

# **Pro-poor utilities for the urbanizing world: issues from the public, private dilemma**

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## **1. Defining the problem: basic services and urban poverty**

In the last years, the agendas of many actors working in the field of international cooperation have been slowly adjusting to a major theoretical shift: the one occurring between the structural adjustment paradigm on the one hand and poverty reduction strategies on the other one: poverty is increasingly acknowledged as an issue that international donors should deal with directly, without delegating the responsibility to the uncertain trickle-down effects of structural economic reforms.

The concept itself of poverty has been evolving, with a new multidimensional aspect that combines income poverty with other elements like the exclusion from the social and economic life of a community and the impossibility to have access to services; accordingly, the Habitat Agenda states that “Governments at the appropriate levels, including local authorities [...] should: [...] ensure that people living in poverty have access to productive resources, including credit, land, education and training, technology, knowledge and information, as well as to public services”.<sup>1</sup>

Nowadays urban communities offer an almost endless number of services ranging from the traditional products of urban infrastructures to the most recent features of the digital age.

While having access to the whole range of these opportunities may be a measure of someone’s well being, it is self evident that only some of them do represent the dividing line between a decent life and poverty; from now on, the latter will be labelled as “basic services”, without the presumption to formalize what services are to be considered basic and what are not, something that is best left to the democratic debate within each community.<sup>2</sup>

This paper will move from the assumption that poverty reduction is a priority and, since a lacking access to basic services is a dimension of poverty, reducing the number of the underserved is a priority as well, with universality of access being the ultimate if long-termed target.

Such an assumption, however obvious it may appear, is far from being a neutral premise.

It means that the real objective of service provision reforms is that of bringing services to the poor and making them affordable; that the choice between private and public provision should be based on the ability of both to make clear commitments on the number of poor households that they will reach with the service; finally, it means that there is no way a reform can have positive effects on poverty if its goals are other than extending the number of users among the poor: quality, efficiency, reliability and profitability are all worthy targets, but have no effect on those that are not reached by the service; they can well be pursued as solutions for specific issues and the development of a modern strategy of service provision can’t possibly exist if efforts are not set up to take care of them but their enhancement requires resources other than those intended to help the poor.

## **2. Defining the objectives: the northern debate and the southern politics**

Once it is clear that the problem is reaching the poor with those services that are considered as basic and vital and it comes to look for solutions, the debate between the supporters of privatized urban services and those of the public provision obviously comes to mind.

The public-private dilemma, however, easily becomes an unrealistic and academic discussion, unsatisfyingly centred on problems that pertain exclusively to the northern part of the world, if we don’t address one issue that, in many ways, affects all of the others.

In most parts of the developing world, the poor have neither the access to the democratic tools nor to the knowledge that it takes to make a conscious choice of their favourite way of provision and, if necessary, change their mind and turn to the other.

Acknowledging the need for a free and conscious choice of the poor as a pre-requisite for any pro-poor policy, this paper advocates an approach to the governance of urban utilities based on two elements, the first being the experience represented by years of operation of public, private and community-based providers, a valuable source of lessons learnt and a first indication of what works, what doesn't and what do the successful (or the unsuccessful) attempts have in common; the second, once the known problems are brought to the table, the definition of a user-provider interface that allows the poor to question the providers, influence their strategies and bind them to a set of clear, stringent and measurable pro-poor targets.

For that culture to be promoted in contexts where service provision has been historically offered only to the affluent, international donors should provide the poor with all the tools they need to be the staunchest defenders of their own rights and to be able to discriminate good concession contracts and bad concession contracts, favourable terms and unfair terms.

The following paragraphs can be read as an example of how an utility reform project should be examined by the beneficiaries, either in the legally acknowledged exercise of their right to be part of the decision-making process or in their claim for the enforcement of it when it is not respected.

### **3. Targeting the beneficiaries of urban services reforms: who sets the priorities?**

In 1989 the Guinean Government (through the sponsorship of the World Bank) entered a lease contract with two private water providers: Vivendi/Veolia and Saur.<sup>3</sup>

The two companies were to provide water services in the capital city and in 10 major cities and towns across the country in substitution of a public agency; the reform was conditional to the commitment of the Government to increase households water tariffs to a cost-coverage level (being included the financial cost of making the operation profitable for the private investors).

An International Development Association (IDA) credit financed a subsidy that permitted the increase of the tariffs to happen gradually from 0.12US\$ a cubic meter (the price asked by the public utility until 1989) to 0.76US\$ a cubic meter by 1995 and to 0.68US\$ in the following years (an increase up to 630%).

Because of this reform of the water sector, the quality of piped water in Conakry increased enough that in 1994 it was in compliance with WHO norms; metering of private usage increased from 5% to 98% (to 100% for public users); bill collection increased from 12.5% to 60%; donors funds allowed investments in new capacity, in rehabilitation and maintenance.

On the other hand, the share of population with access to safe water increased only from 38% in 1989 to 47% in 1996; in 1994 12.000 of connections were inactive because of the unwillingness or the inability of the users to pay; by late 1997 the minimum bimonthly payment for service was at the unbearable level of about 13\$.

Basically, the funding from international donors and the borrowing of the Guinean Government were used to finance the improvement of the water service provided to the richest half of the population and the protection of the operator against the foreign exchange risk, leaving untouched or worsening the condition of the poorest half.

To no surprise, after the lease expired in 1999, Guinea decided to renationalize the water provision.

The Guinean case represents a failure in the reform of the urban services sector: hardly an exception in the international trends<sup>4</sup> and, honestly, the attempts<sup>5</sup> of discerning the positives of that experience appear pointless since the reform had no chance to succeed when, in fact, the actors that chose its priorities were not the alleged beneficiaries: actually, the program was tailored on the requests of all the actors (investors, middle and high income users, donors) but not on those of the poor.

Such failures should constitute a strong motivation for the donors to make sure that the decision makers of any reform of a basic service provision are verifiably bound with the needs of the poor.

Since the ownership and the operation of a service providing utility are the positions that entitle an actor to be the leading part of the decision making process, the most immediate way to prioritize the needs of the poor appears to be that of putting the poor themselves in charge of managing the service.

Unfortunately, community based service provision is not always possible but it nonetheless represents a model that can tell us something about what should be achieved when the asset ownership and the operation of a basic service provision is performed by other actors.

1. The target population should be chosen beginning with those individuals and groups that are excluded from the provision and either can't satisfy their need or have to cope with the problem through alternative or informal means, with perverse effects on income distribution. A reform should take care of explaining how the decision-makers are pushed towards pro-poor policies through legislative, political, and organizational instruments. The targeting phase of the reform should also be based on a transparent and non-arbitrary process to prevent patronage-like relationships to lead the decisions; such focus can be enforced through well designed accountability and monitoring systems that have to be explicitly provided.
2. As a consequence and as a complement to the pro-poor targeting, the subsidies to non-poor users and to private firms have to come to an end. This is certainly the case of those subsidies that improve services reaching only the best-offs like in the Guinean example, but applies also to that accrual of grants and benefits that have been studied to attract the investments of private companies in the operation of basic urban services but finally stimulate provision patterns that collide with the policies of poverty reduction.
3. Targeting the poor is not enough, they should be directly asked to express their needs and their priorities. In the last months in Dar-Es-Salaam a flagship water privatisation scheme involving the World Bank and the British company Biwater collapsed after the Tanzanian Government cancelled the deal claiming that the private provider failed to produce the goods.<sup>6</sup> According to international NGOs operating in Tanzania, the project was implemented with little or no public discussion and most of the supposed beneficiaries did not even know that the water service was going to be privatized.<sup>7</sup>

#### **4. Questioning a public provider: investment, management and sustainability**

In the early 90s in Argentina<sup>8</sup>, the water and sewage services were provided by a public utility.

At the time of its privatisation in 1992, the summary of its activities included a mere 55% of the population serviced with drinking water and 39% with sewers, a percentage that was considerably worse in the poor neighbourhoods; of all the wastewater, almost 95% was discharged without any treatment into the Rio de la Plata; despite the expensive tariffs, the existing infrastructures were diffusely obsolete and needed replacement or maintenance and the figures about the use of water were heavily approximate, with meters applied only to the 15% of the connections.

This example shows how a public utility can be a pretty awful provider both in terms of efficiency and fairness.

A slightly different but nonetheless interesting example is that of the State Electricity Boards that supplied each State of the Federal Republic of India.<sup>9</sup>

Starting from 1948 and for a time-span of over forty years, the decentralized public providers developed the electricity sector at the impressive growth rate of +9.2% per year, with electrification rates that reached 80%.

However, by the end of the 70s the sector was seriously plagued by the use of rural electricity rates as an instrument of populist politics: although the benefits of electricity were mostly enjoyed by rich

landed farmers that could afford mechanized irrigation, either the rates were kept flat or electricity was completely free.

The resources required to bring forth such a policy came from a scheme of cross-subsidies between rural farmers and urban industries that rapidly made much more convenient for the latter to set up their own electricity generators, so that the sales of the State Electricity Boards to industrial consumers dropped from 67% in 1960 to 40% in 1991 and the cross-subsidies scheme became financially unbearable.

In 1991 the inadequacy of the electric supply system was so heavy that an independent team of researchers showed in an analysis of the power sector of the state of Karnataka that the installed capacity of the system was about 40% of the amount expectedly required in 2000.

As the two examples above highlight, public providers can be affected by a number of issues, with three elements possibly encompassing all of the others.

1. Public operation of urban services may suffer of uncertain financial and economic sustainability; providing the poor with affordable services at times requires prices to be set below cost-recovery levels.
2. The management of a public utility is vulnerable to corruption, political patronage and regressive redistribution, lack of incentives and insufficient propensity to research, develop and maintain.
3. Public capitals are usually (and in spite of good will) too scarce to invest in new capacity, to increase coverage and quality and to refurbish obsolete parts.

When a public utility is the entity in charge of supplying basic services, its ability to provide an economically sustainable operation while following a pro-poor approach should certainly be assessed: the officials and the managers that run it should be asked to expose transparently the expected sources of income and the strategy about the allocation of the resources; such information should be designed with a great emphasis on the social effects that the decision makers expect to come from their strategy.

Each source that a public utility can use to fund its activities affects differently the social context and should consequently provoke a proper set of questions to be answered.

Source	Social context
Flat tariffs, connection charge	<p>The utility charges the user for the connection to the service, while the use is free. Clearly it has a regressive impact since every income group pays the same: <i>do the utility provide any mechanism to turn the regressive effects into progressive effects?</i></p> <p>To cover the costs, flat tariffs have to implicitly produce one or two different types of cross-subsidy: between users located near the city centre or near the production plants (with less costs for the utility) and users in remote areas; between users in under-average bands of consumption and those in the over-average bands. <i>What is the distributional impact of those implicit cross subsidies?</i></p>
Plain metered charges	<p>The utility charges the user on the basis of metered consumption (or in general, proportionally with the cost of providing the service to that specific user, included the fixed costs), without cross-subsidies of sort. <i>What corrections are planned to make the charges affordable for the poor?</i></p> <p>Whatever the corrections, the distributional effect will also depend on the actual metering and billing of the service. <i>What is the percentage of the metered and billed consumption and what is the distributional impact of the legal and illegal exemptions?</i></p>

Tariffs with cross-subsidy	<p>The utility charges the user on the basis of metered consumption but discriminates the charge between different typologies of users. Users can be aggregated in groups according to their geographic location, income or taxable property. The decision between those alternatives has to be motivated: <i>does the cross subsidy produce a progressive effect and substantially benefit the poor?</i></p> <p>Also, whenever charges depend on the metering, it is crucial to enforce legality: <i>what is the percentage of the metered and billed consumption?</i></p> <p>Finally, cross-subsidies have a limit given by the price of alternative provision systems: if the charges for the better-off are too high (crossover price), they will abandon the public supplier in favour of other service providers, deactivating the cross subsidy. That can be prevented with hybrid solutions based partly on direct tariffs with cross subsidy and partly on property or income taxes (see below).</p>
Block tariffs or lifeline tariff	<p>Allowing every user to have free or almost free access to the vital level of consumption and charging the consumption that exceeds that level can have a pro-poor effect but still arise questions: <i>is the vital level calculated per component of the household/group of users? Is the step between the vital level and the immediately following level so steep that it constitutes a sort of poverty trap?</i></p>
Local or national water tax, VAT	<p>This solution bears the same regressive problems of the flat tariffs and a couple of new issues: <i>how does the collection made by an institution other than the provider affect the provider's effectiveness in supplying pro-poor services?</i></p> <p><i>Can national institutions allocate the resources collected through taxes as effectively as local utilities?</i></p> <p>It is worth adding that national collection of resources can have equalizing effects between different the regions and cities but that is not automatic.</p>
National inc. or prop. tax	<p>Such a solution avoids the regressive effects of the previous category but still presents the same inability of detecting local preferences because of the centralized collection.</p>
Local property tax	<p>Compared to other taxes, local property tax appears as a pretty good source; it can have consistently progressive effects and be a good proxy of income but it nonetheless arise a question that is common to all the solutions that completely rely on taxes: <i>how does the collection made by an institution other than the provider affect the provider's effectiveness in supplying pro-poor services?</i></p> <p>However, this issue is reduced by a relevant degree because the collector is still a local authority and the passages required to reach the provider are just a few. Apparently, local property tax could be effectively added to tariffs with cross subsidies to create a hybrid system.</p> <p>A further and crucial question, though, comes to mind about the taxable base: <i>do local authorities have the cadastre, the data and the enforcing power it takes to make a local property tax fair and effective?</i></p>

Management is another target for the critics of public providers.

The reasons are too well known to require an extensive discussion: mentioning corruption, lack of incentives, the spoil system and conflicts of interests is probably enough.

Should this paper be concerned with the issue of defending a public alternative for the provision of basic services, it would be appropriate to suggest that organization theory and methodology for the public administrations have dramatically changed in the last decades and modern public agencies, at least in the developed countries, diffusely seek and get certifications of their quality management systems (e.g. through ISO standards) that are as demanding as those the private firms can get.

However, the point here is that those brilliant examples come from contexts where the customers have the right and the instruments to question the provider and push it either politically or through the law (or both) and in those context we can expect customers to be able to ask and get transparent answers on:

- *How is the chain of accountability structured? Who is accountable for the appointment of managers and public officials and for their performance? Who are those officials and on the basis*

*of which elements are they appointed and removed? How much can the poor influence the process of appointment and removal?*

*- Does the administrative law acknowledge rights to the customers in front of the public agencies? Does it provide them with the instruments to enforce the respect of those rights?*

*- Is there an effective system of incentives and disincentives that regulates the activity of the public agency?*

*- who are the final decision makers for what concerns the funding of the agency and its strategy? How can the poor influence their decisions?*

On these specific issues, the World Bank have recently<sup>10</sup> suggested an alternative of some sort between a “long route of accountability” and a shorter rout.

The first one, by interposing policymakers to the relationship between providers and the poor, would be affected by a number of dysfunctions that, according to the World Bank, a more straightforward relationship between users and providers could avoid.

The “short route” certainly represents a crucial component in an effective service supply system and it can be particularly important in difficult contexts, but it is really not like a substitute for the “long route” and it is highly unlikely that serious dysfunctions of the latter would not fatally affect also the former.

As the World Bank itself declares, making services work is a public responsibility and while bypassing institutions can be a good last option in some circumstances and in the short term, it could become a very dangerous and self-defeating approach in the longer term.

Another point to be discussed regards the fact that public providers are expected not only to operate the supply of basic services, but also to increase coverage and capacity adapting their structures to the evolving demand of the population living in a given territory.

However, and in particular where the rate of coverage has to be increased dramatically, investing in infrastructures requires an amount of resources that is normally not available and that public actors can rarely find without introducing radical changes in the structure of their budgets.

Those changes have consequences that a pro-poor strategy should anticipate and guide so that the poor could be allowed to have full information and a decision-making role of some sort.

Questions like the following should give an idea of what is going to make a strategy to raise resources for investment suitable or not in the framework of a poverty reduction policy.

*- What is the amount of capitals that the public provider plans to collect either directly or through transfers? What is the expected capacity/coverage and how fast will it grow, compared to the growth of demand?*

*- If investments are made changing the allocation of resources that were present in the budgets for the previous years, what is the expected social income of the changes?*

*- If the fiscal system is asked to provide the resources, how equitable and progressive is the resulting fiscal pressure?*

*- If resources are collected through loans, how equitable and balanced is the intergenerational transfer of costs going to be? How is the impact of the debt service divided among income groups?*

The Brazilian, State-controlled company SABESP (State of Sao Paulo) provides a good example<sup>11</sup> of a public provider that, through reorganization and new strategies, can supply water and sewerage services effectively and produce positive effects on the social context while moving away from a scenario of recurring losses and lacking investment to one characterized by universal coverage and net profits.

At the end of 1994 SABESP was dealing with a debt of approximately US\$ 766 million financed mainly through very short-term loans. Around 7% of the population was not reached by the water service, only 67% had access to sewage facilities and less than 30% of the sewage was treated.

In 2002, seven years later, water was made available for the totality of the inhabitants in the municipalities operated by SABESP, sewage collection reached the 80%, treatment was at 64% and water rationing was phased out.

The changes apparently had a great impact on the poor, especially in terms of health: compared to the infant mortality rate in the State of the 80s (51.2 deaths/1000 live births) that of year 2000 (16.9/1000) is outstandingly lower and the figures about life expectancy tell a similar story.

### **5. Questioning a private provider: coverage, tariffs, regulation.**

In September 1994 the Province of Tucumán in Argentina (the smallest and poorest in the country) awarded a single-bid concession of its water network to a consortium led by the French company Générél des Aux/Veolia.<sup>12</sup>

The contract included a 95% tariff increase in the first year starting the day the concession began, despite the fact that a study led in 1993 by the “Centro de Estudios sobre Transporte y Infraestructura” (CETI) showed that 37.8% of the population had no ability to pay for water consumption even before the increase due to the concession; not willing to face the consequences of that unpopular concession agreement (and also because of the fact that the quality of the service was extremely low), the new governor of the Province initiated a legal process against the company which, on its part, rescinded the contract after a boycott caused it to lose an average of US\$ 2.8 million per month.

The Province was forced to spend millions in legal fees while the claim of the company amounted to one third of the total public debt of the Province.

In 1997, one year before the regime of general Suharto finally fell from power, the Indonesian government formed a joint venture between the British company Thames Water and the state owned company Perusahaan Air Minum Jakarta Raya (PAM Jaya).<sup>13</sup>

The joint venture was to provide water to the Eastern part of the capital city of Jakarta, while the Western part was to be operated by a consortium between the French company Lyonnaise des Aux and the Indonesian business conglomerate Salim Group.

The contract survived the turmoil of 1998 (although it underwent several sessions of renegotiation) and also the Indonesian crisis despite a huge devaluation of the Indonesian Rupiah: the foreign companies managed to keep their operations notwithstanding the fact that the water business was one of the suspect deals signed by a former president that many asked to be tried for corruption.

Unfortunately, that didn't turn into a good business for the community.

By December 2003 the total volume of water sold in West and East Jakarta was 25% less than the target set in the 1997 contracts. Only 53% of Jakarta's population was actually reached by the service, while approximately 7% of the connections had poor services, from no water at all to low water pressure.

Additionally, the cross-subsidy scheme worked poorly: in the Eastern part of the city, users were mainly ordinary households, while hotels, banks, entertainment centers and industries were generally located in the Western area.

The overall performance of the private providers was far from meeting the targets of the 1997 contract (that, in fact, were abandoned in 2001 for the pursuit of more realistic objectives) but the lacking accomplishments didn't stop the companies from increasing the tariffs to completely transfer to the users the burden of inflation that averaged 26% per year in the six years between February 1998 and January 2004.

In general, private providers have experienced mixed success in their attempts at substituting public authorities in the supply of basic urban services: while in the 80s and in the early 90s the push for privatisation and “liberalization” of markets was enthusiastic and uncritical, in the last years things have changed somehow and even the staunchest supporters of the role of private companies are now very careful in indicating competition and choice as the best instruments (even ahead of privatisation itself) to provide cheap basic services and the importance of public regulation of private activities.

The sector that possibly underwent the widest process of reform was that of electricity and, at the same time, is also one that suggests many doubts.

Perhaps the most alarming signal is that in Latin America, the region that was most deeply involved in the privatisation of electricity production and distribution, the major international suppliers have left, are currently trying to leave the market or have to deal with critical situations.<sup>14</sup>

The court case of international energy companies like CMS and EdF against the Argentinean Government for its decision to devaluate the Peso, the allegations against the Spanish company Endesa to have deliberately created a blackout to increase pressure for price rises or the suspension of all new investments from other concessionaries are some examples of what is going on.

However controversial they might be, private providers of basic services are nonetheless a very common actor and one that international organizations, NGOs, local authorities and citizens have to be prepared to deal with, perhaps by identifying an appropriate set of questions to tackle the following list of known problems:

1. Private providers are for-profit: the share capital is in for remuneration and that is an additional price that the beneficiaries of the basic service have to pay; in general, all the costs have to be recovered (including the cost of the dividends), the business has to be profitable and the risks have to be put under control.
2. A private provider determines the price (and consequently the quantity) according to the market, but the basic services that the private provider is selling are, by definition, merit goods (impure public goods): the optimal combination of price and quantity may differ between the social and the economic point of view.
3. Many basic services are produced and sold in a monopolistic or oligopolistic market. This means that a private provider is going to operate at a monopolistic a price and/or at a monopolistic quantity (rationing).
4. Private providers may have the best return from capital-intensive combinations of factors that are affordable only for the better-off.
5. In particular in the developing countries, regulation and monitoring can be an issue, so that it is not easy to make the terms of a contract respected. Great multinational also have a huge contractual power compared to that of local governments, agencies and citizens.

Some suggest that “there is often a sharp difference between what private companies see as the minimal return necessary to go into business in a risky country and what governments view as an acceptable level of profit (but) governments should be realistic about the profits that they should allow, recognizing the need of their private partners to earn a reasonable return and to be rewarded for the risks that they shoulder.”<sup>15</sup>

Privatisations have been made possible thanks to agreements that allowed the concessionaries to escape, in turn, foreign exchange risk, political risk, risk of losses in the first years after investment (by according a minimum granted profit), exemption from the debts accumulated by the taken-over public utility, exemption from taxes for a number of years and even exemption from popular discontent by increasing tariffs before the beginning of the private operation of the service.

Many private issues have evidently been solved with public resources.

That is, understandably, the price that many communities should be willing to pay to have the private sector involved; only, they don't have to.

The favourable conditions that the private providers ask are a cost for the community; that cost might actually represent a trade-off between a better business environment for private utilities and more resources in the public budgets (including resources for welfare and social policies).

*- How much national and local governments are going to spend to make the business environment favourable for private basic service providers?*

*- What kind of resources are going to be used to make the business environment better? Where do those resources come from?*

*- Are the total pro-poor benefits coming from the private operation of the service more than the costs?*

*- Is the distribution of benefits between low income population, medium and high income users and national and foreign investors fair?*

According to the UN's Millennium Project<sup>16</sup>: "Pushed by international financial agencies and several international donors, over the past two decades many developing countries attempted to impose private operation in inappropriate circumstances, often with dire consequences for the poor. The belief was that private operation would ensure efficient services and that users, including the poor, would pay the lowest possible prices while covering costs with little or no public subsidy. While there have been successful cases, too often privatizations have had disastrous consequences and have had to be reversed at great cost"; so, the questions above shouldn't be inappropriate.

Regarding the issue of price and quantity, in the years of the privatization rush, a lot of confidence was put in willingness to pay studies claiming that most of the people excluded from the use of basic services usually make use of alternative and maybe informal suppliers whose prices are higher than those of a private provider imposing tariffs at a cost-recovery level, so that the real problem with providing the poor wouldn't be that of high tariffs, but that of the connections.

If not completely wrong, though, those studies proved to be unfit to precisely describe the problem: even if the poor usually pay more per each unit of the service they buy from alternative providers, this doesn't mean that the price they are willing to pay for a socially acceptable amount of the service is as high.

When water tariffs in the region of Kwa-Zulu Natal were raised in 2001, the inhabitants dramatically demonstrated their unwillingness (or, better, inability) to pay: a massive outbreak of cholera infected thousands of people and killed over 200 of them, resulting in the worst cholera infection in that country's history; something similar but on a smaller scale happened in Manila.

The questions concerning tariffs and quantity could be:

*- How many users will be covered, what are the timeline of the new connections and the tariff plan? How long are the tariffs going to remain unchanged?*

*-Is the basic (socially acceptable) level of the service affordable for everyone? Is there any form of cross-subsidy or customer discrimination to make it affordable?*

*-Is there an investment plan that allows to take care of the natural expansion of the population?*

*-If the user is operating in a monopolistic market, is the price regulated to redistribute the monopolistic rent?*

*-Is the concession contract clear, transparent, participated, stringent and pro-poor? Does it provide the instruments to monitor the outcomes, to apply sanctions if explicit terms are violated and to enforce the respect of the sanctions?*

One more thing that is worth considering is the fact that the words “service” and “tariff” may occasionally prove misleading: in a vast and diverse environment like a city in the developing world, where extreme poverty can often be found next to great affluence, those words are better thought of as plurals, with different typologies of consumers asking for different typologies of products that have each their own price, coverage rate, quality, reliability and production cost even when the supplier is just one.

The consequences are countless: the provider can be interested in serving only one typology of consumers or it can be tempted to provide more favourable terms to some, to recover the costs of a technology that is benefiting only part of the population with the tariffs collected also in the other areas or, finally, to reduce its costs by using only one technology that would be appropriate for the top-class consumers for the whole community, when cheaper solutions could be available and would allow the poor to have easier access.

Finally, appropriate sets of questions should be designed to evaluate the equilibrium between the parts when the concession contract is designed: quantitative and qualitative targets, monitoring activities and sanctions should be clearly determined and effectively enforced, while the overall framework of the service provision in a territory should leave to local and national governments enough freedom to plan and implement the policies determined through the democratic debate, whatever the agendas of the private providers might be.

## Notes

<sup>1</sup> The Habitat Agenda, Paragraph 118 f.; more on this in The World Bank, 2004, “World Development Report: Making Services Work for Poor People”: Box 2, pg. 3

<sup>2</sup> Case studies will be focused on services like water & sanitation and electricity, that appear to be strong candidates.

<sup>3</sup> See P.J. Brook, A. Locussol, 2001, “Easing tariff increases: financing the transition to cost-covering water tariffs in Guinea” in Brook P.J. and Smith S. (eds.), “Contracting for Public Services: Output-Based Aid and its Applications.” World Bank, Washington, D.C.; Public Citizen’s Water For All program report, 2005, “Veolia environment: a corporate profile.” Washington D.C.

<sup>4</sup> Other notable examples are those of Cochabamba (Colombia), Dar-Es-Salaam (Tanzania), El Alto and Tucumán (Argentina), Manila (Philippines), Jakarta (Indonesia).

<sup>5</sup> See P.J. Brook, A. Locussol, 2001, “Easing tariff increases: financing the transition to cost-covering water tariffs in Guinea” in Brook P.J. and Smith S. (eds.), “Contracting for Public Services: Output-Based Aid and its Applications.” World Bank, Washington, D.C.; Public Citizen’s Water For All program report, 2005, “Veolia environment: a corporate profile.” Washington D.C.

<sup>6</sup> J. Vidal, Wednesday May 25, 2005 “Flagship water privatisation fails in Tanzania”, The Guardian.

<sup>7</sup> “R. Greenhill, I. Wekiya, 2004, “Turning off the taps. Donor conditionality and water privatisation in Dar Es Salaam”, ActionAid International, London.

<sup>8</sup> O. Chisari, A. Estache, 1999, “Universal Service Obligations in Utility Concession Contracts and the Needs of the Poor in Argentina's Privatizations”, The World Bank.

<sup>9</sup> N. Dubash, S. Rajan, 2002, “Electricity reform under political constraints” in Dubash, N. “Power politics: Equity and environment in electricity reform”, World Resource Institute, Washington DC.

<sup>10</sup> “World Development Report 2004: Making services work for poor people”, The World Bank, Washington DC.

<sup>11</sup> See UN-Habitat’s Best Practises Database for Water and Sanitation: “New Management Model for Sanitation - SABESP, Sao Paulo, Brazil”, [http://hq.unhabitat.org/cdrom/water/HTML/bestpractice\\_brazil.htm](http://hq.unhabitat.org/cdrom/water/HTML/bestpractice_brazil.htm).

<sup>12</sup> J. Piaget, 1997, “Limits in water concession contracts: the case of Aguas del Aconquija”, Université de Lausanne; Public Citizen, 2005, “Veolia environment: a corporate profile”,’s Water For All Program, Washington D.C.

<sup>13</sup> A. Harsono, 2004, “From the Thames to the Ciliwung. RWE -Thames Water in Jakarta”, Asia House Germany, Essen.

<sup>14</sup> D. Hall, 2004, “Electricity in Latin America 2004”, PSIRU, University of Greenwich.

<sup>15</sup> P. J. Brook Cowen, 1997, “Getting the Private Sector Involved in Water—What to Do in the Poorest of Countries?”, Public Policy For The Private Sector, Note N° 102, The World Bank Group, Washington D.C.

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