Service to the poor in megacities of developing countries: how to combine efficiency and equity?

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Agenda

- Context: the crisis of water services in developing countries
- A three-dimensional interpretation of governance issues
- Proposition of an innovative model illustrated with a Brazilian pilot project
The crisis of water services in megacities of developing countries - *Figures*

- 1.2 billions of people still lack access to safe water; 2.9 billions do not have adequate sanitation.
- Explosive urbanisation and urban poverty
  - slums
  - lack of urban services: in African big cities, according to the global assessment of WHO, 31% of people do not have access to safe water.
The crisis of water services in megacities of developing countries - A financial crisis

• A financial crisis
  • limits of the water rates in a period of investment
  • limits of national subventions to limit debt
  • limits of international financing
    • International Aid is not enough
    • Private financing has decreased since 2000
The crisis of water services in developing countries - *A crisis of governance models (1)*

- The International Water Decade (1980-1989)
  - Lack of incentives for public utilities: delays, misconceptions, over-estimated investment
  - Lack of demand-driven approach
  - 1° generation contracts: excess of incentives and risk supported by private sector - Renegotiations
  - Problems of social acceptability
  - Institutional weakness of regulators
The crisis of water services in developing countries - *A crisis of governance models (2)*

- Crisis of the PSP (2000-2004)...
  - Renegotiations or termination of PSP contracts
  - Decrease in the number of contracts signed
  - Evolution of World Bank prescriptions

- ...and diversification of management models

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The crisis of water services in developing countries - Lessons

• What are the key factors that trigger a change in the governance model?
  - Incentives for the operator (public or private) of the service
  - Institutional skills to monitor the contract
  - Role of users

→ A three-dimensional interpretation of governance issues
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Three key dimensions of governance (1)

- **Contractual dimension**: incentives and risk sharing
  - incentives to increase efficiency and reduce costs (price cap)
  - incentives to extend services to poor areas (contractual objectives)

- **Institutional dimension**: monitoring mechanisms and flexibility
  - contract-based procedures
  - juridical procedures
  - independent arbitration
Three key dimensions of governance (2)

• **Social dimension:** diversity of participative approaches
  
  - participation is the result of a compromise between different visions of the service
    - conflict about the design of service  ➔ participation of users to define a service adapted to their needs, planning of the extension
    - conflict about the price  ➔ participation of users to the excavation to reduce costs or better information
Interactions between the three key dimensions of governance

**Contractual dimension**

- Incentives and risks
- Public management
- Public management with independent regulation
- Management contract
- PPP in developing countries with independent regulation authority
- English model of full divestiture

**Institutional dimension**

- Monitoring of the contract
- Enforcement of a complete contract
- Tribunal arbitration
- Self enforcement procedures
- Arbitration by an independent third party
- Participative monitoring of the contract

**Social dimension**

- Users participation
- Information and education
- Demand assessment
- Participation to civil works
- Co-definition of service levels and tariffs
- Participation to the monitoring of the contract
- Shared management of the service

Some participative processes impact on the contractual arrangements of the contract

Some participative processes impact on the monitoring of the contract
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Proposition of an innovative model to improve the PPP (1)

• Risk sharing through an investment fund supplied by connection fees, tax for universal service and subventions

• Control of performance and monitoring by a participative Steering Committee including users, municipality, operator, regulator and financing agencies

• Participation of users 1) to define the service, 2) to reduce costs and 3) to plan the expansion
Proposition of an innovative model to improve the PPP (2)

Steering Committee
Operator, IFI, Municipality, Regulator, NGO, Communities, etc.

Setting of management rules
Appointment of an executive co-ordinator
Periodic reporting
Control of achievements

Investment fund for infrastructures

Supply the fund
Output-Based Aid (OBA)

Private Operator
Executive Co-ordinator
Project Team

Building of infrastructures complying with objectives defined by the Steering Committee

IFI, operator, Municipality

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Illustration with a Brazilian pilot project (1)

- The difficulties of the concession of Manaus
  - inefficient incentives: unclear objectives, perverse tariff structure
  - Weakness of the regulator
  - Difficulties to extend the service to the poor

- A new partnership with a French NGO
  - Social and economical diagnosis
  - Community empowerment
Illustration with a Brazilian pilot project (2)

• Results
  • A new institutional structure including all public authorities and users representatives
  • Adapted levels of service
  • Participation and successful recovering of tariffs

• Lessons
  • Use a third party (NGO) as a facilitator when communities are not structured
  • Give a real power to the inter-institutional committee
  • Demonstrate social and economical viability
Conclusion

• What are the key conditions of implementation?
  - A political willing
  - A real demand from the users
  - A transformation of management culture

• What kind of evolutions can we expect?
  - Prospect 1: poor neighbourhoods still have a different service at long term
  - Prospect 2: there is a progressive integration of the poor users with conventional management
  - Prospect 3: management of the whole city evolves towards something participative, with a convergence of both management models
Thanks!

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