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From Market Logic to a Public Water Service: What Role for public authorities?

Small water network entrepreneurs have earned the recognition of public authorities and donors over the past fifteen years. In a large number of developing countries, they are now seen as legitimate actors in the field of water supply in small agglomerations and neighborhoods of large cities. But their action continues to raise important questions: How can they be made more professional while preserving their ability to adapt to local expectations? How can quality standards be raised without making them less affordable? What mechanisms can be used to finance and supervise their activities? In practice, allowing small entrepreneurs a place in the "water market" is not enough to ensure access for the largest number or ongoing improvements in services. Public intervention is central to organize these actors' shift to public service logics.

The Limitations of Market Logics

Among the cohort of private actors that intervene in water supply in developing countries, small water network entrepreneurs are more and more frequently being presented as a promising category in supplying small towns and under-equipped neighborhoods. Are they really a solution or merely a temporary fad? Regardless, these actors with very diverse profiles provide water through more or less rudimentary water network systems that they have financed largely with their own funds.

To date, these forms of water supply have mainly spread through "market logics." On the edges of sectoral policies, small water network entrepreneurs are attempting to meet demand from households by taking advantage of favorable circumstances such as privileged access to a water point and by mobilizing technical know-how, financial resources and their social networks. The intervention of public authorities to coordinate, finance or even control these initiatives is relatively limited.

While this "spontaneous" development dynamic has undeniably helped improve water access conditions in areas not or poorly served by conventional systems,* it has also raised problems with service quality (water not guaranteed

ATTAIN DEVELOPMENT POTENTIAL

The number of small water network entrepreneurs has risen sharply for several years. But the potential to cover water needs worldwide is still high: according to recent studies, between 50% and 80% of the 500 million people currently lacking drinking water services in disadvantaged settlements and small cities could receive services from this type of operator in the medium term. However, these prospects will remain theoretical for a long time if government authorities do not take any measures to support the development of these service modes (Hystra, 2011).

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It supports sustainable development processes in urban and rural areas by building on social equity, economic promotion and respect for the environment.

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to be drinkable, supply interruptions, insufficient water pressure, etc.) and the affordability* of network access for the most vulnerable households. Intervention by the government authorities is indispensable to support the spread of these service modes and encourage the shift from activities governed by market dynamics to public service logics.



Re-Think Standards that Are Appropriate and Based on Compromises

Since the water networks of small entrepreneurs rarely meet the conditions required to claim to provide a public service, it is crucial to act on standards. The challenge is to find a compromise between attaining satisfactory service quality and the lowest possible cost without ignoring households' expectations. The aim is to improve service through locally appropriable technical evolutions while limiting the dependency effects generated by these schemes.



The government authorities must put the principles of progressivity and adaptability of standards at the center of their sectoral strategies. For instance, instead of designing the facilities according to references falsely called universal, they must promote gradual investment logics and encourage rigorous water demand assessment. They must also support efforts to innovate to find modular solutions that allow continuous adjustments between technical options (supply) and changes in water consumption (household demand).

EXPERIMENTATION AS A METHOD OF STANDARDIZATION

In several countries where GRET supports small water network entrepreneurs, low-cost treatment units have been developed to produce drinking water from raw surface water. In Cambodia, introducing this technology helped propagate a new water supply standard in large towns. Actors were able to master the technical references thanks to certain conditions such as local engineering skills and the presence of small construction companies. The progressive institutionalization of the standard—that is, its official recognition by Cambodian government authorities between 2005 and 2010—was the subject of lengthy negotiations and extensive testing.

Above all, the processes by which standards are elaborated must be thoroughly re-thought. These processes must no longer be guided exclusively by technical or sanitary considerations but must take into account the socioeconomic contexts in which small entrepreneurs' networks are implanted.

It is only by opening the consultations to all groups of actors in the "water value chain" (current and future users, civil engineering firms, material and equipment suppliers, etc.) that those in charge of sectoral policies will be able to define appropriate standards and the incentives to ensure that they are actually applied.

Better Structure Learning Processes

To improve the quality of services offered by small entrepreneurs, it seems important to support them and their employees in the acquisition of skills suited to new technical and service management challenges. While the informal sector is a place of learning in its own right, their professionalization cannot depend solely on repetitive practice or on-the-job training. The learning dynamics of small water network entrepreneurs must be better framed.

For this, training policies must extend their scope to include continuing education on equal footing

A NEW ACTOR TO STRENGTHEN SMALL WATER ENTREPRENEURS IN CAMBODIA

The Business Development Services (BDS) approach has recently entered the drinking water sector. These support-advice services are traditionally offered by professional bodies to economic operators in various sectors (crafts, agrifood, etc.) in order to improve their performance.

In Cambodia, GRET is working to set up such a mechanism. For the past year, the Innovative Services Engineering Advisory (ISEA) company has been receiving support for the roll out of a range of services suited to small water entrepreneurs: market studies, management advice, strategic planning, etc. In addition to these services, ISEA also intends to facilitate access to credit. By working on certification modalities, the company hopes to provide banks with reassurance as to the quality of the investment projects submitted by small entrepreneurs.

with university courses, and take into account the diversity of actors who intervene in the water sector. These policies must rely on diverse vocational training instruments. Thus, support-advice services for small enterprises deserve to be developed, as well as learning systems via tutoring or inter-operator exchanges.

These systems will only be able to work if several conditions are met: first, prior analysis of the needs of small entrepreneurs to elaborate quality pedagogic content appropriate to their unique qualities; then, support over the long term to multiply the possibilities for interaction between theory and practice; and finally, partnership-based management of training programs involving the government authorities, training structures, and small entrepreneurs' professional organizations when they exist.

Mobilize Public Funds to Serve Financial Innovation

Reflections on professionalism-building processes must not ignore the issue of financing. Yet, in this field, we are forced to note that innovation is in short supply. Some paths have not been sufficiently explored, such as Vocational Training Funds that could be very effective if they are financed by private and public contributions (water service fees, budget allocations, etc.) and managed jointly by entrepreneurs and the government authorities.

The financing issue is even more acute for infrastructures. Improving water supply services, and in particular extending them to zones not yet covered, requires large investments that are irreversible and recovered over long periods of time. Yet, small local entrepreneurs' self-funding capacities are limited and borrowing possibilities are almost non-existent because they are unable to provide banks with proper bookkeeping and the requisite collateral.

Faced with these difficulties, small entrepreneurs often have no choice but to adopt short-term strategies. Predictable and inexpensive long-term financing tools are indispensable to encourage them to begin thinking in terms of water asset management.*

In addition, experiments are underway in several countries with the aim of stimulating local capital markets through various financial instruments: investment funds in Bangladesh (with slightly remunerated capital invested for several years), mesocredit lines in Cambodia, bank guarantee funds in Laos, etc.

Far from limited to financial engineering, developing these tools requires political commitment in the concrete form of public funding. Public leaders cannot shirk their financial obligations, including for water services managed by private entrepreneurs. Private resources will not be enough on their own to solve the problem of financing water access. As proof, one need merely recall that over the course of recent decades, many countries have financed their initial hydraulic infrastructures mainly through taxes.

Favor Joint Approaches for Dynamic Regulations

Another key area of public intervention is regulation. The economic interests of small entrepreneurs can constantly threaten the attainment of other objectives associated with water supply services (public health, equity, etc.). When users have no (or few) supply alternatives, market regulation—understood as the adjustments between supply and demand—is not a functional way to endorse service quality. To reconcile the potentially conflicting objectives of economic viability, quality and affordability of the services, the government authorities have a decisive role to play.

There is now a consensus on the need for regulatory frameworks, and the idea of regulating the services provided by small entrepreneurs is widely accepted. But many countries are focusing their reflections on contracting, creating regulation bodies, or identifying performance indicators, ignoring essential issues, and in particular: how can each stakeholder be able to be heard over the long term?

Of course, contracting processes is indispensable to clarify small entrepreneurs' missions and explicitly set forth their assigned objectives. However, beyond the legal formalization of commitments, it is the quality of the process through which these actors are mobilized that is important. Indeed, only consultation can lead to true agreements on the division of responsibilities (among users, public institutions, and entrepreneurs), the objectives to pursue (coverage, investments, etc.) and the means to mobilize to improve the service (training, financing, etc.).

Similarly, water service monitoring systems must be set up so that small water network entrepreneurs can be held accountable. But current discussions favor issues relating to production indicators over in-depth reflection on how the information should be used and regulation dynamics. Yet, regulation is above all an affair of



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the balance of power, a balance that will be less asymmetrical if the information produced is discussed with all the actors present. The aim is to find—and constantly re-establish—a perpetually provisional balance.

For this reason, it is necessary to strengthen—or even sometimes cause the emergence of—representation of certain actors (users' associations, groups of local elected officials, etc.) to foster their full participation in the discussions. Strengthening the capacity for action of administrations and other public authorities is all the more important as one of the main conditions for the existence of such regulation mechanisms is undoubtedly contracting authority systems that have the means to fulfill their functions and defend the general interest.



Conclusion

The actions of small water network entrepreneurs cannot be guided solely by market logics. Intervention by government authorities is indispensable to establish suitable standards, develop entrepreneurs' skills, contribute to network financing, and generate regulation dynamics.

- The standards will be all the more suitable if they can evolve and take into account the constraints and expectations of all actors in the water supply chain.
- Training policies in the field of water must integrate vocational learning systems and rely on a variety of tools, some specifically devoted to small water entrepreneurs.
- The development of small drinking water networks requires considerable financial contributions that entrepreneurs are unable to make on their own. Public funds are indispensable to stimulate local capital markets.
- The supervision of small water network entrepreneurs requires dynamic regulatory frameworks that mobilize service users strongly with the aim of ongoing multi-actor consultation.

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Glossary

- **Conventional systems:** centralized, integrated piped water systems.
- **Affordability:** designates the possibility of a household accessing the water service in economically acceptable conditions (that is to say, at affordable prices).
- **Modular technologies:** used to describe technical systems that can be configured in several sub-sets called modules.
- **Water asset management:** approaches aiming to optimize renewal of equipment and develop new infrastructures taking into account technical constraints and users' expectations.

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