



PRACTITIONER NOTE SERIES:

Benefits to Business of Tri-Sector Partnerships

PUBLIC, PRIVATE & CIVIL SOCIETY PARTNERSHIPS PROVIDING WATER AND SANITATION TO THE POOR

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Local level partnerships may help you:

- *To work in poor neighbourhoods*
- *To clarify expectations around private sector participation*
- *To explore innovative service options*
- *To better manage cost-recovery when serving poor communities*

This note briefly surveys the benefits to business of working in partnership to serve poor customers. It suggests why private companies should be concerned with serving the poor and introduces the concept of tri-sector partnerships (TSPs). Reasons why private sector actors (whether large or small, international or local) should be interested in partnering with civil society and the public sector are discussed. Equally, circumstances where TSPs may not be the best option are suggested, as are other useful sources of information.

Why serve the poor?

1.3 billion people currently lack access to basic water supply.¹ In many developing cities over half of the population are below the poverty line and lack access to water and sanitation services. Coverage in rural areas is typically even lower. This has wide-ranging impacts: both the health of the poor and non-poor is adversely affected, whilst education and economic activity also suffer. The challenge of bringing services to the urban and rural poor is therefore an important one, and one in which the private sector can play a valuable role.

This role is not simply an altruistic one, filling the gap left by inadequate public services out of some wider social obligation. Beyond corporate social responsibility, the private sector has other incentives - economic, social and political - that lead it to help serve the poor.

Proven experience in serving the poor is becoming a strategic advantage in bidding for new work

World-wide, local politicians face growing pressure to respond to the needs of the poor; both from their own populations, where civil society is becoming ever more vocal in this respect, and from donors and other external actors. As both the World Bank and developing country governments make serving the poor ever more central to their activities, international (or local) private operators who wish to win new private sector participation (PSP) contracts will need to show an interest in and ability to rise to the challenge.¹

Political and social pressure to include the needs of the poor is only going to grow

The uprising in Cochabamba that forced the cancellation of one major contract is a clear example where these political and social pressures became unmanageable.² Making

¹ Similarly clients are increasingly interested in whether firms have specific experience of working in *partnership* to serve poor consumers.

² When the price of water increased after privatisation of supplies last year, massive protests shook the Bolivian city of Cochabamba (the company, Aguas del Tunari, was trying to increase revenues to pay for a £240m government-imposed investment programme). Following months of rioting and six dead, Aguas del Tunari were forced out and service problems remain unsolved. For more details see the Guardian, 26/9/01 or Nickson in ID21 Insights #37.

Ondeo in the BoTT project, South Africa

One example of where national government made partnership a mandatory requirement for bidding for PSP work comes from South Africa. In 1997 the Department for Water Affairs and Forestry chose a cross-sector approach to rollout new infrastructure in four provinces. A public-private partnership scheme known as BoTT (Build, operate, Train and Transfer) was developed. Funding came from the public sector, whilst project implementation work was undertaken by private sector partners. Bid proposals from consortia that included business and NGOs were actively encouraged. Following the suggestion of the government, two of the winning private consortia brought in Mvula Trust, a national NGO with valued community-based experience in the sector.

Vivendi in KwaZulu-Natal, South Africa

Unlike other BPD focus projects, the KwaZulu-Natal Project is unique in that Vivendi does not have a contract with a municipality for the provision of services. Vivendi’s participation stems from a desire to find alternative solutions to meet the water and sanitation needs of the urban poor. The company see the project as a learning experiment, a potential model for replicability and an opportunity to demonstrate their willingness to explore new ways of working. This experience will surely prove useful as private water contractors are increasingly asked to ensure universal coverage.

future PSP processes more transparent and pro-poor should help to defuse these tensions, as would better explanation of the benefits that PSP can bring to *all* consumers. Such steps would help to provide the political and social license needed in order to reap the benefits that PSP can offer. It is therefore in private companies’ long-term interests to serve poor communities, and to find ways of doing so both affordably and sustainably.

The poor do and can pay for water services

Poor non-connected customers can presently pay more than twenty times as much for water as those already connected.ⁱⁱ Studies have shown that the poor are neither unwilling nor unable to pay, and there are many cases where poor consumers form a valued, reliable and profitable part of an operator’s customer base.

Even where tariff levels are such that serving these customers is currently unprofitable, ignoring their needs is not the answer. Over

the medium-to-long term serving poor neighbourhoods can contribute to profits. In the short-term attending to their needs can yield even economic benefits by reducing vandalism and unaccounted for water losses.

For all the above reasons and more private operators will be increasingly called upon to work in poor neighbourhoods. In many circumstances they will need and seek help in doing so, as often such operators lack the skills, understanding and the mandate to work with poor communities. This is where tri-sector partnerships (TSPs) can help: government provides the institutional and political mandate that companies lack; civil society helps to fill gaps in understanding, has local contacts and provides the missing ‘soft skills’ and ‘social license to operate’.

What is Tri-Sector Partnership?

Tri-sector partnerships bring together the skills and resources of diverse partners (across the public, private and civil society sectors) in joint activities to provide water and sanitation services to the poor. The BPD has found that across eight focus projects (where it studies TSPs in action) the range of actors and manner in which they work together varies widely.ⁱⁱⁱ

Partnerships are very context-driven and hence no one model exists for how TSP should be structured.

In leveraging their own resources however, all actors are able to achieve more than by working on their own.

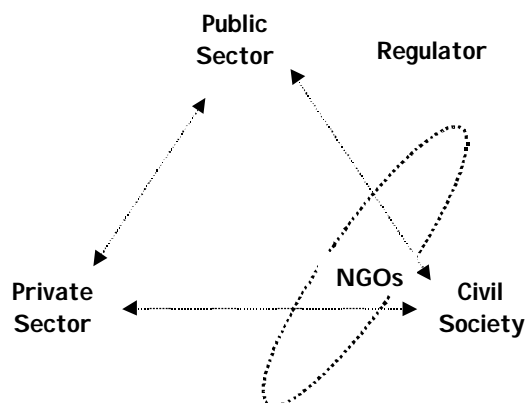
“This is both good business and good for the community.”

James Wolfensohn, World Bank, at the launch of the BPD

“The complexities and the sensitivities of the water sector make it appropriate for the type of partnership proposed by the BPD program. More than any other perhaps, it poses a question of the balance between economic and social, therefore, political considerations in service delivery. It raises the issues of the changing role of the state, of a framework to integrate the effectiveness of the private sector and of the need to involve civil society.”

Thierry de Beauce, Senior Executive VP, International Affairs, Vivendi Environnement

Tri-Sector Partnership



Aguas de Barcelona in Cartagena, Colombia

Aguas de Cartagena (or Acuacar: a joint venture between the municipality of Cartagena and Aguas de Barcelona-AgBar) works in the poor quarter of El Pozón for three principal reasons:

1. the company perceives a very clear mandate to meet the needs of the poor (given municipal commitments made to the community and pro-poor language in the concession contract);
2. Acuacar's strong internal appreciation for the links between core business and serving the poor (with staff hired specifically for their skills in working with and advocating on behalf of poor communities); and
3. a strategic response from AgBar to an increased public sector and donor (and hence regulatory and contractual) focus on the poor in private sector initiatives.

While Acuacar does not expect that working in El Pozón will be a moneymaking venture, it does allow them to sell off water recovered through efficiency gains, maintain system pressure and further reduce unaccounted for water.

Thames Water in Jakarta, Indonesia

The company has been using their Marunda project as a pilot within their concession, the lessons from which will assist in designing expansion plans for other poor areas in Eastern Jakarta. However Thames' commitment to partnership and serving the poor goes beyond their local concerns. They see the personal and professional development issues as important and feel that organisational values should match individual values (and thus boost staff motivation). Furthermore, being involved in partnership projects and fora like the BPD allows Thames to engage proactively in a constructive and open dialogue about PSP and policy making, where the agenda is co-operatively negotiated and not dictated solely by donors, firms or NGOs.

In the **Buenos Aires BPD focus project**, a tripartite project management committee (with representatives of the private utility, Aguas Argentinas, an NGO and community) was created to solve billing problems quickly and to avoid misunderstandings between the utility and the community. The customers, reassured and supported by the NGO presence, are able to bring concerns directly to the company at meetings of this committee.

In the **Senegal BPD focus project**, the private operator Senegalaise des Eaux bills a water committee directly for standpost usage – the committee itself has the responsibility for on-selling this water to consumers. Collection rates are near a hundred percent and the company saves heavily on administration costs.

Partners can rely on their core competencies and have other actors fill in gaps in their skills, abilities or mandates.

Diversity is the key here and there is no one model for interaction – choice of actors and modes of working depend very much on the context faced and should build upon existing assets. Partnerships should go deeper than mere contractual relationships: an emphasis on shared decision-making and resource allocation typifies this, as does the stress on formalised governance structures. These underpin the legitimacy, accountability, effectiveness and equity of the partnership. <See adjoining boxes for examples of why and how some private partners are working in poor areas>.

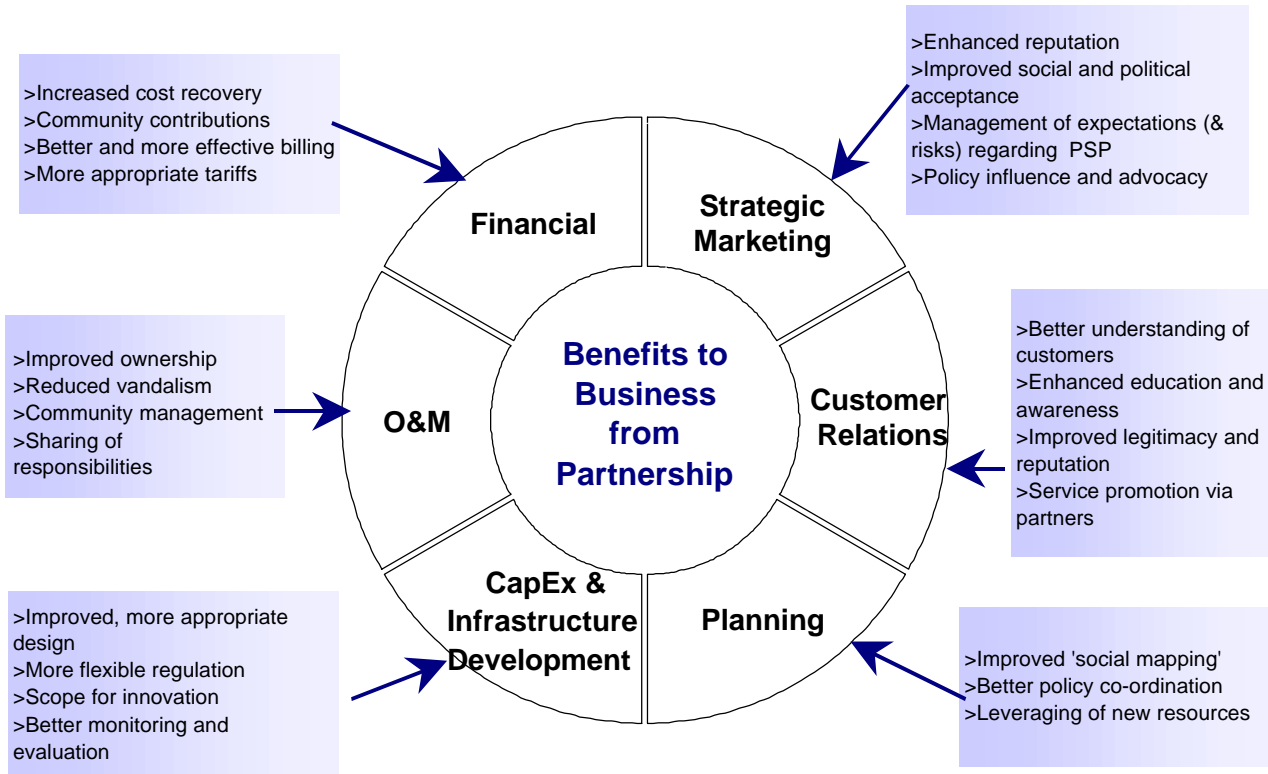
What Tri-Sector Partnership offers Business

Serving the poor is a challenging undertaking - technically, socially and politically complex. Doing so effectively may require skills and resources that lie outside the typical scope of private firms. While working in partnership is not the only option to address this situation,³ in given circumstances, partnerships can provide an attractive means to meet such challenges. So what are the benefits to business of tri-sector partnerships that work with poor communities?

Using partnerships to reach poor customers can: bring a range of financial benefits to business

The poor often pay more for their water, and typically form a large percentage of the urban population (and thus a significant customer base). However, initial investments to bring service to poor, hard-to-reach communities can be considerable and recovering these costs is not always easy. Partnerships can play an important role in boosting cost recovery.^{iv} NGOs, for example, can help in several ways. By improving a firm's understanding of its poor customers, billing mechanisms can be better designed and targeted to their needs, improving bill

³ The company may choose not to work in poor areas, although this is often an unsatisfactory option. It may try to bring the required skills & resources in-house, though this may prove expensive or impossible (or both) & goes against current 'core business' trends. Or it may try to 'sub-contract' such work to another actor, though this involves its own costs and risks, and may provide fewer benefits than true partnership.



collection rates and expanding the customer base. Community based organisations (CBOs) may provide a focus for bill collection – the company bills the CBO directly, which in turn collects money from the poor households that it works with (something which may be impossible for a private company to achieve). This is the case in the Senegal focus project and elsewhere.

Public and civil society sectors can lend their credibility and resources to education and awareness (E&A) campaigns, which improve understanding of the service and consequently willingness to pay. Operations and maintenance (O&M) may also benefit through reduced vandalism and unauthorised connections, as seen in Buenos Aires, Cartagena and other projects.

Reduce both capital and operational expenditure and allow burden sharing

Innovative approaches (such as the condominium system in La Paz, or three-tiered water tank system in Durban^v) can help reduce both the capital and O&M costs of new infrastructure to serve poor customers (partly by transferring some O&M activities to other actors). E&A plays an important role here, improving the information available to both provider and customers, and enabling improved design of systems.^v Where communities are expected to help install and operate new infrastructure (such as community standposts or condominium

systems), such E&A is vital. NGOs and other civil society organisations have a lot to offer in this regard, using their contacts with the community, mobilisation and outreach skills to assist the private company. Innovation may require amendments to existing rules and regulations – being involved in partnership is likely to make the public sector more amenable to such changes, and to improve co-ordination between regulation and developments on the ground.^v The La Paz / El Alto project provides an excellent example. Monitoring and evaluation of project impacts may also be strengthened, rendering future schemes more effective and appropriate. Furthermore, where innovative approaches enhance sustainability (through increased ownership, more appropriate design etc) long-term cost savings are likely.⁴

Potentially leverage other resources

Donors, the public sector, NGOs or communities themselves all have resources to offer. Partnerships thus afford scope to externalise some of the costs of working in

⁴ Even where the fee and tariff structure is such that connecting and serving poor customers is not profitable in itself, incentives may still exist (the Cartagena focus project provides one example). This is especially the case where coverage targets are part of PSP (such as in the Buenos Aires and Manila concessions) and companies are legally bound to serve poor communities. By helping to reduce overall costs through a variety of means, partnerships can still provide economic benefits to an operator.

Aguas del Illimani Las Paz / El Alto, Bolivia

Aguas del Illimani, a subsidiary of Ondeo Services, is contractually bound to meet ambitious coverage targets. However the below-cost connection fee is a disincentive to service expansion in poor areas (as are the lifeline tariff and low consumption patterns). One of ADI's motivations for partnering (and its use of a condominal sewerage system) is thus to explore more affordable solutions and persuade poorer consumers to use more water (for technical and financial reasons). It works in partnership with the Ministry of Housing & Basic Services, the municipalities, the regulator, two donors – the Water and Sanitation Program and SIDA (Sweden) and communities. Its outreach work has benefited communities, whilst partnership has allowed a relaxation of the rules governing construction works (saving both time and money).

More details of the eight BPD focus projects can be found at www.bpd-waterandsanitation.org

poor neighbourhoods. For instance an NGO may already be working in a poor community: getting them involved in an E&A campaign should both reduce the direct costs to the company of this work and render it more effective. Donors may be willing to underwrite some of the costs of a pilot project through which the company learns how best to work in poor neighbourhoods in a given city or country, such as in Cartagena. Meanwhile, partnership may help a firm co-ordinate its work with other governmental schemes (such as housing improvement schemes), creating synergies and reducing costs.

Improve public acceptance of private sector participation

Bringing in other actors should increase the perceived legitimacy, accountability and equity of PSP (especially where partnership moves beyond public-private to include civil society actors). This may help overcome local political opposition to PSP and defuse popular resistance, especially when reform is tailored specifically to meet the needs of the poor. Partnerships may also help build better relationships with trade unions by providing a forum for dialogue and bolstering the private sector's legitimacy and reputation.

Partnership dialogue also gives politicians and other public officials (as well as NGOs and other civil society actors) a better sense of what

PSP involves and the constraints that private firms face. This may help temper both public pronouncements and community expectations.

Improve customer relations

Public and civil society actors can help promote uptake and demand for services amongst the poor. Their involvement can reinforce and legitimise E&A activities that explain how to obtain or use the W&S services offered.

NGOs and other actors also have 'social mapping' skills that the private sector may lack – bringing knowledge of local conditions to the table (e.g. numbers, locations, priorities, preferences, needs and expectations

of the poor). 'Knowing one's customer' is important for a range of tasks: it improves both strategic planning and operational activities, whilst better outreach and consultation serve to enhance acceptance and understanding of the firm's activities.⁵

Reduce regulatory risk

Partnership may provide a means of reducing the regulatory risk faced by private firms. Three key factors are at work here: firstly that better mutual understanding between the regulator, public and private sectors makes each more responsive to the others' needs and individual constraints; secondly that through ongoing dialogue relations become more predictable; and thirdly that open and transparent partnership helps insulate firms from politically-driven regulatory interference.^v Furthermore, regulators may be more open to advocacy (for instance over loosening regulations) where it comes from a tri-sector partnership, rather than just a private company (such as has been the case in La Paz).

When partnership may not be the best option

Naturally, partnerships entail costs as well as benefits (and risks as well as opportunities). The principal costs stem from increased dialogue and communication, especially during the early stages of partnership – these typically extend timelines and delay implementation (in a successful partnership this initial investment is recouped later). Sharing control also entails a certain element of risk, and introduces unpredictability, whilst partnership can also lead to a rise in profile and some raising of expectations amongst partners.

A key step for companies considering partnerships is therefore an internal assessment

This assessment (often underemphasised) should review what core business interests will be served by the partnership, at which

⁵ NGOs are not part of all BPD partnerships, but do bring other skills to the table that can help companies working in poor communities. These include participatory planning, capacity building, E&A etc. Over the course of its activities a firm may seek to internalise such skill-sets, but partnership provides one means for firms to get access to these skills, especially during the crucial early stages of their intervention.

level and where within the company the 'interface' will lie, what the likely benefits are and how these compare to the costs and risks of partnership, and how the company is going to negotiate with likely partners over objectives, roles, responsibilities and governance.⁶ The adjacent box gives some instances where major constraints may reduce the value of partnering.

Other sources of information

More information on how the private sector can serve the poor, on what partnerships may offer, and how to go about developing them can be found at:

BPD W&S website: further research into how the different sectors relate to tri-sector partnerships, and how these partnerships affect activities such as cost recovery, innovative approaches, education and awareness and regulation. Other work examines how partnerships form and develop and offers good practice guidance.

Business Partners Outreach Group of the World Bank: works in partnership with business to promote sustainable development. Useful source of case studies and guidelines.

BPD Natural Resources Cluster: offers detailed guidance notes and toolkits. Topics include internal assessments, framework agreements, training kits etc.

Water and Sanitation Program: World Bank partnership initiative, which also looks at private sector participation and the poor. Good practice case studies, research into contract design, regulatory frameworks, innovation, etc.

The Prince of Wales International Business Leaders Forum: promotes socially responsible business practices that benefit businesses and society and which help to achieve social, economic and environmentally sustainable development.

Links to these and other resources can be found at: <http://www.bpd-waterandsanitation.org/english/resource.htm>

Disabling Environments

In some instances partnerships may not be an effective means of working, due either to major macro constraints or the nature of the actors on the ground.

A disabling environment exists where:

- the tariff structure provides large disincentives for serving the poor, and other incentives are weak,
- contractual rigidity prevents flexible partnerships being formed with other actors, or severely limits incentives to do so,
- the political will required to underpin partnership is conspicuously absent,
- civil society is extremely weak and fractured – civil society organisations (for instance NGOs) are lacking,
- the situation is highly politicised with vehement opposition to PSP etc,
- commitment of other partners is highly uncertain, or complementarities between partners is lacking,
- the only potential partners face unreconcilable interests, or where the imbalances of power between them are very pronounced.

Endnotes

ⁱ International Conference on Freshwater (Bonn 01)

ⁱⁱ WaterAid website: "the poor can pay up to 25 times as much for services than middle-income communities ... forced to buy water by the bucket rather than through piped systems". See also "Willing to pay but unwilling to charge: do willingness-to-pay studies make a difference?" (www.wsp.org/pdfs/)

ⁱⁱⁱ The BPD Water and Sanitation Cluster works with eight focus projects around the world. It supports partnership-oriented research on specific project themes (cost recovery, education and awareness, etc.); creates forums where sector specific (civil society, public and private sector) benefits and challenges are debated and documents the evolution of the partnership in each specific focus project.

^{iv} Cost recovery depends on multiple factors; significantly the tariff and cost of connecting new customers. See the BPD Practitioner Note and Survey on Cost Recovery & Partnership for more details on how cost recovery and partnership interact.

^v See BPD Research Surveys on "Innovative Approaches to Serving the Poor through Partnership", "Partnerships in Education and Awareness" & "The Interface between Regulatory Frameworks and Partnership" for more detailed information.

⁶ The Natural Resources Cluster has developed extensive guidelines on such internal assessments aimed at private corporations.