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Additional Information:

- This article was published in the newsletter of the Institute of Public Private Partnerships (IP3 Publications). The website is at: http://www.ip3.org/

Metadata Record: https://dspace.lboro.ac.uk/2134/9508

Version: Accepted for publication

Publisher: Institute of Public Private Partnerships

Please cite the published version.
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Making Public-Private Partnerships Work Harder for the Poor

by
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"The numbers of "infrastructure poor" people are vast in every region of the developing world. Some 1.2 billion currently lack access to safe, potable water, making them vulnerable to water-borne illness. Inadequate sanitation for 2.4 billion people means they are having to live in degraded environments where disease can easily spread. An estimated 2.5 billion remain without access to modern energy supplies, often meaning no light for studying or learning and only dirty fuel to burn for heating and cooking (leading to respiratory illness). And, for the 900 million rural dwellers in developing countries who live without reliable all-season roads, access to markets, jobs and clinics is limited." - The World Bank (February 19, 2002)
Introduction

The year 2002 brought the world spotlight to the issue of poverty reduction and the impact of public-private partnerships on the poor. Civil society representatives from around the world mobilized to discuss the impact and value of PPPs, challenge globalization, and demand debt relief for impoverished nations. Following adoption by the United Nations General Assembly of the Millennium Development Goals, governments moved to allocate funds for poverty relief efforts, and donors developed lending and assistance programs specifically designed to ensure that public-private partnerships are "pro-poor."

The increased emphasis on pro-poor reforms and PPP programs has far-reaching implications. Whereas traditionally PPP transactions have been designed to balance the objectives of government with attractiveness to investors, the introduction of a third consideration - the social dimension of poverty reduction - is challenging governments to develop arrangements and structure deals that satisfy all stakeholders.

The two key questions this new trend raises are how can the needs of the poor be prioritized in strategies encouraging public-private partnerships and what conditions are essential to ensure the provision of infrastructure and public services to poor people?

The contractual framework forms the basis of PPP arrangements and thus is the key ingredient in determining whether the poor will benefit. However, poor and vulnerable groups have little influence in the structuring, awarding, or monitoring of these contracts. Because poor consumers' "culture of consumption" is often very different from that of more affluent consumers, it is critical that governments and their advisors create channels of communication with poor stakeholders in order to better understand their needs.

Going Forward

The UK-based Water, Engineering and Development Centre (WEDC) of Loughborough University has undertaken research on the needs of the poor as they relate to public-private partnerships and the ways that PPP arrangements can be made more "pro-poor." This research has revealed several important findings that all stakeholders must take under consideration as programs and projects are being designed for implementation in 2003. These include:

- It is difficult to practically define "poor," and reliable socio-economic data relating to the poor is generally non-existent.
- Both public sector utilities and private sector companies have very little experience dealing with service delivery to low-income areas. Equally, consumers and civil society groups have much to learn about private companies. Thus, the challenge lies in facilitating effective relationships between a diverse range of players who have little, if any, experience of one another.
Cash flow is critical for poor consumers. As a result, changes in tariffs and methods of payment can have a major impact on ability to pay. Tariff structures must be planned carefully in order to identify and address those impacts that might undermine the security of low-income households.

PPPs offer huge scope for technological innovation, including locally applied engineering standards, and differentiated levels of service according to need. Private sector resources and know-how must be more effectively leveraged to exploit technological innovations as a means of achieving improved service delivery objectives.

Communication is a vital component of PPPs, particularly concerning legal rights. Civil society organizations can play an important role here in helping to develop an information base about the requirements and priorities of the poor prior to the start of the contract development process.

Disconnection can be very punitive for poor households, which may not be able to afford reconnection and therefore are left without services.

Operational performance with respect to poor consumers reflects the focus of contract preparation - usually the municipality's financial concerns rather than the poor. Approaches where contractual concepts are translated into agreed roles and responsibilities down to the household level have been successful.

To ensure that PPP arrangements are beneficial to poor consumers, all aspects of the contractual framework must be worked out in detail prior to signing, and contracts must be based on accurate information about the needs of the poor. Similarly, greater flexibility within the contract is essential so that parties to the contract can quickly and effectively respond to the needs and demands of the poor as the contract evolves.

The contractual framework must be complimented by a regulatory regime that is transparent, equitable, and yet flexible enough to allow for innovative solutions to serving poor consumers. The challenge of regulating complex PPP arrangements can be a difficult one however, and therefore it is vital to ensure that regulators have the capacity to monitor and regulate contracts. This is particularly challenging in smaller cities and municipalities.

Traditional PPP arrangements such as concessions and leases combined with mechanisms for the inclusion of informal organizational relationships with civil society groups in the PPP framework provide the best opportunity for the public sector to benefit from private sector resources in a manner that is most advantageous to the poor. As more and more PPP arrangements that are designed in a manner to address the needs of the poor are awarded, the results in terms of operational performance and service to poor consumers will yield important lessons. Looking ahead to 2003, it will be critical for all practitioners within the PPP field to be informed of the needs of the poor and to address these needs during the process of transaction design. In addition, private investors who plan on bidding on PPP contracts must demonstrate an appreciation for this issue and be prepared to respond with creative solutions in their bids. Only in this manner will PPPs yield results that are meaningful for poor and affluent consumers alike.
Useful Link

For more information on WEDC's programs, please visit their website at:
http://www.lboro.ac.uk/wedc/