Local government service partnerships: a background (key note commissioned paper)

This item was submitted to Loughborough University’s Institutional Repository by the/an author.

Citation: SOHAIL, M., 2003. Local government service partnerships: a background (key note commissioned paper). [Presented at:] Commonwealth Local Government Forum Conference, Pretoria, South Africa, 4-6 March

Additional Information:

- This is a conference paper.

Metadata Record: https://dspace.lboro.ac.uk/2134/3963

Please cite the published version.
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LOCAL GOVERNMENT SERVICE PARTNERSHIPS: A BACKGROUND

Introduction

There has been much discussion in recent years about the potential benefits of involving the private sector in the delivery of urban services previously regarded as the domain of the public sector. Many cities in the developing world have begun to follow this trend in spite of a very different operating context where service coverage is restricted and tariffs heavily subsidised. Whilst it may be useful to learn from the experience of partnerships in the developed world it is clear that to make such partnerships effective requires that they be moulded to the specific context within which they are to be located.

In many Commonwealth countries that context is one where public institutions are chronically weak, infrastructure coverage is limited or poorly maintained, the private sector is unproven and often informal, rates of cost recovery are low, and regulatory rules and agencies have little impact. Here, the service delivery problem is most often concerned with the need for substantial network expansion to new, informal and marginal settlements as well as the rehabilitation of the existing network. Many customers have had limited access to services and are unfamiliar with formal delivery systems and regular payment.

In contrast, the context of the north is one of power and plenty: strong institutional capacity, extensive service networks and infrastructure, a mature private sector superior in efficiency and management capacity, and appropriate and enforceable regulatory frameworks. Shifting from public provision of local services to public-private partnership was, in the main, a process of transferring functioning universal services within an established cost recovery system. The aim of private sector involvement is to introduce greater efficiencies in service delivery and generating additional investment, but it is noteworthy that there is no necessary correlation between improved efficiency and private ownership per se, and it is equally possible to argue that improved performance is the result of improved competition.

These differences underscore the importance of country or regional specific analysis and action within a broad framework of options and arrangements. Although this paper discusses experiences, issues and challenges in partnerships more generally it highlights the particular context of developing countries where one of the main issues concerns the participation of the poor and the impact of service delivery arrangements – including partnerships – on the poor. This pro-poor focus aims to contribute to an understanding that would assist targeting partnerships at poor communities to ensure that benefits are more evenly distributed and equitably managed in situations where the poor comprise a significant proportion of the total urban population.

Defined policy framework for LGSPs

Experience shows that effective partnership requires a clearly defined framework to guide governments, municipalities and other stakeholders through the process. Although this framework needs to be developed within the specific local context there are a number of general issues that it might usefully address. These include:

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1 This paper was drafted collaboratively by GHK International in London and WEDC at Loughborough University and is based on several recent research projects, including the sourcebook Focusing Partnerships, edited by Janelle Plummer of GHK and funded by DFID.
- Political processes, supporting the role of municipalities in representing constituents, maintaining power over the allocation of resources, regulating partnership arrangements and other service delivery options to serve the public good;
- Financial sustainability, through creating capital investment, transferring risk, achieving value for money and ensuring revenue flow to support service delivery;
- Economic benefits, to improve efficiency, generate economic growth and develop a market of service providers or users;
- Social equity, addressing the needs and impacts of service partnerships on communities, with sensitivity as to how this is relevant to different groups, such as women, children, the poor and other vulnerable people;
- Environment, ensuring basic health and sustainable use of natural resources;
- Institutional imperatives, to improve the capacity of municipalities and other organisations to manage and govern local areas through partnerships.
- Conciliation and mediation, to facilitate a rational and pragmatic rather than ideological perspective on LGSPs. Throughout the developing countries there are examples of LGSP processes where the debate has taken an ideological perspective and thus lost the pragmatic approach. LGSPs can provide space for different parties to air their differences and come to a consensus.
- Reducing transaction costs through better information provision that reduces asymmetries of information by creating a pool of information to be used for planning of LGSPs. Many partnership arrangements lack basic information related to the poor and hence it is difficult to design pro-poor LGSPs.

Two cross-cutting elements are important here:

- Comprehensive and holistic approaches: though not prescriptive, are critical. These help municipalities to determine how to prioritise objectives, to assess past initiatives in terms of municipal objectives, to transcend the traditional bias in many partnerships towards economic and financial objectives; addressing instead the range of social, political, and institutional issues that lead to a search for alternatives.
- A pro-poor focus is essential. As mentioned in the introduction, partnerships in developing countries often face extensive challenges in dealing with poverty. A pro-poor public-private partnership is about meeting the service needs of the poor and improving the quality of the lives of poor households. This raises several fundamental questions such as: what type of service delivery arrangement benefits the poor; what form of delivery is most sustainable; what level of benefit is most feasible to achieve; and what form of cost recovery would be appropriate? This requires judging partnerships by how they deal with fundamental needs, such as better access to affordable services, reduced time involved in receiving the service, improvements in public health outcomes such as water-borne diseases and access to and security of employment.

A body such as the CLGF could facilitate the development of appropriate policy frameworks for partnership by sensitising the local and transnational private sectors, governments and municipalities to these issues and areas that might require legislative intervention or facilitation as well as cautioning against excessive prescription. At the same time it could link policy makers and practitioners from various contexts to facilitate lesson learning and the development of best practice in policy formulation.

**Types of partnerships**

The question of partnership types can be approached from at least two angles: institutional and contractual. But while this classification of partnerships is commonly used, the links between institutional and contract forms, and the significance of context, must never be denied. One should not restrict oneself to any classifications as in many cases it may not be feasible to conform strictly to any typology. The real issue is for parties to analyse robustly their situations and options and develop meaningful solutions. Broadly speaking, contractual relationships can be divided according to the way they are enforced. Some contracts are
legally enforceable while others are essentially relational and self-enforcing. The latter occur mostly in informal transactions.

**Institutional arrangements**

Institutional arrangements for effective PPI need to reflect the specific organisational form required by the contract. Factors that influence this are the type of infrastructure or service concerned, the needs and in-house capacity of the client and the private party and the ways best suited to engage community and other stakeholders. With these considerations in mind, the following typical models could be utilised:

- **Direct Contracts**: Where there is a single and relatively homogeneous client working with a single private party in a discrete service area the most common organisational model is the direct contract. The key issues in a direct contract involve clearly specifying the roles of private party and municipality; delineating powers and objectives for price setting, quantity and quality; and outlining consumers’ rights.

- **Utilities**: Sometimes municipalities opt for creating dedicated independent public agencies to take public responsibility instead of conventional municipal departments. Utilities normally have own governance structures and a key issue is to specify municipal shareholding and participation in the governance structures. Utilities are often more specialised than conventional departments and more flexible in decision-making and procurement. This enables them to engage in functional contracts with private and other partners in a swifter and more streamlined manner than municipalities themselves. While roles, obligations and rights are also crucial in this kind of arrangement, the arm’s length relationship between the municipality and the utility makes it particularly important that the municipality puts in place policy frameworks and institutional arrangements that facilitate partnerships between the right utility and service providers meeting overall service objectives and priorities, especially with regard to the environment, social policy and service standards and coverage.

- **Joint Ventures**: This form of partnership entails the municipal client forming a joint venture with a private party where they take joint responsibility for the overall delivery package. The delineation of roles could be quite complex as the parties have to balance their roles as shareholders or co-owners with that of service provision. The municipality also needs to bring to the venture its interests in regulatory issues. Strong accountability mechanisms, transparency in decision-making and equitable costing and spread of financial profit and risk are critical here.

- **Bundling**: To obtain economies of scale and reduce transaction costs, a number of municipalities may group together in contracting a private partner. A variation on this approach could be developing packages of service across sectors (e.g. health, education, infrastructure and extension) within a municipality. The key challenges are to coordinate policy and decision-making, overcome differences in organisational culture and ensure the flexibility necessary to accommodate different interests.

- **Unbundling**: Sometimes the full scope of a service – such as water provision – poses risks that are unacceptably high for one private partner. Unbundling entails disaggregation of functions to involve several specialised private and/or community parties in different aspects of the service so as to reduce the risk for any one operator. Unbundling may be based on function (e.g. water treatment, pumping, and water point distribution) or by geographic area (i.e. different providers cover different areas). The major challenges here relate to ensuring comparability and consistency of service levels and unit costs; equity in service provision; and effective monitoring and supervision across the service areas.

- **Communities as clients**: In most local partnerships, municipalities or utilities assume the role of clients. This is not always appropriate, and where municipalities are weak and under-resourced or where community interests are particularly specific, the client role may be delegated to another party. This could be such substantive delegation that the municipality has no contractual relationship with the partnership at all. For example, in the Integrated Sanitation Project in Tamil Nadu in India a Memorandum of Understanding between the municipalities and community groups has enabled the latter to contract fee collectors. In Lima, Peru, community groups were able to contract private water tanker services to operate and maintain the system and collect revenues under a lease form of contract. While this model increases the role of community groups in mobilising contracts
with small-scale providers, critical institutional challenges exist around establishing community group organisation, building community group coherence, improving group management systems, and putting in place community monitoring procedures.

**Contractual arrangements**

The need for clear and precise contracting arrangements in the provision of private infrastructure cannot be overstressed. Different contract types always have to be tailored to suit local conditions and it is here that significant differences are likely to be required between partnership contracts in northern and southern countries. The following generic options exist:

- **Service Contracts**: The most common approach is the service contract characterised by the contracting-out of services to a private provider to an agreed level within defined specifications and for a fixed period of time. These contract forms cover many supply contracts, civil works and technical assistance. Service contracts are mostly for short durations (1-3 years) and the municipal or community client retains clear control. The client retains ownership of all assets and must finance fixed assets and working capital. Contracts should be awarded on a competitive bidding basis and benchmarked against a schedule of costs and prices. The client should set performance criteria and monitor the works/service, and a key matter in negotiation is to specify clear payment milestones. The commercial risk with this contract is that the client may default on payment. To avoid this problem the contracted partners should prioritise to ensure the municipality, utility or community organisation that contracts them is in a position to pay according to an agreed delivery schedule. Service contracts are relatively simple to draw up and administer and are of low risk and do not require complex regulatory mechanisms. The main challenge is to ensure that contract management expertise in the municipality is adequate to take care of key conditions and procedures are sufficiently clear to allow engaging small scale operators and NGOs. This means that service contracts do not only provide a mechanism to improve and streamline service operations and make them more efficient but also help to develop a local competitive market and strengthen local entrepreneurs. As such, service contracts are likely to offer the most common vehicles for partnerships in developing contexts where pro-poor partnerships are needed.

- **Management Contracts** are somewhat more complex than basic service contracts. Again the client retains ownership of the assets and is responsible for capital expenditure, working capital and commercial risk of the collection of service fees. The contract is normally output based. The private party manages the provision of service without committing significant investment capital and without accepting much risk. Contract length will reflect that the operator has sufficient time to implement change and be accountable for results. The time may vary (3-8 years) if the contract includes outputs like introduction of new skills and capacity building. The contracts may also include incentives for performance and penalties for failure. Management contracts are typically used for the management of water and waste water plants, operation of distribution networks, regional water supply management, waste collection, waste treatment and disposal. These contracts also are relatively simple to administer and do not carry the risks of long term investment contracts. The benefits include an incremental shift towards market disciplines and scope for transition to longer-term investment arrangements. However, the lack of responsibility for tariff management means responsibility for cost recovery may still be limited and ill disciplined. The focus of such a contract mostly is on efficiency gains but if they were to be developmental, it would require a concerted focus on behalf of the municipality to ensure the contract targets network extension and incentives to improve infrastructure in poorer areas.

- **Leases and affermage contracts** provide for the client to lease infrastructure and facilities to a private firm that will then have exclusive rights to operate and maintain the system for a fixed period of time. The main distinguishing feature from a management contract is that the private operator bears the commercial risk of non payment of fees and charges. There
is no transfer of ownership and the client remains responsible for capital investment required to upgrade or extend the system. The obligation on the service provider is to replace and repair equipment during operation according to standards specified in the contract and typically pay rent for the rights to operate the service. The provider mostly will generate revenue from the levying of user charges and fees at a rate higher than the rental payments and other costs included in the lease. Since improving service delivery and collection of fees on a sustained and viable basis can take time, these arrangements are usually for a longer time frame (8-15 years). An affermage arrangement is similar to a lease in that the operator bears the costs and risks of operating the system with responsibility for revenue collection. The main strengths of the arrangement is that it forces the client to commit to a cost recovery approach for infrastructure while the responsibility for tariff collection and operator efficiency provides incentives for revenue improvement. Often these arrangements are characterised by the imposition of new mechanisms and systems for user charges such a metering alongside cost reduction measures such as addressing unaccounted-for supply. The weakness is that it does not necessarily lead to a revision of the tariff structure. Also the split between between recurrent revenue responsibility (of the private operator) and the capital investment responsibility of the client can lead to lack of coordination in investment decisions and operating needs. At the same time budgetary constraints divorced from service provision may unduly influence the need for planned investment to maintain efficiency.

- **Franchise arrangements** are based upon granting exclusive rights to provide a type of service within a specific geographical area. Such arrangements are often for waste services. Instead of leasing facilities and infrastructure the operator is given the right to deliver a service in return for a payment and will in turn levy charges for the delivery of the service and/or for generating income from the service through other means, such as selling by-products. The client retains the responsibility for overseeing the bidding, setting performance standards and monitoring. This arrangement has advantages where service users may find it more acceptable to pay fees to a private party that will generally be responsive to demand to ensure users do not opt out of the service. The weakness is that once established these arrangements often reflect a service monopoly so that users have little choice for alternative provision.

- **Concessions** entail the municipality transferring full responsibility for service delivery in a specified area to a concessionaire. This will include all construction, maintenance, collection, and management activities. The concessionaire is responsible for all capital investment to build upgrade or extend the system. The client will generally retain responsibility for establishing and monitoring performance standards, regulation of price and service volumes. This regulatory authority is crucial in public goods that have monopoly characteristics. The main distinguishing feature from a lease is the additional responsibility for financing capital investment. Although the fixed assets are entrusted to the concessionaire for the agreed period (usually over 25 years) they still remain the property of the client. The length of the concession typically reflects the time required to recover costs and generate adequate profits. The private operator is responsible for all capital and recurrent costs over the life of the concession. The tariffs levels are typically set in the agreement that includes provision for revision and adjustment over time. Structuring the tariff and accompanying system is often complicated. Tariffs should be set high enough to allow operators to generate a profit but tariffs still have to fall within politically acceptable limits. The most frequently used devices for this are the price cap and rate of return model. The price cap used commonly in the UK allows for the setting of prices for a number of years. If the operator achieves a higher than expected efficiencies and lower costs any savings can be kept as profit until the next periodic price review. The rate of return model used commonly in the US allows the operator to charge a rate that will generate a given level of profit (usually 6-12%). This arrangement is less common in developing countries. A recent example, however, is that of the Karur Bridge project in Tamil Nadu State in India.

The strength of this model is that it brings private money into public infrastructure for new services and rehabilitation. Combined responsibility for investment and operations provides strong incentives to make efficient investment decisions and to develop
innovative technology and delivery approaches. They can also lead to a reduction in user charges and fees over time. These arrangements are less subject to political interference. However, large scale concessions can be politically controversial and expensive. Often they are seen as remote from users and employees. Although they specify performance targets, price adjustment mechanisms and service standards, this requires effective government regulation and oversight. Given the long time frame of the arrangement it is difficult to estimate the investment required. Certain techniques such as allowing bidders to offer a total investment package based upon a specified service fee without detailing how this will be allocated is one mechanism to try and overcome this problem or including contract terms that set frameworks for agreeing revisions to capital investment and tariffs at specified intervals.

- **Build Operate and Transfer (BOT)** contracts are designed to bring private capital into the construction of new plant or equipment. Typically the private party finances, builds and operates the infrastructure for a fixed period to specified performance standards. The period is set to recover capital investment and generate a profit from operation (typically 10-20 years). In return for the capital investment on the part of the private party, the government will agree to purchase a minimum level of output over time regardless of actual demand fluctuations. What distinguishes BOTs from Concessions is that under a BOT the public sector client bears the commercial risk as a way of helping the private operator to recover costs. This in turn requires sound and quite complex financing packages and accurate up-front cost predictions. Frequently these include direct contributions from the private project developer as well as from third parties such as commercial banks. BOTs work best with new facilities requiring substantial financing. Most contracts are for bulk supply and generation plants and they usually cover just one facility, although not always. The strengths of BOTs is that they provide finance for substantial capital investment in construction or renovation, reduce market and credit risks for private investors, can provide a platform to improve local capacity by exposing employees to private sector practices, and incentives for efficiency based around competitive bidding. However, since BOTs are normally restricted to single plants there are limits on the achievement of system wide improvements and efficiencies. The duration and complexity of the arrangement makes design difficult and can undermine positive impacts of initial competition especially when they have to be renegotiated in the absence of any further competition.

**Governance of partnerships**

It useful to distinguish “responsibility” and “execution” in relation to outcomes and activities related to the provision of services. Similarly, legal ownership of assets must not be equated with the “sense of ownership” needed to make partnerships effective and successful.

Partnerships do not absolve the municipality from its public responsibility but merely shift the municipality’s focus from managing the inputs of service provision to managing outcomes. The municipality needs to remain vigilant to carefully crafting principles and practices that create a supportive and credible environment, involving the right stakeholders in the right roles, ensuring partnership arrangements are procured in an open and competitive manner and blending social and institutional dimensions of poverty reduction with the economic and financial gains of private sector involvement. At the core of this are:

- **Inclusiveness:** It is crucial to appreciate that partnerships are not only about the formal contracting parties, which often are the municipality and the service provider. Many stakeholders are involved, and they need to be consulted. The governance of a partnership must create the conditions for utilising different skills, experience and capacities, and accommodating different interests. This is true of all partnerships, but even more so when the aim is getting services to the poor. In these cases, public institutions and private operators often lack knowledge and experience to engage with poor people, to analyse and understand their needs, and to apply the necessary flexibility to deal with those needs. Evidence suggests that well-established NGOs and local small-scale providers are able to contribute skills and experience particularly prevalent to the needs of
the poor. NGOs may play an advocacy role promoting the needs of marginalised groups or provide capacity building to the private sector or municipality in issues about service delivery in poor areas. Inclusive partnerships would seek to build on this potential.

Whereas some consultative processes are developed purely for the purpose of partnership formulation, many municipalities will have established vehicles for involving civil society and the private sector in decision-making. Organisational structures may be an important part of this process: for instance, neighbourhood committees and ward committees in Indian and South African cities are established as legal forums for participatory decision-making. It is important that participatory processes concerning service partnerships build on such structures.

- **Addressing the needs of the poor:** This entails introducing a demand led rather than supply driven approach that would incorporate participatory processes that would encourage community groups to identify their needs and clarify objectives. A central feature of such an approach is to conceptualise and operationalise an approach that acknowledges that the poor are not a homogeneous group and reflects a range of needs and interests amongst different groups such as women, elderly, vulnerable groups etc. This approach recognises that demand is not for services per se but a complex mix of affordable services and delivery options that incorporate choice and flexibility. Different groups of the urban poor with different livelihood requirements and constraints will tend to demand different levels of service that reflect differential capacity and willingness to pay. This involves an understanding of the problems and constraints faced by different groups and the impact these have on the demand for services and payment regimes.

- **Political leadership:** The formulation and sustainability of partnerships will depend on the commitment and mobilisation of councillors and political leaders. Immature political leadership will slow down municipal reform and capacity building. Whereas partnerships can promote capacity building in some areas (e.g. to induct new councillors in partnerships) the development of capable leaders in newly democratised contexts takes time. Partnerships are put at risk when non-public sector actors fail to understand the complexity and susceptibility of new councils.

- **Clear decision-making frameworks:** Partnerships stand or fall by the clarity of roles and responsibilities, as well as of timeframes and processes. In more complex partnership arrangements the framework will need to be formalised and made inclusive to ensure weaker partners have a reasonable stake in decision-making. In less complex arrangements decision-making can be through more informal arrangements. Either way, however, the partners need to understand their roles and relationships and be held accountable for those roles. How this is done is normally defined in contract negotiations, but contracts are negotiated within a regulatory context and it is important that the policy and constitutional environment provides underlying stability and respect for due process. Regulation sets the platform for setting tariffs and standards, defining obligations in principle, and allowing for adjustments over time.

- **Balancing stakeholder and partner interests:** Partnerships bring together various interests and the incentives put in place to accommodate these interests are fundamental to successful regulation and implementation:
  - Although it might involve contracting-in outside capacity to run a service, the local government or central state’s interest remains the public good. Its tools for protecting the public good are in the main broad policy, service-related regulation, as well as the contracting process itself.
  - It is important to understand that the private sector is not an homogenous entity. Private providers mainly have two common interests namely the generation of profits, and a predictable operating environment. Private operators are reluctant to engage in arrangements when contracts are not respected or where governments retain the right to influence contract enforcement by discretionary regulatory interventions. However, the private sector is also diverse: at one end is the large scale multi-national company and at the other is the rag picker or water vendor earning an income by providing a service. The informal sector and small-scale providers are often the providers to the
poor, and their role and the potential often is overlooked in the rush to achieve delivery.
- The public in turn, has needs and expectations and want assurance that whatever service arrangement applies would bring them the required services at adequate quality and affordable price levels.

- **Transparency:** Private operators want to know that the procurement process is fair and competitive. It also provides comfort to government and end users if service providers know that they are in competition with others, and that the quality of service they provide would affect their ability to attract more business.

- **Professionalism:** Sound local management also means a municipality must address those areas in which it lacks acceptable levels of professionalism. These activities will vary from overall improvements in the technical and managerial capacity of staffing to the formulation of procedures that promote accountability and transparency and the introduction of information technologies to assist in administrative functions. The process of establishing a service partnership is in itself characteristic of a more professional organisation and a willingness to accept change, challenge the status quo and promote better ways of fulfilling municipal obligations. Important aspects of this include the development of an enabling environment and effective financial management. To this end, reforms and attitudinal change are necessary. To name a few issues: engineers need to understand delivery solutions are not purely technical; politicians must recognise the importance of technical skills in implementing political positions; newly-elected politicians must accept that winning a seat does not give them carte blanche in decision-making; communities need to come to an understanding of the limits and possibilities of different options. In such change lies the root of the collaborative spirit fundamental to partnerships.

### Capacity challenges facing local government in LGSPs

The most obvious requirements for capacity building are concerned with the development of a mix of technical knowledge and skills on how to negotiate agreed goals, milestones and standards as well as how to undertake the necessary analysis to manage risks, optimise value for money, and ensure the partnership achieves its social goals. However, genuinely developmental partnerships, especially those focused on the poor, also require wider capacity enhancement in the community. Many of the political obstacles to partnerships could be managed if people are informed about problems, challenges and options.

It is necessary to discuss capacity-building needs in relation to the different potential participants and beneficiaries in a partnership:

- **Municipalities** are cast into an even more challenging role than when they were providers. Capacity building for this challenge would typically focus on skills, organisational development, policy reform and legislative enablement in:
  - **Planning and management** of partnership preparation, negotiation and monitoring for integrated service delivery
  - **Legal knowledge** required to negotiate and finalise a contract to its optimum benefit. Formal private sector partners, in contrast, often have negotiated such contracts elsewhere or able to buy in legal advice. Mostly, and especially in developing countries, local governments find obtaining legal capacity a costly challenge. Options need to be explored for providing such services from a facilitating point (eg national or provincial government, local government associations etc). It may be useful to develop model contracts for municipalities that have had limited exposure to such processes. There are limits to this, as every partnership contract has its own requirements, but there is a benefit for local governments – who do not enter such process everyday – to have access to examples of best practice.
  - **Post contract management capacity** is often neglected because the need for it becomes evident only after the partnership has come into implementation. As a result, monitoring of the contract once the project has become operational is often weak.
Apart from not ensuring technical quality is maintained, this could mean pro-poor and environmental sustainability objectives are not met. It is important therefore that local officials supervise contractor activities, negotiate necessary contract amendments and resolve disputes. It requires a particular skill to identify weaknesses in contract implementation, especially those beyond the easy quantification that characterises many normal contract performance targets.

- **Organisational development** is needed, because municipal departments are rarely geared or structured for the new roles required in partnership negotiation, implementation and monitoring. An appropriate organisational structure that incorporates the required policy, strategy and technical application capacities may have to be created.

- **Community relations and pro-poor capacities** are important to ensure municipalities know how to engage marginalised and poor stakeholders and to address their needs and concerns and dealing with process and technical aspects of projects and facilities affected by the partnership.

- **Policy and programme convergence** to ensure that private operators are able to work with the poor and assist in the convergence of goals and objectives such as improved land tenure, economic development and sector policies relevant to municipal services.

### Private sector capacity needs

- **Private sector capacity needs** are spread across different types of potential private partners. Private partners can bring essential technical and managerial skills to municipal services. The PPP represents a quest for capital and skills injection that can increase service efficiency and value for money with key risks being transferred to the private operator. However, in developing countries, there is a greater imperative to ensure private partners are properly attuned to the development processes that facilitate service delivery in poor environments. This requires skills to work with the poor and an understanding of the nature of demand and supply of services in a low-income market context. These skills are not always present and experience suggests that this should be one of the focal areas of capacity building. There are several dimensions to this:

  - **Developing in-house skills** so that private partners are better equipped to meet this challenge and creating conditions that facilitate working relations and contracting in of specialists that could help to develop this capacity. This could be NGOs, specialist sub-consultants or community-based organisations. Either way, this is not common in a conventional PPP arrangement and is therefore an important capacity building need that will enable an operator to understand the nature of their client.

  - **Capacity to engage small-scale providers** requires that formal private operators develop a better understanding of the range and characteristics of such providers including their knowledge and skills in working with poorer communities through a variety of participatory techniques.

  - **Developing the provider market** is in itself one of the fundamental capacity challenges in developing countries. An underdeveloped market raises the spectre of inadequate competition with negative effects on prices and quality. Typical barriers to entry include legal monopolies, exclusive rights, zoning restrictions, technical standards, import tariffs and taxes. It is important also to check if regulatory frameworks exclude those working with the poor and whether in effect it promotes a monopoly. In developing countries, the functions open to contracting are typically associated with small scale community level service provision and large contractors may neither be interested or appropriate. A vibrant small-medium enterprises (SME) sector would therefore create more scope for partnerships. One capacity that could empower SMEs considerably is the ability to engage in contracts and consortiums either with other SMEs or with larger companies.

### The NGO sector

- **The NGO sector** needs to recognise its changing role in service delivery to better understand and appreciate the role of the private sector and the opportunities for wider service improvements that private sector involvement might create. NGOs need to develop better co-ordination skills and more structured ways of working to provide more reliable and predictable outputs. Most successful infrastructure and service schemes are localised and community structures prove necessary as a means of linking key interests at local level to wider local government systems. In this context, NGOs and CBOs need the
capacity to share their knowledge of the poor more effectively and to act as a communication and information channel on the needs of the poor.

- **National governments** need support to create and sustain appropriate, effective and enforceable regulatory systems and to provide the levels of capacity assistance often needed at local level. The main capacity challenges here are concerned with:
  - **Ensuring that regulators are independent** from private sector influence or political interference. Policy formulation should be handled by an agency different from the regulator. Where the roles are mixed experience shows that the conflicting roles undermine the legitimacy of the arrangements.
  - **Engaging in price issues** in ways that protect consumer interests yet that do not undermine business viability through excessive intervention.
  - **Provision of additional functional capacity** to help to develop user-friendly guidelines for implementing partnerships, training and capacity enhancement activities and the formation of institutional structures that could provide on-going technical capacity.
  - **Institutionalising specific structures and processes** to enable PPPs to focus on the poor by creating policy frameworks that enable municipalities to act decisively on pro-poor issues and service challenges and to remove obstacles such as land constraints, and to create linkages between policy and implementation.

**Key questions to develop a useful framework for LGSPs**

In the end it is political will that delivers services to the poor. However, while national policy frameworks and institutions are pivotal to create enabling environments for service delivery partnerships, an international initiative through organisations such as the CLGF, donors and other global institutions could facilitate less on learning and development of best practice. Research, capacity building and information sharing may contribute to the development of real or virtual international think tanks to provide policy critique of LGSPs, for example, around whether they are pro-poor. Possible areas to include are:

- **Focusing partnerships on municipal objectives:** Partnerships constitute only one service delivery option and the challenge is to empower municipal policy-makers, officials and other stakeholders to weigh this against other alternatives for reaching their goals. For this reason, a sound partnership framework would encourage municipalities to think through the need for and composition of a partnership in relation to municipal objectives.

  Doing this effectively is intricately related to the nature and quality of municipal planning. Too often the elements of planning are isolated from each other so that budgets are drawn up without systematically considering spatial, economic, social and other needs and realities in the particular locality. In contrast, when municipalities conduct integrated planning, involving all key stakeholders in the community, they create a platform for proper analysis and objective setting. This facilitates partnership arrangements that cut across policy, strategic and operational issues – from technical issues such as service coverage, options and performance standards to social aspects such as community participation, equity, affordability, choice, payment mechanisms, gender participation and integrated responses. Integrated planning also encourages decision-makers to confront political aspects such as worker re-employment and the impacts on informal services providers; financial and economic aspects such as risk management, financial incentives and cost recovery; and institutional aspects that build sustainable capacity.

- **Meeting governance and management goals:** Partnerships are not isolated ‘projects’ but form part of broader local governance and management. For this reason, they have to be linked to democratic processes, stakeholder participation, financial sustainability and cost recovery, corporatisation, human resource development, accountability and transparency. It also makes sense to locate partnership policies and practices within the context of reforms dealing with these aspects of local governance. This is important because while service delivery through a partnership changes the mode of delivering services, it does not change a municipality’s accountability for ensuring the services are delivered. The
municipality is not absolved from its public responsibility and it needs to remain vigilant by ensuring that: partnership arrangements are procured in an open and competitive manner; that risk is allocated to the party best able to bear and manage it; a proposed partnership represents value for money in that it introduces a more cost-effective method of performing a departmental function than existing departmental methods.

- Involving different partners: Service delivery partnerships sometimes involve only public and private partners and treat communities as customers or ‘end-users’. This generally means the partnership is bilateral, comprising the municipality and a large-scale private operator able to bring skills and perhaps investment to the service. Yet, if partnerships are to develop an effective focus on the poor, community-based organisations (CBOs) and NGOs are both important players in the partnership arrangement. It may be necessary therefore to develop mechanisms to formalise and recognise their role. NGOs are often important entry points to poor communities and they provide key skills in capacity building, hygiene promotion and awareness building and can act as effective mediators between operators and consumers. Other stakeholders are the existing providers of local services (such as rag-pickers and water-sellers) who may be severed from their incomes by formal changes to delivery mechanisms and who also offer the capacity to fill gaps for the poor.

- Organisational imperatives: The scope, content and the relationships between partners need to be structured into appropriate organisational and contractual arrangements. An applicable framework would reflect the range of contract options – from service and management contracts to lease, franchise, concession and build-operate-transfer forms of contract as well as the organisational relationships with small-scale providers and NGOs.

- Performance measures: Mechanisms for defining and measuring objectives of different partners need to be established in order to ensure that primary and secondary stakeholders can accurately assess the success of the partnership initiative.

- Regulating standards: To ensure that services meet required standards, the contract negotiations should be very detailed. However, national policy frameworks could greatly facilitate successful contracting as they could specify in principle what levels of service government regards as acceptable. Ultimately these matters must be resolved with other stakeholders, notably end users, but with a clear framework in place, such negotiations become easier. Clear regulations tell private partners up front what is expected of them, allowing them to take those required standards into account when they cost their services at the outset. They mostly do not object to such standards; provided that the specifications are clear and enhance certainty.

- Mainstreaming private provision: Partnerships are not the only options available to municipalities but if they are to become effectively entrenched, they need to be an equal option. This means, first, political commitment. Governments do not have to be ideological about service delivery partnerships but also should not shy away from them. Too often are they reluctantly considered and the pressures of critics easily mean they become an option of last resort, rather than being explored for the very real potential they have to enhance efficiency, extend services and address backlogs. Second, those parts of larger organisations involved in the delivery of private infrastructure need institutional mechanisms to ensure they continue as core parts of the operations of private or public partners. A partnership mode of operating is needed, cutting through to core business objectives, activities and systems in the municipality and in the partnering organisations.

- Partnerships and poverty reduction: The poor are not a single homogeneous group and operators and governments need to ensure that they are simply responding to demands articulated by the elite members of poor communities. Instead, robust poverty analysis would facilitate the task of formulating and targeting service packages to the needs of different groups. It may be useful to identify those features that might undermine the objective of developing pro-poor partnerships. Care should be taken to ensure that partnerships do not
  - Undermine jobs and livelihoods (e.g. through over-regulation of the informal sector);
  - Increase insecurity or remove choice over basic services;
- Undermine coping strategies (e.g. by removing the possibility of reducing household expenditure by fixing a regular and inflexible payment schedule);
- Undermine supporting networks and communities (e.g. by disrupting the roles of local support organisations).

- **Capacity building:** Central to an inclusive, integrated and strategic partnership approach is the development of capacity to initiate and implement it. This requires capacity building on a number of fronts: in the municipal council and administration, among potential partners – big and small, and within communities. The Commonwealth covers a range of experiences and a framework at this international level could help establish networks, forums and a holistic view of the challenge of partnerships to set benchmarks of best practice and facilitate learning and capacity enhancement.

**International organisations and an environment for local partnerships**

Partnerships are a means to an end rather than an end in themselves. Partnerships have to provide perceived benefits and incentives both for partners and service users. Issues of equality and equity become relevant in this context. Equality is necessary between the contracting parties, in that they are duly treated on par and without being disempowered by the contract. Equity is at stake from a service provision point of view, as it it important to provide services fairly across the the range of users, at levels each can afford. Many partnerships find this balance difficult to achieve.

Above all, it must be emphasised that partnerships ultimately need to be contextualised. They need to fit within their particular national contexts and within the specific conditions of the municipality and community concerned. In this context, public policies and supportive institutions that can work with municipalities to help identify partnership opportunities and address technical challenges, are important bases for exploring and strengthening the partnership approach.

However, the partnership concept is now being explored worldwide and it is significant that initiatives such as the Water Utilities Partnerships (WUP), Water and Sanitation Programme (WSP) in South Asia, the Public-Private Initiative Advisory Facility (PPIAF) and the Public-Private Partnerships for the Urban Environment (PPUE) have all been concerned to understand the impact and experience of such initiatives. The main issue is to keep the debate informed and rational supported by substantive evidence and not clouded by ideology and rhetoric. Information about advantages and disadvantages of partnerships should as far as possible be made available to the public in a clear and accessible form. Unnecessary mystification of partnerships should be deliberately avoided. This not only helps clarify perceptions and misperceptions and addresses technical and policy issues as highlighted in this paper.

The Commonwealth’s 54 countries provide a diverse mix of experience and bring together decision-makers and practitioners across the widest possible range of contexts: from the wealthy and empowered to the poorer and institutionally. While the partnership approach has made a significant contribution in wealthier local government environments experience has shown this to be more limited in the more constraining developing country environments. The basic premise of the PPP is that the private operator brings skills, knowledge and technology that can lead to greater efficiency and effectiveness. This has worked well where the emphasis has been on fine-tuning existing systems and processes in contexts where there is users can afford to pay within a service retailing culture and where new technologies can have a marked impact on the environment. However, in poor environments private operators have not always brought with them an ability to work with the poor and the needs and interests of poor people have not always been considered.

Some specific actions CLGF might encourage over the next five years

- Collection and collation of reliable settlement-wide data on poverty and services.
- Performance data on utilities both public and private.
• Decision-making guidance on the involvement of the private sector for investment and management or both.
• Decision-making guidance on regulatory regimes and mechanisms.
• Creating an independent think tank to provide a critique on LGSP issues.
• Specific studies on multi-service, regional and cross boundary partnerships

With so many developing country members the Commonwealth provides a platform for sharing lessons on local government service partnerships (LGSPs) between local government, the private sector and CSOs. Apart from discussions about broad policy issues, the chance exists to expose member countries to each other and to test and debate and explore experiences at the local level. There are a variety of organisations that could partner with CLGF such as the Commonwealth Private Sector Investment Initiative and the Commonwealth Business Council, as well as the Commonwealth Foundation’s Citizens and Governance Programme to bring together municipalities and other stakeholders to share experiences and form partnerships. Here it would be important to link with initiatives such as PPIAF and PPPUE, so as to identify, disseminate and promote innovative practices. Considering the complexities and nuances, and especially the need for an emphasis on pro-poor partnerships, the diversity of the Commonwealth provides an appropriate forum to get the partnership debate worldwide onto a new level of understanding and sensitivity that would benefit, in particular, municipalities, governments and other stakeholders in poor environments.