organisations. International NGOs (INGOs) that work in the water sector such as WaterAid, Oxfam and Care intervene in a variety of different ways to support sector development. Key activities include: supporting local NGOs and CBOs to deliver more sustainable projects in underserved and/or poor areas, networking and advocacy, learning lessons for replication elsewhere and influencing policy where feasible.

Local NGOs exist in a variety of forms and sizes with different aims and ways of working, but in general terms many tend to focus on supporting CBOs to deliver local participatory projects and services in underserved and/or poor areas. The larger local NGOs also engage in a similar range of activities as INGOs, while some local NGOs tend to focus on networking and advocacy.

CBOs may have developed from an informal group of common interest or their formation may have been facilitated by an NGO or government/donor project. They are also likely to have a wide range of capacities, but their typical activities include: working with NGOs and local government to deliver projects and water services in their community, undertaking local self-help activities and supporting consumer voice activities.

There are concerns, however, about the longer-term sustainable management of community managed services including operations, maintenance and cost recovery of such schemes. There seems to be a lack of incentives for CBOs to continue with such activities, particularly where the community groups are reliant on voluntary inputs from its members. In a review of 22 community-managed water supply schemes in six countries, Schouten and Moriarty (2003) concluded that, 'while there are still very good reasons for promoting community management, the reality remains that community management approaches have not been noticeably better at sustaining systems than what went before.'

Schouten and Moriarty (2003) argue that community management needs an enabling framework of technical support, policies and laws in which to be implemented. Agreement on the distribution of roles between government, community groups and other stakeholders is required to develop sustainable services.

More sustainable arrangements often occur where the government or a utility has more of a direct contractual relationship with the community group and payments are made for services provided. Two examples of this emerged from the earlier research, in Blantyre, Malawi and Alfred Nzo District in South Africa, which are discussed in section 6 on the creating an enabling environment.

4. State purchase of basic water services

Key questions

- *What examples are there of the state purchasing services from non-state providers on a substantial scale to support basic service delivery to underserved groups?*
- *What kinds of agreements are being used, and how are they financed?*

In addition to considering the above questions, the comparative advantage or value added of different types of PPP contracts are explored in some detail in this section as a means of determining what forms of contracts are likely to be successful for PPP options using the local private sector in the future. This is important considering the reduced prospect of international operators signing new PPP contracts in developing countries.

4.1 Public Private Partnership operators for water services

The larger International water operators are from France, the UK and other European countries. These operators have formed partnerships or consortia with local companies in response to requests for bids for particular types of PPP contracts. Table 3 provides a summary of the main types and characteristics of PPP contracts that are generally used and how they are financed.

Table 3: Overview of PPP contract options

Contract type	Asset ownership	Operation and maintenance	Capital investment	Commercial risk	Typical duration	Location of example contracts
Service contracts	Public	Public and private	Public	Public	1 to 3 years	Mexico City, Chile and Kenya, India
Management contracts	Public	Private	Public	Public	3 to 5 years	Trinidad and Tobago, Columbia, Mali, Namibia, Uganda, Gaza, Venezuela, Sao Tome, Amman and Johannesburg
Lease or Affermage contracts	Public	Private	Public	Shared	8 to 10 years	Guinea, Cote d'Ivoire, Senegal, Mozambique and Niger
Concession	Public	Private	Private	Private	25 to 30 years	Buenos Aires, Gabon, Cameroon, Casablanca, Manila, Dolphin Coast (South Africa) and France
BOT	Private and public	Private	Private	Private	15 to 25 years	Malaysia, Mexico, Brazil and France

Source: Adapted from Sansom et al, (2003) and Brocklehurst,(2002)

The obligations in each contract largely defines the services that the operator will provide. The larger more long term contracts in Table 3 such as concession contracts have greater scope for serving poor areas because of the investment component in the contract. But there is also evidence of underserved groups being served as part of management and lease contracts, perhaps with additional funding provided outside the contract. Note that service, management and lease contracts have been used in both middle and low income countries, while the more substantial Concession and BOT contracts (that include capital investment) have mainly been let in high and middle income countries. There are many PPP contracts that only involve local operators, but they tend to be mainly smaller service and management contracts.

4.2 Recent trends in PPP contracts

During the 1990's up to around 2002 there was a trend of increasing use of long-term PPP contracts such as Lease, BOOT (Build, Own Operate Transfer) and Concession contracts for the management of urban water and sewerage services in developing countries. This occurred in Latin America, Africa and East Asia. Many of the contracts that have been let with inadequate provisions for serving the poor, which is a matter of concern to many stakeholders who question the priorities of the private operators. There have, however, been some good examples of private operators using participatory approaches, often together with NGOs, to serve low income areas with a range of service and payment options, for example in Senegal, Manila and Buenos Aires.

In the period 2000 to 2003 there were some high profile failures of large PPP contracts such as the concession contract in Buenos Aires, which occurred due to the local financial crisis. This has led the main private international operators in the water sector to be much less willing to take on the substantial commercial risks of concession and lease contracts in low income countries. "The international water market as it existed in the 1990s will never come back again. European water firms will never again commit such large amounts to emerging market projects' (Global Water Intelligence, 2004). While many existing contracts continue, the number of new contracts each year has declined rapidly. If there is to be less participation by the international private water operators in the long term management of urban water services in developing countries, then the local private sector may have a larger role to play.

4.3 Potential value added by PPP contracts

What is the value added of NSPs in these circumstances (cost effectiveness? nature of the service? nature of the client? etc.)?

The potential value that can be added by PPP operators depends on which contract option is chosen. Table 4 highlights the different benefits that can potentially be achieved for each of the main PPP contract types. To the objectives or potential benefits in the top row of Table 4 can be added two more potential benefits that can apply to all contract options which are: a) cost savings and b) encouraging a more contractual target based approach in services management. It should be emphasised that these are all potential benefits and they may not be realised.

It can be seen from Tables 4 that Concession contracts add the most value, including extending services to the unserved. However, these type of contracts have the most onerous requirements in terms of capacity and information requirements. Where PPP contracts are being considered with local companies (SMEs) then service, management and lease contracts, should be considered, depending on the capacity of both the local private sector and the public sector (in terms of contract development and regulation). A case in Nigeria of the use of a joint-venture approach to a local concession contract is considered later in this section.

Table 4: Which contract options can deliver what benefits

	Technical expertise	Managerial expertise	Operating efficiency	Investment efficiency	Investment in bulk supplies	Investment in distribution system	Responsiveness to consumers	Insulation from political intervention
Service contracts	XX							
Management contract with fixed fee	XX	XX	X				X	X
Management contract with performance incentives	XX	XX	XX				X	X
Lease	XX	XX	XX				XX	X
BOT	XX	XX (for bulk supplies)	XX (for bulk supplies)	XX (for bulk supplies)	XX	XX		XX (for bulk supplies)
Concession	XX	XX	XX	XX	XX	XX	XX	XX
Divestiture	XX	XX	XX	XX	XX	XX	XX	XX

Source: World Bank, 1997

Key: XX – Objective can be satisfied; X – Objective can be partially satisfied, and blank boxes mean objectives cannot be satisfied.

4.3 Overcoming political and bureaucratic constraints

What are political and bureaucratic constraints to contracting NSPs and how have they been overcome?

How has the capacity of the state (at national and/or sub-national levels) to manage contracts and oversee the quality of delivery been addressed?

In terms of the many efforts to develop international PPP water contracts, the wider political constraints and the anti-privatization movements have generally not been overcome. In Ghana for example the anti-privatization movement successfully resisted new proposed lease contracts. International water companies are now reluctant to invest in developing countries because of the political and financial risks.

More recent efforts by development agencies and governments to reduce political interference and bureaucratic constraints have focused on public sector reforms and developing a better enabling environment for both public and private water utilities. Initiatives that have the potential to improve accountability and transparency in the sector include:

- The development and implementation of policies that support sustainable solutions, including serving the poor;

- The use of performance contracts or agreements between government and public utilities;
- The creation and support of independent regulators for the urban water sector, or multi-sector regulators, particularly in Africa and SE Asia;
- The use of better contracts with the local private sector;
- Improved sector monitoring and evaluation.

Once the sector enabling environment improves in those countries who are undertaking the necessary reforms, more extensive PPP contracts should be feasible.

4.4 Selected examples of PPP contracts with local operators

Two interesting examples of water sector contracts with the local private sector in Africa are considered below. The first is the widespread use of management contracts in small towns in Uganda and the second is a joint-venture concession contract for a town in Nigeria. Lessons for further improvements or replication are discussed.

4.4.1 Uganda small town management contracts

The Directorate of Water Development (DWD) has overseen the contracting out of services in 40 of the 59 gazetted small towns in Uganda. Other key stakeholders are: the private operators who won the contracts, the town councils and the water authorities that they have created to oversee the management contracts and the Ministries responsible for supporting the decentralisation process.

Various reviews have reported that they are satisfied and even impressed in some cases with the performance of the private operators. Improvements have been made in terms of increasing the number of active pipe connections and increasing revenues. There has been some market consolidation, where successful operators manage a number of town contracts. This means that the operators are able to achieve some economies of scale. These operators have also recently formed an association to pursue their common interests.

In general terms the small town management contracts have had a number of benefits including: increased competition leading to more consumer and commercially orientated approaches, improved services that are more responsive to local consumers and support to the development of the local private sector.

While there have been clear successes, difficulties have been experienced in funding extensions to the pipe networks, which is not part of the operator's obligations. It has proved difficult to integrate the government/municipal investment planning together with the business planning of the private operators. DWD have acknowledged that in recent years they have been understaffed to effectively monitor and regulate the work of the private operators and investment planning. They do not have tariff policy (in 2004) for example, although some towns have increased their tariffs.

To address the problem of funding extensions to the pipe networks in the small towns, the Government of Uganda has recently began a process of developing contracts for Output Based Aid. This should enable targeted subsidies to be provided to serving poor or less viable areas with piped water.

4.4.2 Karu-Maraba local concession contract in Nigeria

The case of an interesting PPP approach using a local private operator is summarised in Box 4. While the contract arrangements were not perfect, there are elements of this approach that could be adapted for replication

Box 4: Karu -Maraba local joint-venture concession contract in Nigeria

Context

The new capital Abuja in Nigeria is surrounded by unplanned townships with poor water services. Residents previously obtained their supplies from water vendors and tankers importing water from the capital.

A private company approached the state government of Nasarawa and negotiated a concession to provide a pipe water system for Karu-Maraba a town of approx 15,000 people.

The local Concession contract

The state government awarded a joint venture limited liability concession contract to supply piped water to some 15,000 people for 20 years in 1999. There was no bidding process. The local private company (RDS) had an 85% share and state government 15% in a new company Riveroaks Ltd. The operator invested in a new piped water scheme, with a the total capital was cost N40 million. Initially the operator had exclusive rights to supply water, but the government later required operator to compete with local informal water providers.

Achievements

The contract has permitted the development of a water supply facility in a previously unserved urban area with private funds without any capital outlay by government. The majority of residents in the township are served by public standposts or yard connections. The operation and maintenance costs are met entirely from user charges and the prices of local informal water providers reduced by up to 50%.

Limitations

There is still room for improvement in water services and there is some concerns about the long term viability of the operator company, which led to adhoc tariff increases. There is a lack of effective independent regulation as government has vested interest in the contract. There was no bidding process because of urgent political requirement to develop a water supply.

Emerging lessons

By giving government a 15% share the operator and lender had some confidence that government would assist them in gaining access to land and dealing with bureaucratic hurdles. The local private sector were willing to invest and manage water services as part of a joint venture with government.

Source: Larbi G., Adelabu M., Rose P., Jawara, D., Nwaorgu O. and Vyas S., 2004

The joint venture approach used in the Karu–Maraba concession could be used in other situations where there is a lack of confidence about companies achieving a reasonable return on their water sector investments. This is a rare case in Sub-Saharan Africa of the private sector providing finance for capital works in partnership with government.

If this model were to be replicated it would be advisable for government to provide some funding, as they will be the eventual owners of assets, with the major funding coming from the private sector. Donors could potentially assist with the transaction process and reforms, plus targeted funds for serving the poor. The use an output based aid approach could be considered.

Some form of independent regulation would be necessary because the government has a vested interest in the joint venture. Support to local capital finance market could increase the private sector's ability to submit viable bids.

4.5 Contracting CBOs

Governments have not usually purchased water services directly from community groups, but two interesting rural water sector cases where this has happened are the Alfred Nzo case in South Africa, (refer to the Box in section 6) and the Swajal case in India, which is briefly described in Box 5.

Box 5: The Swajal project – community contracting for rural water in India

The Swajal World Bank assisted rural water and sanitation project in Uttar Pradesh in India was one of the first major rural projects to shift from centralised procurement to transferring investment fund direct to user communities. These CBOs were empowered to procure materials, services and works by themselves, assisted by NGO support organisations. Project money was dispersed to community managed bank accounts that were operated jointly with the support organisation. The communities also made capital cost contributions and were required to meet all O&M costs.

This successful project established tripartite partnerships between three types of organisation: the village water and sanitation committees, NGOs and the project management unit (an autonomous registered society). This partnership was formalised with a three-way Implementation Phase Tripartite Agreement. This 100 page agreement spelt out the roles of each party. Before the document was signed a two day training session was organised in each village to familiarize the communities with the contents of the agreements.

This approach has been adapted and replicated nationwide in India through the *Swajaldhara*, reform programme whereby villages and districts could apply directly to GoI for 'community-led, demand-responsive' water supply schemes. A number of donors are supporting this process.

Source: Water and Sanitation Program, 2002

As problems emerge with sustaining the long term voluntary inputs by community groups in managing their rural water supplies, the use of community contracting is an option that could provide sustainable solutions, perhaps allied with increased use of the local private sector for operation and maintenance.

5. Donors working directly with NSPs while supporting government

Key questions

- *What examples are there of donor support directly to NSPs to reach underserved groups? What financing modalities have been used?*
- *How does direct donor support to NSPs that serve underserved groups affect the incentives of country governments to engage directly with these groups?*
- *Are there any good (or bad) examples of transition from funding NSPs to donors funding government programmes directly? How was this managed?*

This section explores a number of current and innovative ways that donors can support NSPs, while still effectively collaborating with government, as opportunities arise.

5.1 Support through NGOs

A key aid instrument for donor support to in the water sector is through international (INGOs) and national NGOs, who either focus on the water sector or have a multi-sectoral approach. Many such NGOs have a good track record and have demonstrated successful project outcomes. I/NGOs offer some stability and security for donors, particularly when working in fragile states, if there are limited alternatives. Some of the common donor funding modalities of NGOs include:

International donors commonly work in three modes with local NGOs. One, they provide funds directly to a local NGOs (for example, BRAC). Two, they provide funds to an INGO who in turn works through local NGOs (for example, education projects implemented by Save the Children-US in Malawi). Three, donors finance projects through the government but make it compulsory to involve NGOs in the delivery of the project

- Direct donor funding of INGOs in a particular country
- Funding of NGOs in country
- Donors finance projects through the government but make it compulsory to involve NGOs in the delivery of the project.
- Civil Society Challenge Funds (such as the one operated by DFID)
- EU calls for NGO partnership bids for projects
- Partnership Programme Agreements (PPA) with INGOs or Compacts eg WaterAid have a 6 year PPA with DFID that has a number of strategic objectives.

NGOs often have the operational space, unlike government, within which to test out new approaches in response to changes in the physical and political environment. Their flexibility and responsiveness enables services to reach rural and urban populations with improved water services who would otherwise remain unserved due to the bureaucracy and lack of resources of government. There are numerous examples of NGOs effectively reaching underserved groups with improved water services. One example from WaterAid Tanzania is summarized in Box 6.

Box 6: The WAMMA programme in Dodoma Tanzania

The WAMMA project, supported by WaterAid, helped to secure sustainable water and sanitation services to more than 80 rural communities in the semi-arid Dodoma region of Tanzania over a five-year period up to 1996. The programme made real differences to the lives of women who previously had to walk long distances to collect water in the dry season

At the heart of the programme were four multisectoral extension teams formed principally from junior staff in three government departments (Water, Health and Community Development). At the start of the programme, most were unskilled and demotivated by low pay, poor job satisfaction and a lack of practical experience. With technical, motivational and some financial support from WaterAid they became dynamic and committed teams, respected in the villages they worked with and by the managers and directors of their departments.

Source: adapted from Jarman and Johnson (1997)

Subsequent to the WAMMA programme, WaterAid Tanzania tended to focus on working through local NGOs and CBOs to strengthen their capacity so that WaterAid could eventually withdraw and leave behind effective CSOs.

5.2 Transitions from donors funding NGOs to funding or support of government

Direct donor funding of NGOs effectively bypasses government structures and is often established where government has no capacity to fulfil obligations of service delivery, or is unwilling to do so for reasons such as on-going conflict or the fragility of the state. The risk for donors is that this can effectively 'disenfranchise' government, causing government to become non-cooperative and thereby restricting opportunities for donors to influence broader government policy, strategic plans and programmes.

In the longer term government must have an important role in supporting sector development as donors and INGOs withdraw. Where countries are emerging from being a fragile state, the donor relations with government need to be carefully managed. Approaches should not undermine the state's role, but seek to build on where the state can operate (for example in aspects of policy development and implementation), while supporting areas of weakness through other organisations (DFID, 2005).

A case study of the transition from donor funding NGOs to a Sector Wide Approach (SWAp) in Uganda is presented below. It highlights key drivers for change and factors that have led to a reasonably effective transition to a SWAp. The challenges in developing more comprehensive engagement between government and NGOs are highlighted.

A key step in the transition in Uganda was the piloting of a SWAp in a few selected eastern districts, to inform plans for the larger scale SWAp. This was done through the Danida funded Ruwasa 2 project with substantial institutional support funding. Other countries that are at a similar stage of development, would also benefit from such SWAp piloting. However, unless there is a substantial injection of funds, as happened in Uganda through the Highly Indebted Poor Country (HIPC) funding, disputes could arise as some districts benefit from substantial funding while others do not during the pilot phase. Future pilot programmes for a SWAp in other countries could use a variety of funding mechanisms such as: off-budget pooled funding by donors and multi-donor Trust Funds, (Leader and Colenso, 2005) which can promote a more co-ordinated and long term approach, until budget support and a SWAp are feasible.

The Uganda case is followed by an overview of DFID experiences in Nepal during a prolonged period of conflict and political instability. The strategies that DFID has used and proposed for working with government and NGOs in this fragile environment are briefly presented. This case highlights how donors collaborated with government while providing direct funding to NGOs. But significant steps towards a SWAp are best made once a country is genuinely on the road to recovery.

5.2.1 Uganda – Transition to a water sector SWAp

Case study by Simon Kenny and Kevin Sansom, May 2006

Supporting NGOs and CBOs

In the mid-nineties Uganda was in a recovery phase as it emerged from previous conflicts and being a fragile state, although fighting has continued in the north of the country. During this period there were many NGOs and faith based organisations working to improve rural water and sanitation in Uganda, with the approval of the Government. This included WaterAid, who ran a number of mainly self-implemented large projects (i.e. WaterAid employed staff working directly with communities) in the East, West and South West of the country. The rationale for this approach was that, even though this was contrary to the WaterAid ethos of working through local partners and raised questions about project sustainability, there were few viable NGO or government counterparts to work with at that time,. As civil society organisations began to emerge during the late nineties, WaterAid reoriented its strategy by phasing out its big projects in favour of working with a handful of district based CBOs, concentrating on capacity building as much as hardware.

Transition to working with government

During the same period, the Danida funded Ruwasa 1 project came to an end and the Ruwasa 2 programme began. The fundamental difference between the two projects was the shift from self-implementation to working through, albeit weak, District Water Offices (DWO), with funding for

institutional strengthening. Only about 5 out of the 50 districts had DWOs at that time, it being at the very start of the GoU's decentralisation drive. Districts had practically no resources of their own, so the Ruwasa 2 project provided DWOs with transport, furniture, stationary, top up salaries, etc. The Ruwasa 2 project provided substantial institutional resources and focused on just a few districts in the West. This approach contrasted with other district based initiatives at the time, such as the UNICEF WES programme that provided assistance across the remainder of the country but with with more limited resources.

The Ruwasa 2 programme also aimed to work through the private sector and NGOs, in line with the draft national policy,. WaterAid were able to negotiate on behalf of their NGO counterparts to be the implementing agency for Ruwasa gravity projects in two districts, though progress was slow.

With the advent of HIPC (Highly Indebted Poor Country) funding, the Ruwasa 2 model led the way as a pilot for the SWAp. A substantial increase in GoUs own funding was made available for water and sanitation channelled through government, and a number of donors began to channel their own capital investment funds through the government's budget, in line with the fiscal decentralisation policy. Total sector resources doubled between 1997 and 2001/02 as part of the Medium Term Expenditure Framework (MoWLE, 2003).

Drivers for change to a SWAp

For the transition from donors directly funding NGOs or implementing their own projects to a more programmatic SWAp approach in Uganda, the following key drivers were apparent:

- HIPC debt relief provided important funding to increase GoU's own stake in the water sector and to strengthen local government as part of the fiscal decentralisation policy.
- Donors wanted to reduce the high transaction costs of funding individual projects, as well as have a bigger impact from their investments.
- The drive from the Ministry of Finance, Planning and Economic Development (MoFPED) to get donors to harmonise led the key stakeholders to think programmatically rather than geographically or sub-sectorally.

The main driver throughout was the MoFPED, with critical support from the President's administration. Similar efforts towards SWAP establishment had already been made in the education and health sectors, and so there was pressure for other sectors to follow suit. Rather than expecting reform to take place from within the sector ministry, the MoFPED negotiated with the sector (and donors) to develop and rally around a common policy and implementation framework.

Other factors that led to a reasonably successful transition to a SWAP were:

a) In 1997 GoU prepared a home grown Poverty Eradication Plan (PEAP) that included DRA, decentralisation, community based planning etc, informed by participatory poverty assessment studies. But implementation of the plan was hampered by the 'silo approach' of stand alone donor projects with different visions and approaches. Stakeholders realised that a more co-ordinated sector wide approach was required.

b) Water and sanitation were identified as priority sectors in the first Uganda PRSP, which meant that more resources and efforts were devoted to the water sector by the GoU.

c) The Directorate of Water Development (DWD) was reformed to take on its new enabling role as part of the reform process.

d) GoU support for the reforms and SWAP in the water and sanitation sector has enabled effective sector co-ordination through a Water Group that is convened by DWD to harmonise the actions of key stakeholders. This group has four cross cutting thematic sub-groups, as opposed to groups formed along line ministerial lines: 1) sector funding, co-ordination and management; 2) sanitation and hygiene, 3) performance measurement and 4) sustainability and O&M. This approach has been important to focus participants attention away from their narrow of focus.

e) The GoU and its partners have placed a relatively high priority on developing the capacity of staff in its various departments. Consequently a relatively high percentage of its middle level and senior staff have received post-graduate education. This has enabled its staff to take on the challenge of reforms and sector co-ordination. Efforts to develop the skills of DWOs has also been important in ensuring adherence to GoU water and sanitation sector policy

Emerging challenges

The thrust of capacity development as part of the water sector decentralisation programme has been at the district level with young engineers employed in District Water Offices. The regionally based Technical Support Units have also been able to provide valuable technical assistance. However, the need to disperse funds quickly has limited the time and resources for support to community based approaches and capacity building.

The sector policy emphasises the use of the private sector and NGOs as implementing agents. A key constraint has been a lack of integration of NGO activities within the overall district-planning framework, which has led to duplication of activities and non-conformity with government standards. It has also skewed sector coverage statistics, as NGO activities are often not included in district reports. INGOs such as WaterAid broadened their remit to effectively broker the deals between district and their NGO partners, to make sure NGO activities were at least part of the district development plan and at best that NGOs could bid for district work. The latter has still been a sticking point. Concerns about the role of of NGOs have been expressed in a number of respects:

- NGO tax free status competing against private contractors,
- NGO 'accountability' i.e. who is their constituency?
- NGOs not adhering to Government standards/norms e.g. choice of technology
- The tension between NGOs as alternative service providers and/or advocates for the poor;
- Representation of NGOs in policy forums e.g annual sector review and sector working groups conflicting with service provider roles

Attempts have been made to address these issues through the Uganda Water and Sanitation Network (UWASNET) which acts as the umbrella organisation for NGOs working in the Uganda water sector, with a membership of around 170 organisations. As part of the sector strategy a partnership fund has been created to strengthen collaboration between NGOs and CBOs with government departments at all levels, through UWASNET. However, further efforts are required if the capacities in the NGO sector are to be properly utilised in the sector.

Despite these difficulties, improvements in the Uganda water and sanitation sector have been documented in well received annual sector performance reports from 2003 to 2005 (MoWLE, 2003 – 05), that have been produced by the Ministry of Water. Steady improvements against a

number of performance indicators are documented in these reports, which are in part due to the effectiveness of the SWAp and the additional funding provided.

5.2.2 Nepal - Initiatives in a fragile environment

Support to civil society

Government capacity in Nepal to support basic water and sanitation services to the poor has been considerably weakened as a result of the ongoing chronic political and social instability. DFID-Nepal has provided 10 years of valuable support to the rural WS&S in Nepal. During this time they and the NGOs they fund, have been able to contribute to wider lesson learning and government policy development, despite the difficult working environment.

The main NGOs that DFID has supported are NEWAH that was developed by WaterAid in the early 1990s and the Gurkha Welfare Trust. The long term flexible support to these effective NGOs has led to a variety of benefits including: improved service delivery, productive partnerships with CBOs and NGOs, targeted investments in neglected areas and support to community voice initiatives.

Working with government

Government capacity to implement and monitor nationally and locally, through Local Government has been seriously restricted by the conflict. At risk of Maoist attack, from being identifiable as local government representatives, many District Development Committees have ceased functioning effectively (Armon et al, 2004). In 2005 the King dismissed the government and assumed direct control.

DFID-Nepal has been able to influence water and sanitation policy development and co-ordination to some degree, even without funding government directly. This has been feasible because DFID is a significant player through its funding of influential NGOs and support to strategic consultancy inputs. For example, it has funded strategic advisory inputs on developing new national water and sanitation policy document (2003) and supporting sector monitoring and evaluation strategy development. Government policy implementation has however, been very difficult because of the fragile working environment.

Opportunities for transition arrangements to enable effective transfer to direct government support and a SWAp have been explored and considered in DFID strategy documents during the last ten years, particularly during times when the situation has improved.

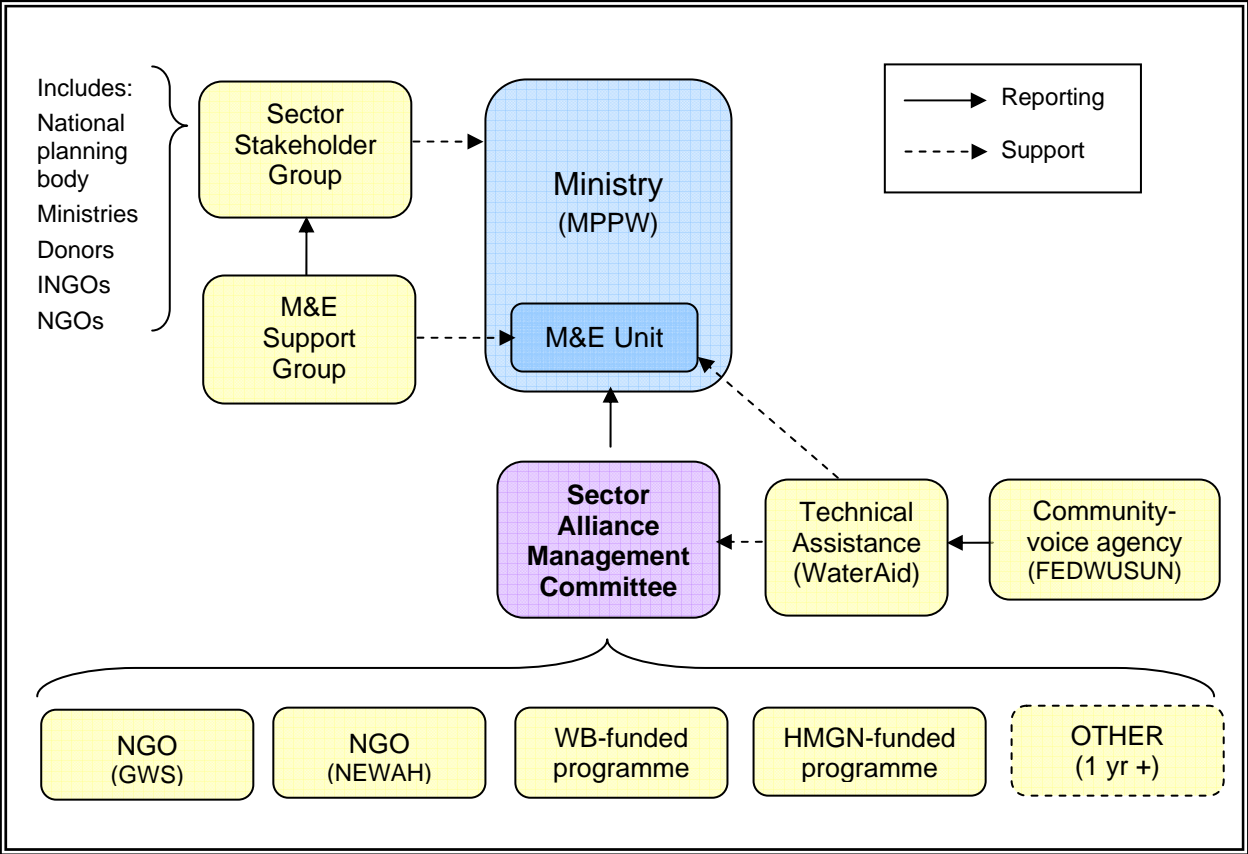
Transition arrangements for the future - the proposed Sector Alliance

In 2005 DFID-Nepal planned to support a new innovative Sector Alliance WS&S programme in Nepal. But as of April 2006 this programme has held in abeyance due to the deepening crisis. The Sector Alliance concept is however, of interest to a wider audience so it is briefly described here.

The Sector Alliance if it is implemented, will be a partnership model that seeks to ensure ongoing implementation of sectoral programmes through continuing direct support to effective NGOs, while engaging with, but remaining external to, government structures. The proposed Sector Alliance model in effect forms an informal umbrella arrangement associated with the lead sectoral ministry, but with a built-in degree of flexibility that ensures each partner in the Alliance maintains

independence. Central to the broad Sector Alliance approach is Technical Assistance, focusing on enhancing coordination within the sector and developing government capacity in its role of facilitation, monitoring activities and evaluating the impacts (Whiteside, 2005). Figure 1 shows the proposed arrangements and linkages for the Sector Alliance in Nepal.

Figure 1. Proposed arrangement for the Sector Alliance in Nepal (to be approved)



Source; Whiteside, 2005

The Sector Alliance model is probably more appropriate when a country is becoming less fragile and is in the recovery phase.

Key emerging lessons from Nepal

Key lessons emerging from DFID’s long term support to the water and sanitation sector in Nepal relate to donor support to NGOs and government provided over a number of years in a difficult working environment (Harvey,2005):

Good contextual analysis is key - DFID-Nepal has gained a good understanding of the changing political and security environments in Nepal through the use of conflict advisers. Basic Operating Guidelines (BOGs) have been adopted to define standards and principles by which DFID and its agencies operate. Risk management analysis allows them to make programme adaptations according to changes in the security situation and in governance, and to exercise caution in financing government water and sanitation projects directly.

Develop flexible, responsive approaches to sector support - Flexible planning and budgeting processes have been necessary in DFID-Nepal’s water and sanitation programme. DFID

implements a 'flexible portfolio' of programmes which cover continuing financial support to NGOs, developing parallel financing to other key investors, and the process of moving towards a SWAp.

Balance short term needs with longer term objectives - DFID-Nepal has a long term commitment to Nepal through supporting government capacity to effectively implement, monitor and evaluate performance and impact, in line with DFID's broader commitment to long term engagement in fragile states. A twin-track approach ensures sectoral service delivery through existing funding and support arrangements to partner NGOs, while devising strategies for a programmatic approach in closer coordination with government.

5.3 Output-Based-Aid (OBA) for water services

Output-Based-Aid is a relatively new aid instrument that can be used in more stable regions as well as in countries that are emerging from a fragile state. OBA gives donors opportunities to target subsidies to the poor through longer term contracts with government and NSPs.

OBA is a strategy for using explicit performance-based subsidies to deliver basic services, such as water, sanitation, electricity, education and healthcare, where policy concerns would justify public funding to compliment or replace user fees. (GPOBA, 2005)

The Global Partnership for OBA are developing water projects in Kenya, Indonesia, Tanzania, Cambodia and Uganda. Contracts are let with third parties who are more commonly private providers, NGOs and CSOs. Contracts link the disbursement of donor subsidies to the delivery of performance-based outputs targeted at specific recipients. In this way, both the purpose and recipient of subsidies is explicit, improving transparency and monitoring of aid flows. Donors identify other benefits of OBA to be the provision of an effective way to support innovative pilot programmes, which if successful can be scaled-up to national programmes (GPOBA, 2005). It does, however, require able NSPs to operate the services on a sustainable basis.

6. Creating an enabling environment for NSPs

- *What are the political and bureaucratic incentives/disincentives driving the state to facilitate NSPs?*
- *What examples are there of the state working to create favourable conditions for NSPs providing basic services to underserved groups (other than state purchase of services)?*
- *What forms of facilitation appear to be most effective at stimulating such NSP activity?*
- *What mechanisms have been used to ensure that underserved groups have access to the services and that they are of sufficient quality?*
- *How and by whom is quality monitored and how effective is quality control?*

The above questions are considered as part of a broader framework that has been developed on the types and levels of government engagement with NSPs.

6.1 Incentives and disincentives for productive engagement with informal NSPs

As donors and government seek to encourage public water sector agencies to engage more productively with different types of NSPs, they need to be mindful of the perceived incentives and disincentives that government staff and NSPs may have. Table 5 highlights such factors for that need to be considered when contemplating better engagement.

In fragile states where conflict has occurred, NSPs often have a substantial role to play where public services have failed or declined. For example, informal water providers are collectively the predominant or only providers of water in many urban areas of Africa that have had sustained

periods of conflict. Whether such NSPs would wish to collaborate with government agencies would depend on the prevailing political climate in those areas. Some resistance movements in fragile states such as the Maoists in Nepal and Hamas in Palestine have also become NSPs, providing some basic social services. Collaboration with such organisations by government would clearly be difficult while they remain opposition resistance movements.

Table 5 – Incentives for productive engagement with informal water NSPs

Incentives for productive engagement		Disincentives for productive engagement	
NSP's perspective	Government's perspective	NSP's perspective	Government staff's perspective
1. Formal recognition and engagement can provide some security for the NSP's operations and some protection for their investments.	1. Effective collaboration can lead to win-win agreements that enable improved or cheaper services for consumers.	1. Formal recognition and engagement with government could lead to increased NSPs costs such as taxes or new technical requirements.	1. Government staff are often reluctant to engage with informal or illegal service providers, who are seen as unqualified competitors.
2. Opportunities for expansion of NSP services in conjunction with government.	2. If government facilitate/support improved NSP services, then they can claim some of the credit.	2. Some Informal NSPs may not have the resources or skills to meet government requirements.	2. Some staff may be concerned about reduced informal payments that they receive, if interactions are more transparent.
3. If NSPs are able to improve their services as a result of working with government, NSP customers are likely to be more satisfied and loyal.	3. NSPs who use utility water without paying can be encouraged to pay for their water.	3. In fragile states NSPs may be reluctant to engage with government for fear of getting drawn into political strife or conflict.	3. Engaging with so many small informal NSPs who have a different work culture, may not be considered feasible.
4. If some targeted finance is provided by government or donors to improve NSP services, NSPs and their customers can benefit.	4. Recognising and working with NSPs means that public agencies can focus on achievable public sector service improvements.		

There are clear challenges for government intending to work with NSPs, even in more stable environments, not least of which is the institutional compatibility between bureaucratic agencies and the more informal NSPs. Collignon and Plummer (2005) highlight a number of issues to be addressed to enable better government engagement with local informal water private providers:

- Reconciling informality with conventional procedures. Most small operators are informal, impossible to contract, and difficult to monitor. Identifying mechanisms to overcome the incompatibility of informal business practice and formal procedures is essential if providers and utilities/municipalities are to work together.
- Sharing the market. Water utilities typically capture the market through their monopoly status and officials are concerned that formal revenues and informal payments will decline with more recognition of local providers. Evidence in a number of utilities suggests however that bulk supply contracts with NSPs can result in win-win agreements with businesses and provide an incentive for both to share the market.
- Changing attitudes. Officials do not understand local private operators' working methods, the logic of their business or the rules of the informal market, and they do not have skills to work with these operators. Unsurprisingly there is often a deep mistrust between technocrats and the local entrepreneurs.

Similar challenges also apply to government working with civil society institutions who also tend to have an informal style of working. Unless governments and their agencies carefully plan their engagement with NSPs, then misguided interventions can occur, which have a negative impact on NSP services. For example, some water utilities have tried to regulate the prices charged by water vendors or challenge their rights to operate, which affects the viability of those NSPs and encourages them to seek the support of local politicians. Governments who fail to engage effectively with NSPs are also likely to miss out on potential benefits in terms of improved services, perhaps in partnership with government organisations.

6.2 Improving government engagement with water NSPs

Government engagement with NSPs can usefully be split into five main engagement categories which are: recognition, dialogue, facilitation/collaboration, contracting and regulation. These are shown at the top of the five columns of Table 6, in the order of increasing levels of commitment and capacity requirements (from left to right). For example, effective regulation requires significantly greater levels of capacity than does either recognition or dialogue. Within each of the five engagement categories in Table 6 a variety of types of engagement are shown, generally in ascending order of difficulty (Sansom, 2006).

Table 6: Types and levels of government engagement with water NSPs

	Category				
	Recognition	Dialogue	Facilitation/ collaboration	Contracting	Regulation
High levels of engagement			Compacts (Longer term agreements between governments and civil society)	Long term contracts for service provision (10 yrs+) Medium term contracts for service provision (3 -10 yrs) Output-Based Aid	Independent economic regulation (for larger utility operators) Regulation of minimum service quality levels
Medium levels of engagement	Registration of NSPs Formal legal recognition of NSPs and their rights to provide services	National policy dialogue Local policy dialogue	Collaborative arrangements including: co-production MoUs, and scaling up approaches Umbrella NGO networks Facilitation of NSPs	Short term contracts with private sector and/or civil society institutions (up to 3 years) Client/customer relationships	Regulation of market entry (promoting competition) Publicising NSP performance and costs Consumer forums and watch groups Supporting self regulation by NSP associations Flexibility in standards and supportive supervision.
Lower levels of engagement	Limited formal recognition of NSPs	Exploring options for local			

	Non-interference in acceptable NSP activities	collaboration			
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Table 6 can serve as a menu of potential government interventions with NSPs. In some situations government agencies may opt for a non-interference approach in their interactions with NSPs, while in other cases more substantial forms of engagement will be pursued to achieve specific benefits. Although some form of recognition and dialogue is likely to be beneficial in most cases. The merits of the use of a particular type of engagement will depend on the size and capacity of the NSPs in question and the capacity and willingness of the concerned government agency.

Those government agencies who have yet to formally engage with NSPs can commence with the types of engagement identified in the lowest level of Table 6 (the bottom row), which generally are not particularly demanding on government resources. For example, by encouraging non-interference of acceptable NSP activities and having some limited formal recognition of NSPs, the negative impacts of arbitrary government interventions can be minimised.

However, if government agencies want to support and enhance the services provided by NSPs and the public sector, then more substantial forms of engagement should be considered, such as those activities listed in the middle row of Table 6 – medium levels of engagement. If these types of activities are done well, synergies can be achieved through collaboration between government and NSPs. Successful government/ NSP relationships often entail a number of different forms of engagement such as dialogue, collaboration, contracting and market friendly regulation.

Interactions with NSPs are generally more effective where government agencies openly recognise that they alone cannot meet the needs and demands of consumers, but NSPs also have a valid role to play. This is particularly true where serving low income or rural areas.

The types of government intervention in the medium levels of engagement section of Table 6 require some levels of ongoing capacity to achieve effective outcomes. But more importantly, they require a continuing commitment to positive engagement with NSPs. On the other hand, the higher level types of engagement shown in the table, such as long term contracts and economic regulation, generally require high levels of capacity that are often scarce in many developing countries. The specific types of NSP engagement listed in Table 6 are explored further in the following sections (Sansom, 2006).

Recognition and registration of NSPs

Informal private water providers

In the water sector the lack of formal recognition of NSPs by governments and their agencies is a key limiting factor to more productive forms of engagement. If governments and utilities do not recognise and engage positively with NSPs, there is a clear risk of collusion between water utility staff and informal NSPs, which increases the cost of water to consumers. This has been reported to have occurred in cities in Nigeria and Pakistan where utility staff have received illicit payments from water vendors or tanker drivers using utility water.

In most cities informal private water networks are not formally authorised but are tolerated. The investors in these pipe networks bear the increased risk of being closed down or interference from officials and often pass this risk onto consumers in the form of higher prices. (WUP, 2003).

In Delhi and Dhaka where informal water providers operate in an illegal environment, the water charge is 6-10 times more than the subsidized utility tariff. In Cebu and Ho Chi Min City, where similar water providers have received official recognition, the multiplier is 2.6 and 1.7 (McIntosh, 2003).

Reselling of water by households is often explicitly prohibited by utilities, which have the exclusive legal right to sell water within their service areas (WUP, 2003). In most cases however, it is allowed to continue. If reselling of water to neighbours was officially recognised and encouraged, it could allow the utility to sell more water so as to increase its revenues, and would bring piped water closer to poor consumers.

Non-state provision by informal water and sanitation providers is often considered contrary to the interests of utilities and governments. First it draws attention to the deficiencies of utilities; secondly it introduces competition where the utility considers it should have a monopoly; and thirdly it introduces a profit element into water and sanitation that is often considered as mainly a 'public service' and 'social good' (WUP, 2003). Increasingly, however, governments and utilities are accepting the importance of alternative service providers and appreciate the value of recognising and collaborating with them (ibid).

Recognition of CBOs and NGOs

Many governments have declared policies which place a heavy reliance on community based organisations, particularly for operation and management of water and sanitation facilities in rural areas and low income urban settlements. Governments often support CBOs as part of projects, with or without the assistance of donors and NGOs. However, many community voluntary groups lack clear ownership and legal standing (WUP, 2003). Although *de facto* formal recognition of CBOs occurs through development projects, clearer legal requirements for formal CBO registration would reduce confusion and could lead to more scaling up of community based approaches.

Forms of dialogue

Locally based dialogue can be about collaboration options between government agencies and NSPs related to future implementation, or be in the form of local policy dialogue. There was evidence of limited examples of some water/sanitation dialogue between government agencies and civil society institutions in the six research countries. Such dialogue is often initiated by NGOs and/or is done as part of donor programmes. Many public sector institution staff, however, are reluctant to engage in effective dialogue with NSPs but particularly with the informal private sector.

A lack of dialogue with NSPs can lead to wasted investments. For example, in Dhaka, DSK a local NGO with donor support, provided over 100 new community water points in informal settlements. Unfortunately the majority of these water points have now been demolished due to slum clearance programmes. This highlights the need for government to consult NSPs and other stakeholders on matters such as urban planning policy and infrastructure service provision. (Chowdury et al, 2004). Where dialogue is contemplated with smaller more informal NSPs such as CBOs and informal private water providers, the use of umbrella organisations makes ongoing dialogue more feasible.

If local dialogue is really to be effective it should lead to more comprehensive forms of engagement with NSPs such as co-production, contracting or market friendly regulation. But dialogue should be more than just a process of initiating other forms of interventions. In the case of tripartite contracts between government agencies, private sector and NGOs to provide new

water and sanitation services, the NGO partner may often be concerned about their lack of power or voice. Ongoing dialogue and communication amongst partners can reduce this problem (Jones, 2001). Such joint contracts are often oriented to the provision of services. The more difficult task is to engage with and inform policymakers about scaling up delivery and ensuring sustainability of services (Caplan, 2003). It is therefore important that the government agencies that contract NGOs and the private sector allow sufficient opportunities for strategic dialogue with NSPs to inform future programmes.

Facilitation and collaborative arrangements

Collaboration between utilities/governments and community groups has occurred in a number of cities, where CBOs have been seeking piped water connections for new small distribution systems that the CBOs intend to manage, often in informal settlements. These cities include: Blantyre and Lilongwe in Malawi, Nairobi and Port-Au-Prince in Haiti. In each case local government or the water utility have collaborated with CBOs, with NGOs usually acting as intermediaries.

Community groups in Delhi have tapped illegally into public water supplies so that they can manage the distribution of water to local slum-dwellers (Tovey, 2002). These community groups were able to make the illegal connections with the informal co-operation of local politicians and some utility staff. Such informal arrangements are not uncommon and need to be fully understood before utilities embark on more formal collaboration with NSPs.

Private operators have also used innovative options with encouragement from regulators. Box 7 highlights interesting developments on concession contracts in Manila in the Philippines. The demands in the contract for increases in service coverage have encouraged the private operators to differentiate service and price to previously unserved low-income consumers, using innovative technologies and approaches with generally successful results.

A promising type of collaboration is where governments work with NGOs to scale up successful participatory approaches. Examples of this happening are particularly evident in sanitation in South Asia, but have also occurred in rural water supply. For example, in the Swajal community contracting approach being scaled up as part of the *Swajaldhara* programme to rural water supply in India .

Box 7: Water service approaches in poor areas of Manila

In Manila, the Philippines, water supply in the city has been made the responsibility of two private operators who manage water services under a concession contract, supervised by a government regulator. Examples of innovative approaches are briefly described below.

Group taps or yard connections for two to five households where users form groups, register connections, and share the cost of usage. The group is given one mother meter and while it is encouraged to install sub-meters to avoid problems with sharing the costs, some groups opt not to install sub-meters to reduce overall costs further. The group leader collects payments from each member and pays Manila Water.

Bulk water supplies to a community group for on-selling was successfully developed in some settlements where access was difficult. The utility supported the community organization by helping households to complete application forms, etc. With this approach, installation costs as well as the utility's non-revenue water (refer to the glossary for a definition) are minimized with the mother meter located outside the area, usually along main roads, where it can be easily seen and monitored for illegal tapping. The majority of the households in one community paid the costs of pipe installation from the mother meters to the respective households. To minimize project cost, the community coordinated and organized their efforts and contributed their labour (men, women, and children alike) to reduce costs. This project initially provided water to about 250 families. Within the community association there is some 'community' pressure for each household to pay their bills, otherwise the entire community suffers in case of a disconnection for non-payment.

The 'Bayan Tubig' ('water for the community') programme, provides individual household connections in low-income areas at a reduced cost. This programme waives the land title requirement and allows payment of connection fees by instalment over a period of 6 to 12 months (in some cases this has been stretched to 24 months). Technically, this approach involves constructing a conventional underground water main until the narrowness or condition of the access route makes this impractical. From this point the rest of the network is built either above ground or on the ground, partially covered or attached to a wall. This distribution pipe delivers water to a battery or cluster of water meters from where each homeowner makes their own plastic connection, above ground. The programme shows that, given the opportunity, residents of unplanned areas would prefer individual water connections rather than public standposts.

As a result of these initial programmes the researchers observed that the once mostly dilapidated houses have been slowly replaced by structures made of more permanent materials. With more time and water, the women are able to clean their surroundings. Sanitation in the areas covered has also improved as households now have own toilets and bathrooms within their homes.

Source: An edited version of Inocencio (2002) summarised in Sansom et al, 2004

Small scale private providers

In Enugu, Nigeria, the state government provided filling points for the 200+ private water tankers in this city, as a means of encouraging the tanker operators to use only authorised water sources. It does not attempt to regulate the prices charged by the tanker operators, as has been tried elsewhere. In Lagos the state water corporation has allowed licensed water vendors to connect to its pipe system, in order for them to sell and distribute water. There are, however, many unregistered water vendors who establish themselves due to acute water shortages and the

political influence wielded by vendors and their associations (Larbi et al, 2004). The Lagos example demonstrates how an NSP registration system can have negative impacts on promoting more open market entry, if it is not managed effectively.

One form of collaboration that was not found as part of the NSP research is national ‘compacts’, which are broad general agreements concerning the principles and general mechanisms for cooperation between state structures and the NGO community. These agreements often have an important element of core funding of NGOs, although most funding is typically via specific projects. Compacts provide an opportunity to bringing together knowledge and resources in order to reach social and economic development goals (Liiv, 2001). The WaterAid 6 year Partnership Programme Agreement with DFID can be regarded as a form of international compact.

Contracting NSPs

Longer term service provision and investment contracts

The difficulty of getting agreement on long term contracts for the management of water services is evident from experiences in South Asia. Large scale PPP contracts in India, for example, have not been successfully commenced for a variety of reasons including: lack of political commitment, poor contract processes, the fragmentation of organisation responsibilities and low tariffs in the urban water sector. The shortages of public water supplies have led to an increase in the activities of small scale informal private providers (Nair, 2004).

The PPP contract in Dolphin Coast, South Africa is one of the earliest examples of an international operator managing water services in Southern Africa as part of a long-term concession contract. In poorer areas of Dolphin Coast there has been a reduction in service levels with disconnections of house water pipes, as a result of the higher water tariffs. Communal standpipes have become the common service level in these poorer areas. The Borough Council is responsible for letting and regulating the contract with limited capacity (Delay et al, 2004). There is a clear need for the development of regulatory capacity and effective approaches for services to the poor, before entering into such long term PPP contracts.

Short term contracts

While short term contracts with the private sector are very common, an innovative form of community contract is briefly summarized in Box 8.

Box 8 – Community contracting in Alfred Nzo District, S. Africa

A form of community contracting is being piloted in Alfred Nzo District in South Africa, where the Water Service Authority has contracted community groups to be Water Service Providers (WSPs). The community groups are paid limited fees for undertaking certain ongoing tasks, with specialist support provided by Support Services Agents (SSAs). This approach may be more sustainable than expecting long term voluntary inputs from community management of services, which is a common policy. However, if such contracts are to be scaled up legislation needs to be reviewed to waive the need for competitive bidding for community groups.

(Delay et al, 2004).

Regulation

Regulating longer term PPP contracts

Regulatory functions are often split amongst a number of government agencies at different levels, leading to inconsistent regulatory decisions. The regulation of formal utility water services does lend itself to more comprehensive and independent regulation because service levels and costs are relatively easy to measure. The establishment of independent water regulators is a growing trend around the world. This applies mainly to the regulation of private providers under long term PPP contracts but also to public providers. The principal goals of economic regulation are to ensure:

- 'Financeability' of utilities which have adequate incentives to be effective, equitable, sustainable, efficient and transparent in their service delivery, and
- Protection of consumers against monopoly abuse (Franceys, 2005).

The provisions of large PPP contracts can have adverse effects on NSPs. For example, two types of exclusivity clause are common in large concession contracts. The first is flexible exclusivity (operator allowed to delegate the right to provide the service) which has been used in Manila and Côte d'Ivoire. The second is absolute exclusivity, (where the operator is not allowed to delegate service provision), which has been used in Jakarta and Gabon. If non-state providers can offer cheaper or more appropriate services they should be allowed to act as alternative providers to offer services to the poor (Brocklehurst, 2002).

Without the creation of capable independent regulators, problems with serving poor areas are likely to persist in PPP contracts, as is illustrated by the Dolphin Coast Concession contract in South Africa. To date there are a few independent water regulatory agencies in low income countries such as Mozambique, Zambia and Ghana. These agencies are still relatively new and are working out their functions including how best to serve the urban poor. Development of the capacity to regulate is key. If improved and more independent regulation of public utilities is achieved, it could provide an effective entry point for future PPP contracts.

Regulation of informal and community based NSPs

The regulation of smaller NSPs such as informal private providers and community groups in the water sector presents challenges due to their small scale and informal characteristics. NSPs such as water vendors often charge high water prices, so it is tempting for government agencies to try and regulate their prices (economic regulation).

'Principal-Agent' theory examines organizational relationships as a tension between the 'principal' who demands a service and an 'agent' who provides it. The likelihood of the principal (such as a government agency) effectively controlling an agent (such as an NSP) depends on:

- how much information the principal has about the performance of the agent; and
- how far the principal can structure the relationship so as to control the agent, or give incentives so as to make the agent's interests or objectives correspond to the principal's (Batley and Larbi, 2004)

In the case of regulation of a large private water utility, the principal is potentially able to effectively structure the relationship with the agent (operator) to achieve their objectives, through a carefully designed contract and good contract management. However, in the case of a government agency that wishes to engage or control informal water providers, there is much less scope for the utility to control their work. This is because of the diverse, small and informal nature

of the activities of NSPs such as water carriers. It would be impractical for a regulator to study and take into account all the varying costs of a wide range of water NSPs in a city and then regulate those NSPs on a fair basis. Economic regulation of smaller informal NSPs is unlikely to be an efficient use of resources. Other, more market friendly and supportive forms of regulation, that are shown in Table 8, are likely to be more effective. Some examples of these approaches are briefly discussed below, such as: supporting self-regulation, flexibility in service standards, and community water watch groups.

Tremolet and Browning (2002) propose making data on the performance of providers publicly available, thus relying on the regulating effects of reputation. For example, a utility or the regulator can publicise the price of water that the vendors pay at the location where they collect their water, so that customers can see the price mark-up when water is sold to them. This approach operates as a form of price regulation by making information about service performance transparent .

The formation of professional and trade associations is a useful means of regulating NSP practices. Tanker and vendor associations established in countries such as Nigeria, Kenya and Ghana have enabled small scale providers to enter into dialogue with utilities, thus improving the terms and conditions under which they work. Such associations can help to improve professionalism and capacity building in the sector by: (WUP, 2003)

- Establishing common rules and procedures (and by promoting their acceptance);
- Recognising and protecting private investments; and
- Creating a forum for dialogue (and collaboration) between the authorities, the utilities and the alternative service providers (who are too numerous to be handled on an individual basis).

However, associations can also become cartels that seek to limit competition from new entrants., so it is important for the regulatory authority to promote competition and encourage new entrants to the market, (WUP, 2003). An example of a utility both supporting and regulating the activities of water CBOs is briefly described in Box 9.

Box 9: Support for and regulation of water CBOs in Blantyre

Blantyre Water Board (BWB) in Malawi has recognised that it cannot meet the costs of financing extensions to water services throughout the city. It has developed a system of supportive supervision and regulation of new water services managed by community groups. Following problems with the quality of construction of community water supplies, BWB decided to standardise procedures and play a more active role in the planning, implementation and monitoring of community based projects. There is also an element of co-production, where the utility provides the water main up to the settlement and the community lays the pipes within its area. BWB now accepts group applications for water development in low-income urban areas and promotes prompt payment of water bills. A limited number of private vendors also operate on the same basis (Kadzamira et al, in Batley et al 2004). This is a relatively successful example of a public agency both supporting and regulating the activities of community groups and private NSPs.

Franceys (2005) highlights a variety of ways in which consumers can be involved in regulation. For example, water watch groups in Zambia have delegated powers from the regulator to monitor the performance of a variety of water and sanitation providers and deal with complaints. Gerlach and Franceys (2005) conclude that the choice of regulatory instruments should be based on a

comparative assessment of the trade offs between effectiveness, ease of implementation and costs and benefits.

6.3 Mechanisms and financing for serving the poor and unserved

In situations where government agencies are not able to serve certain rural or urban areas in the short to medium term, government needs to consider how best it can support NSPs to serve those areas. Useful first steps include better national sector monitoring and evaluation, making good use of national surveys, specially commissioned surveys and participatory appraisals where feasible. This can provide valuable information about areas of greatest need and the sustainability of services. It is important to capture the services being provided by NSPs who are often important players in poorer areas. Specific mapping exercises of NSP operations can provide the basis for more productive collaboration with NSPs.

Using GIS mapping to locate served and unserved areas as well as the locations of water infrastructure is also an effective means of assessing where infrastructure is deficient. Once government has a good understanding of where priority areas for investment are, it can coordinate and support both NSPs and public providers to serve those areas.

Carefully targeted funds can also be key interventions to enhance services to the poor. For example, governments and possibly donors could fund the extension of piped water networks closer to the customers of NSPs, who may be informal private providers or community groups. The NSPs will then not need to transport their water so far and can reduce the prices charged to their customers.

7. Conclusions

7.1 Creating an enabling environment for NSPs

If government works effectively with water NSPs to enable them to provide better and/or more extensive services on a significant scale, there are a number of distinct potential benefits, including:

- Consumers can experience improved or cheaper services, even if those services may only be a temporary arrangement until other service options are developed.
- NSPs will gain confidence from productive engagements with public agencies and are more likely to be willing to expand their operations to serve more customers.
- Government will be able to focus its efforts and resources more on achievable objectives. For example, government departments can concentrate on their governance and enabling roles, while public agencies such as water utilities can focus their attention on improving services in their existing service areas, knowing that NSPs are being supported in serving other areas.
- As government agencies gain useful experience in collaborating with and contracting NSPs, they can utilise that experience in scaling up its engagement with NSPs. Such experiences can also be translated into improving interactions between and within public agencies. For example, the National Water and Sewerage Corporation in Uganda has utilised its experience in supervising water services management contracts with the private sector in Kampala, to develop more effective performance contracts with government and with its area offices.

There are, however, clear challenges for governments intending to work more with NSPs, not least of which is the institutional compatibility between bureaucratic agencies and the more informal NSPs. There are also challenges in working with the formal private sector. International private water operators are now much less likely to enter long term contracts in developing countries because of the risks involved. But there is increased interest in how governments can engage more effectively with in-country NSPs such as informal and formal private water providers and civil society institutions (NGOs and CBOs). Carefully designed programmes are required to enable better collaboration with NSPs and overcome the constraints.

To develop more effective engagement, two forms of recognition are key. Firstly, the respective government agency needs to openly recognise that their organisation alone cannot provide adequate services to all, at least in the medium term; NSPs also have important roles to play. Secondly, formal recognition of NSPs and their rights to provide certain services is an important precursor to other potentially productive types of engagement.

Government engagement with water NSPs can usefully be split into five main types: recognition, dialogue, facilitation/collaboration, contracting and regulation. There are a number of potential intervention options within each of these types of engagement that government agencies should carefully consider when supporting the development of NSP services.

Examples of successful engagement between government and water and sanitation NSPs are somewhat limited, but positive cases are emerging. Unless governments and their agencies carefully plan their engagement with NSPs, then misguided arbitrary interventions can occur, which have a negative impact on NSP water and sanitation services. Where there is a shared understanding between government agencies and NSPs about the working environment and incentives of both parties, there are much better prospects for effective partnerships and win-win situations emerging. It is therefore, important for government agencies to allow adequate opportunities for ongoing dialogue.

Successful government/NSP relationships often entail a number of different forms of engagement such as dialogue, collaboration and contracting etc, each initiative building on the lessons of previous interventions. Efforts by government to regulate NSPs without engaging them through other means are unlikely to be successful. The benefits of regulation need to be proportionate to the costs. For smaller and more informal NSPs, this means that suitable regulatory options should be supportive in nature, recognising the difficult working environments in which NSPs commonly operate. The choice of regulatory instruments should be based on a comparative assessment of the trade offs between effectiveness, ease of implementation and costs and benefits.

7.2 Options for scaling up support to NSPs

Working with capable NSPs is an important component of effective government, as part of the New Public Management approach. For this to happen on a large enough scale to have extensive impacts on service provision, there is a need for a strong civil society and a thriving private sector. This is often not the case in the water sector in many countries or regions, so governments need to consider how best to enhance the enabling environment for both civil society and the private sector. International donors have sought to encourage governments in many developing countries to support the various types of NSPs over a number of years.

Potential measures to be considered by government and donor partners to enhance the willingness and capacity of utilities and local government to engage effectively with water NSPs, include:

- 1) *Promoting/supporting appropriate types of engagement with NSPs* by utilities/local government. The range of the different types of engagement are set out in Table 6, under the six main categories: recognition, dialogue, facilitation/collaboration, contracting and regulation.
- 2) *More dissemination of evidence of the typical experiences and benefits* of engagement between government/utilities and NSPs. This should assist in overcoming some of the resistance to working with NSPs.
- 3) *Providing appropriate government incentives* for better engagement with NSPs can be developed through changes in policies such as official recognition of water NSPs and their services, performance related pay, performance contracts and enabling market friendly regulation.
- 4) *Intermediaries or bridging interventions*, to work with utilities and local government to encourage them to engage more effectively with NSPs or NSP associations.
- 5) *Encouraging NGOs and other CSOs* to have more inputs into aspects such as informing policy, working in areas where government cannot, scaling up effective participatory approaches, as well as supporting consumer voice initiatives. CSOs often have clear comparative advantages in these areas.
- 6) *Pro-poor targeting mechanism such as Output Based Aid* that involve NSPs in longer term contracts to provide services. Other forms of targeted funding of infrastructure can also enable NSPs to provide better services to the poor.
- 7) *Assisting small companies to become larger* perhaps by facilitating more and/or longer term contracts. It is important to strengthen the local private sector so that it is more able to respond to consumer needs and invitations to bid for contracts.
- 8) *Mobilising formal finance for NSP businesses*. (Collignon B and Plummer J 2005). Access to finance is a key constraint for both the formal and the informal sectors who are wishing to develop their businesses.
- 9) *Improved sector monitoring and evaluation* that captures NSP services, which are often not reported through government systems. Good quality M&E information is important for informing future investments and policy development.
- 10) *Seek national or programmatic approaches* where feasible, piloting as necessary. For governments to scale up support to NSPs on national programmes they need a good levels of confidence about the effectiveness of particular approaches that have been piloted. This has happened on the *Swajaldhara* approach to rural water supply in India.

Rural water sector

Promising approaches that are worthy of further exploration in the rural sector include community contracting, such as the *Swajaldhara* approach as being used on a national scale in India, where villages apply for and manage project funds together with support organisations such as NGOs. Alternatively more discreet inputs could be contracted to CBOs by local government, as has been piloted in Alfred Nzo District, South Africa.

Increased use of the private sector for maintenance activities is likely to be beneficial, although this implies CBOs would have more of an oversight role for maintenance work. Particular modes of private sector involvement that seem promising are: Area Pump Mechanics together with community based caretakers, water assurance schemes and Output Based Aid. More effective decentralisation should enable all these approaches to be more sustainable.

Urban water sector

Informal private water providers are likely to play an important role in serving informal and under served areas for some considerable time. Suitable government/utility engagement and support as described above can enhance NSP services. Public water utilities can support such informal private providers by extending the piped water network closer to the customers of the NSPs and providing suitable water collection points. Supporting community/private managed pipe networks in informal settlements can also be an effective option.

Where PPP contracts are being considered with local companies (SMEs) then service, management and lease contracts, should be considered, depending on the capacity of both the local private sector and the public sector (in terms of contract development and regulation). The use of a joint-venture approach to a concession contract with a capable local operator can potentially attract capital finance from the private sector.

Improving sector governance including accountability and transparency in service delivery will be necessary in order to successfully implement the proposed approaches.

8. Lessons for all basic services

There is a rising tide of informality in the developing world, by some estimates 70% of its workers are outside the official economy. (Palmade and Anayiotos, World Bank, 2005). Perhaps more than most other sectors water services are relatively easily measurable and hence services can be contracted out using output based contracts, subject to an enabling environment. This attribute also makes it easier to achieve well informed regulation. If other sectors are able to develop more appropriate indicators to measure the various forms of services, then there is better scope for beneficial contracting and regulation. If measuring performance remains problematic then co-production and collaboration may be the best forms of government engagement with NSPs.

How governments can engage better with informal NSPs is a matter of increasing concern in all sectors. Users of water services in a neighbourhood have day to day experience of water (deficiencies) in a way that is more pervasive than in the case of the other service sectors. Thus consumers are more able to make relatively well informed decisions about where best to obtain their water, whether it be from the public supplier or choosing the preferred NSP. Performance of providers in other sectors such as education and health is less easy for consumers to assess. All sectors would benefit from obtaining more information about the services of the various providers and disseminating widely. Consumers can then make better choices in choosing their providers, which can lead to improvements in NSP services.

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