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The SCTF Coordinator wishes to thank all the contributors to our 2001-2003 programme without whose work this synthesis would not have been possible.

Sustainable Urban Services

2001-2003 Programme

First Synthesis





Water and Waste Management in 15 Pacific Rim Agglomerations. First Synthesis

June 2003

FOREWORD

Agglomerations are the spearheads of the Pacific Region's development and sustainable urban services contribute to the agglomerations' attractiveness and economic competitiveness. At a time when these agglomerations are undergoing a rapid and explosive growth, tackling the issue of agglomeration-urban services becomes even more urgent.

Urban services are tools in the hands of the public authorities to improve the quality and the economy of the country or the agglomeration they are in charge of, in the short and the long haul.

Rio, Habitat I & II, Johannesburg and Kyoto stressed that the urban services issues are essential domains to address the questions of geographical equity and of social and environmental sustainability, all to be managed economically and realistically.

The implementation of urban services has a cost and requires high management and technical capabilities. Most of the local authorities have or must set up a whole range of financial arrangements and/or Public Private Partnerships, according to their needs and their particular conditions.

To address these issues, PECC launched the Sustainable Cities Task Force in 1999. PECC's original tripartite approach characterizes the SCTF's work: representatives of governments, enterprises and academics, to which the SCTF adjoined representatives of the civil society, have been strongly involved in the analysis of 15 Pacific Rim agglomerations. To study these urban services, in 2001-2003 the SCTF decided to focus on water services and waste management.

These representatives now make up an active 500-strong tripartite network, which today enables the SCTF to deliver its first outcomes. Best practices, know-how and recommendations, adapted to various situations are here organized in three major parts: quality of urban services; public authorities as key actors; financing urban services.

This synthesis is based upon the study of the following agglomerations: Manila (Philippines), Jakarta (Indonesia), Hong Kong (P.R. China), Bangkok (Thailand), Cartagena de Indias (Colombia), Mexico Valley (Mexico), Santiago de Chile (Chile), Bora-Bora (French Polynesia), Port Vila (Vanuatu), Nouméa (New Caledonia), Apia (Samoa), Suva (Fiji), Adelaide (Australia), Taipei and Chinese Taipei, Shanghai (P.R. China).

I - QUALITY OF URBAN SERVICES

I - 1 - THE QUALITY OF URBAN SERVICES

Urban services must be judged in the light of the improvements they bring to the agglomerations, to the benefits they bring to the populations and to the economic improvements they stimulate. Urban services serve the city.

It is the government's responsibility to fix the goals concerning social, cultural, environmental and economic sustainability and to set up all the necessary laws and policies that ensure that the following four essential dimensions of sustainability are taken into account by all the stakeholders.



Cities are the spearheads of the world economy. Without Urban Services, no city can be.

The quality of urban services can be measured in terms of:

Social sustainability

How to improve quality of life for all? How can social equity be promoted? How can health, education and employment for all be improved? How can the local population be involved in decision-making processes?

6 Cultural sustainability

How can customs and traditions be taken into account in public policies? How can traditional social structures serve to implement and manage realistic policies?

Environmental sustainability

How do urban services contribute to build an environment friendly town? How can the city's environmental quality and good management of the natural resources be guaranteed? How can all types of pollutions be reduced and regulated?

Economic sustainability

How can affordability for the State, the local governments and for the clients be reached? How can step the necessary urban improvements be financed step by? How can the private sector become a partner? How do urban services contribute to improve town and region competitiveness?

I - 2 - SOCIAL SUSTAINABILITY: INHABITANTS ARE USERS AND PARTNERS

Water, sanitation, waste management... are considered as vital services that are indispensable for a decent and dignified life. It is everyone's right:

- *to have access to these services at an affordable price and*
- *to play a part in defining, organizing, assessing and controlling public services.*

Johannesburg Declaration

Improved water services invariably help low income people by providing cheaper water of better quality. **Efficient sanitation and waste management**, by improving the environment, contribute to better life conditions.

Low cost and/or adapted techniques for water supply and sanitation can be successfully set up in poor districts with the help of local associations and the involvement of the local population, with renewed land ownerships systems and with adapted reimbursement facilities (*Bayan Tubig, Paradise Village-Manila*). It is a first step in improving life conditions, social integration and environmental awareness. It can be a win-win process.



Low-cost environment friendly techniques can be set up in win-win processes.

It is the Public Authorities' role

- to set up the laws defining the ways to manage **affordability** for all and the necessary financial arrangements: cross subsidies, demand subsidies, incentives... (*see III .5*);
- to define how to supply and **serve all the users**: gender equity, generational equity, geographical equity (*Santiago PPP agreements*);
- to define how to **involve all the stakeholders** in the decision making processes;
- in case of PPP, to make sure that the previous public enterprise's **employees** are correctly taken care of (*Jakarta, Mexico, Shanghai...*).

Responsible involvement of people in water use, sanitation infrastructures and waste management is essential (*see II.4*):

- it leads to more sustainable decision making processes and implementations;
- some States have set up laws and rules (*Colombia, Chile...*) in order to organize public participation.

I - 3 - CULTURAL SUSTAINABILITY

Urban services serve people. Each country, each social group has its own customs, its particular ethical, historical and cultural antecedents, its own ways of considering social organization. These traditions must be taken into consideration when implementing services.

In many countries, **water is considered as a gift from God**. Thus privatization can be more difficult to set up in some countries than in others, just as making people pay their water bills (*Mexico, Pacific Islands*). Each water policy must integrate these facts and find the locally appropriate solutions.

Landownership can be the source of major problems, linked to local customs or local ancient laws. For instance, in many countries, it is not possible -if not impossible- to buy a plot of land (*Pacific Islands, Mexico...*). Long negotiations are necessary to overcome this obstacle.

Local societies have their own customs and ways of organizing themselves. These customs are related to local decision-making processes, to local life and to social organization. Ignoring these customs can lead to local oppositions, whereas integrating them in the process can lead to sustainable implementations (*Bayan Tubig in Manila, urban management in Samoa...*).

I - 4 - ENVIRONMENTAL SUSTAINABILITY

Countries must integrate the principles of sustainable development in their policies and programmes and reverse the loss of environmental resources.

UNDP Millennium declaration

Environmental governance is essential to manage urban services efficiently. Water supply depends on water resources: average water availability differs greatly from one country to another. Bad **sanitation** causes underground and river water pollution. Non treated waste causes major **environmental problems** such as leachate, toxic gas... These inefficient managements cause major environmental and health problems. Water, sanitation and waste must be looked at in an integrated manner, as part of the overall system of providing a sound urban and Environmental Management System (EMS, ISO 14001) (*Singapore, Adelaide, Chinese Taipei*).

Urban density increases environmental problems related to urban services (especially for waste) but, simultaneously, density allows economies of scale. Along side, towns expand and surround ancient landfills, treatment plants, ask for more mileage of pipes, increase waste transportation distances... In both cases, as the town increases in population, it increases its ecological footprint. (see II.4). Only strong and systemic urban planning can lead to integrated approaches and policies (*Adelaide, Hong Kong, Singapore, Samoa*).

Public authorities have to set up the appropriate **environmental policies, financing frameworks, standards and techniques** (*Adelaide, ISO 14000 standards implementation in Chinese Taipei*). These have to be set up step by step to be realistic regarding the cost their implementation implies and considering their social and cultural acceptability (*the 4 phases of Chinese Taipei's*

waste management policies). **The polluter must pay** and/or treat its effluents is a good principle (*Chinese Taipei, Santiago de Chile*). But total cost recovery is not possible for waste, and hard for sanitation. Therefore incentives and public and/or international funds are necessary to set up environment friendly urban services (*Hong Kong's waste management policies, Fiji landfills*).

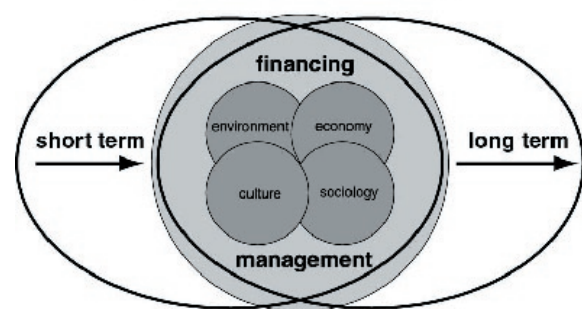
It is essential that the local authorities invest in the building of environmental infrastructures: recycling, reduction and reuse (3Rs) are the very keywords of any waste management policy (*Hong Kong, Chinese Taipei*); fighting against **leakages** and wastages and supplying all the users at an affordable price stand at the very heart of any Water and Sanitation System sustainable policy (*Santiago de Chile, Bora-Bora...*).

Some cities or regions have developed urban services using the best techniques and experiment new technologies and processes that integrate the environmental dimension (*Chinese Taipei, Pacific Cities urban planning and risk management programme*). Some have even become spearheads in the field of Research-Development and this increases the external profitability of their urban services by exporting their know-how (*R&D in Adelaide*).

The people's environmental awareness is a necessity to improve urban services: waste sorting out, waste reduction (*Chinese Taipei*), reduction of water consumption (*Adelaide*)... need a good and transparent information. NGOs and community-based organizations are key actors in this field. They must help people become aware of environmental problems related to urban services, help them integrate environment friendly uses (*Bangkok*), explain the cost of urban services and the part each of the stakeholders has to assume.

I - 5 - SUSTAINABILITY: A MULTIDIMENSIONAL SYSTEM

Even if sustainability can be described through its four dimensions, it functions essentially as a system. Social sustainability is not independent from cultural sustainability; environmental sustainability has strong relationships with social sustainability. And all the policies that take into account these three dimensions have to be implemented through economically sustainable processes.



Sustainability: a multi-dimensional system.

Urban processes have to be applicable as much in the short term as in the long one.

Efficient management (*chapter II*) and adapted financing (*chapter III*) must be set up to reach sustainability.

Concerning urban services, these services cannot be judged only regarding their own sustainability. They are set up in order to make the whole agglomeration sustainable. Therefore the performance of the urban services must be evaluated with regard to the sustainability they bring to the city as a whole.

II - PUBLIC AUTHORITIES ARE THE KEY ACTORS

Public Authorities at the national and the local level steer but do not necessarily row. Along side institutional and financial frameworks, they have to set up good governance rules and practices.

II - 1 - PUBLIC AUTHORITIES AT THE NATIONAL LEVEL DEFINE THE BIG PICTURE AND MAKE IT EFFECTIVE

At the national level, Public Authorities are key actors: they act as representatives of the consumers in general and to guarantee "public interest". They must propose strategies for the whole country, in particular regarding urban services and their sustainability; they have to break down the responsibilities between national and local authorities and they must set up the laws and rules and the subsidies, incentives and financial frameworks that will enable to implement these strategies.

It is the Governments' role to draw the "big picture" for the country on the basis of the aims and priorities they intend to support (*French Polynesia: to develop the Islands thanks to high level tourism; Hong Kong: to find sustainable ways in meeting the demands of its growing population...*).

They have the responsibility to ensure that urban services are delivered with respect to social and environmental sustainability: they fix the objectives, the standards and the financial frameworks (*Cleaner Production Programme in Chinese Taipei*).

The government "steers, but not rows" when implementing services. It has three major roles.

It acts as **enabler**, creating the conditions within which the civil society and the private sector will be able to make their own creative and innovative contributions (*decentralization of implementation programmes in Philippines, Planning and Urban Management Agency in Samoa, decentralization in Colombia...*). It thus:

- sets up the laws defining the complementary roles of the different Public Authorities and implements the consequent administrative organization and decision making processes;
- provides the legal and regulatory platforms and political framework within which the various actors can plan and function;
- sets up a fair judicial system and
- enforces norms of accountability and fairness.

It acts as **facilitator/regulator** making resources available to assist public or private enterprises and civil society to reach its goals (Chile, Chinese Taipei, Colombia...). This includes:

- grants, targeted subsidies, targeted tax exemptions...;
- rate exchange guarantees;
- promotion of local investment capabilities;
- provision of information, technical advice and expertise, research and development as well as special conditions for pilot projects.

To reach its objectives, the Government can act as public enterprise if it wants to steer, implement targeted outsourcing agreements or act as **partner** of a private enterprise (PPP) (*see II.2, III.2, III.3*).

II - 2 - LOCAL PUBLIC AUTHORITIES ARE THE BOSSES AT THE LOCAL LEVEL

At the local level, Local Public Authorities are the bosses. They define the major urban orientations, set up the necessary means to implement them: step by step prioritization of the objectives, administrative organization to avoid the scattering of responsibilities, transparency of decisions, financing and partnerships. The quality and the efficiency of the services implemented depends on the quality and efficiency of the Local Public Authorities. This means accountability and capacity building are essential.

Local Public Authorities define the major aims for the agglomeration and the best strategies to reach these goals in the short and the long run. They then define the necessary urban services to be developed and those supporting the accomplishment of the defined strategies. They define the objectives to be reached for each of the urban services to be set up (*Adelaide, Cartagena...*). They are at the right place and at the right scale to build the institutional system and to involve all the stakeholders.

Local Public Authorities decide how to implement and manage their urban services:

- steps and priorities (*geographical priorities in French Polynesia*);
- institutional arrangements of the local administration in order to avoid scattering (*simplification of the administrative processes in Chinese Taipei*);
- standards, adapted techniques (*Adelaide, Noumea*);
- decision making processes.



Efficient Urban Services lie in the hands of Public Authorities: they must set up institutional and financial frameworks, accountability and regulatory procedures.

Local Public Authorities, alone or together with other municipalities, must imagine, put together, set up the ways to finance their public services and the adequate governance to manage them:

- financing: self financing, local loans, request for international grants or loans...;
- eventually decision of setting up a PPP, management of the bid;
- contribution to the definition of the tariffs, of the system of incomes for the different urban services and of targeted subsidies if necessary;
- setting up of the regulation and evaluation systems (*see III.6*).

Some Local Public Authorities contract with private enterprises (*Jakarta, Cartagena, Manila, Santiago, Shanghai...*).

Some municipalities don't possess the most up-dated international technical knowledge and lack operational management capacities. This should be the primary reason for setting up an agreement with a private partner. Public enterprises generally bring:

- good governance: public enterprises are sometimes not really efficient and, in that case, creating a new structure makes it easier to improve the profitability as a whole. It generally gives the ability to increase service coverage, to shoulder bigger projects and to act faster, to reduce the percentage of unpaid bills, to reduce leakages and unaccounted for water...;
- improved know-how: public enterprises cannot be constantly informed of the international new ways of doing. Private partners can offer local enterprises the capacity to experiment and innovate.

II - 3 - APPROACH THE PROBLEMS AT THE RIGHT DIMENSION

Many services are not profitable if applied to one city alone. Federations of municipalities, contracts between different authorities or between neighboring countries enable either economies of scale or to approach the problems at the right dimension (e. g. Water Management Basins). Grouping water and sanitation services inside one sole entity obeys the same principle.

It is necessary to find the right area to solve the problems at the right scale for different reasons:

- economies of scale (*waste management in the Pacific Islands...*);
- setting up of financial redistribution between different areas;
- ecological footprint (*Jakarta*) and water basins (*Mexico*);
- studying and managing the relationship between urban affairs and agriculture (*Adelaide*);
- limits effects, some populations being non supplied for boundaries reasons (*Santiago; Cartagena de Indias, Manila*);
- in order to have the critical mass to efficiently manage a bid and the services.

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Many systems of cooperation can be proposed to improve the efficiency of urban services:

- federation of municipalities (*Greater Vancouver Regional District, Noumea's Syndicat Intercommunal à Vocation Unique...*). These federations were generally created to solve a particular problem such as water supply, or to set up cross subsidization between different areas. After being set up, these federations of Public Authorities become very efficient tools to manage all urban problems;
- coordination of local administrations in order to set up coherence, and to make more effective the administrative structures of the Public Authority at the national and local levels (*Colombia*);
- cooperation and specific agreements between some Public Authorities with adapted boards (*Adelaide's catchment water Management Board...*);
- coordination between NGOs which are generally very much scattered.

Multi-utility management can bring about economies of management and offer a global service to the users such as the integration of water supply and sanitation in a unique operation, with a unique bill for both services (Santiago, Chinese Taipei). Furthermore, this integration gives the Public Authority the ability to control the quality of underground water.

II - 4 - WITHOUT MULTI-STAKEHOLDERS GOVERNANCE, NO QUALITY URBAN SERVICES

Urban services are first and foremost local services that are considered differently according to cultures and governance modes. The participation of all the stakeholders is essential to progressively build up systems/structures that will stand the test of time.

The more all stakeholders are involved in the decision-making processes, the more these decision-making processes lead to sustainable decisions and the more the implementations are sustainable. Some agglomerations have set up high level participation processes in which all the stakeholders are largely and constantly involved (*Adelaide's City Forum*).

The population's involvement is essential. In some countries the involvement of people and of their representatives in the decision making processes is defined in the laws. **NGOs** and community-based organizations are key actors in this field, as facilitators in the implementation of new projects, as lawyers in order to help people, as educators... (*Manila, Bangkok, Cartagena de Indias...*) which sometimes leads them to oppose certain decisions taken by the Public Authorities (PPP...). In case of PPPs, a shift from PPP to PPPP (Public Private People Partnerships) has been debated (*Santiago*).



Without multi stakeholders Governance, no quality urban services.

All these involvements require that the Local Government defines clear objectives, clear and simple messages, and sets up transparency, shared information, shared evaluations... that all enable the parties to become active and responsible stakeholders (*Public Performance Assessment in Manila*).

None of us change easily. Therefore "**coalitions for change**" are a good concept in order to change things rather than simply "multi-stakeholders communities". Information campaigns also help this evolution. Real political leaders and "champions" are needed to drive the changes (*Bora Bora, Samoa...*).

Demonstrative and pilot projects (*Chinese Taipei...*) enable everyone to understand what should be realistically done financially and what is acceptable. Bottom up processes have generally to be considered. They have their proper role in finding the best ways to progress. Local solutions (and local loans) have therefore to be developed.

II - 5 - THE SETTING UP OF URBAN SERVICES TAKES TIME AND REQUIRES REALISM AND FLEXIBILITY

Services and contracts are designed for the long haul: their performances must be good, realistic and acceptable by all, today and tomorrow. Exterior conditions can change at any time. Flexibility in contracts, renegotiations (of tariffs, risks...) must thus be integrated, as well as reversibility.

A **step by step** method is fundamental to implement urban services: step by step evolution of tariffs, step by step environmental standards in order to be politically and financially realistic (*Chinese Taipei...*), step by step indicators...



Give **"time to time"** and find the appropriate moment to propose or make the right decision is essential (*Samoa...*): this way of managing is essential to design realistic approaches and implementations.

Services and agreements are designed for the long haul: this implies flexibility and step by step approaches.

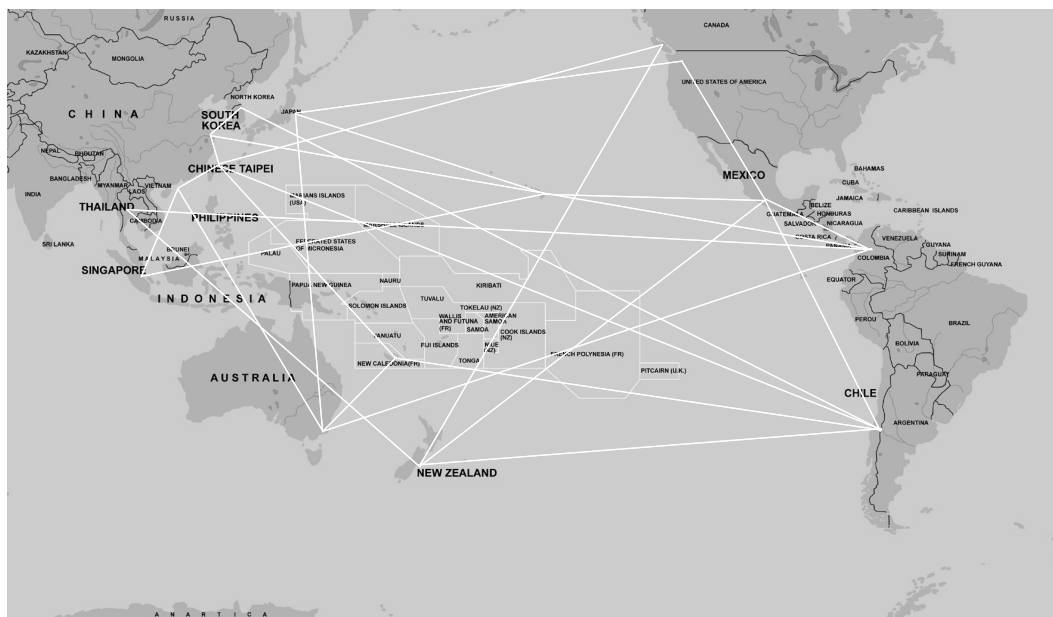
In case of agreements, these must be flexible in order to integrate unexpected evolutions (*Manila...*) and to seize all opportunities. It is essential to be able to reach clear objectives in an uncertain world. Contracts specify the objectives, not the means and strategies to achieve them (*Hong Kong...*).

Politicians will not stay in the long term but the administrative body of the Public Authority will. Therefore, they have a preminent role to play (*Cartagena de Indias*).

NGOs and community-based organizations can help manage the step by step approaches because they are locally imbedded and often propose realistic ideas (*Manila, Bangkok*).

II - 6 - CAPACITY-BUILDING: A KEY FACTOR TO IMPROVE SUSTAINABLE URBAN SERVICES

This governance rests upon all the stakeholders' competence, honesty and involvement. Training institutional and political stakeholders, educating populations (and particularly through women and children) are particularly pertinent levers to improve sustainable urban services and life conditions for everyone.



High level capacity building must be set up to implement and manage urban services thanks to international aids and financing. They are a necessity for developing countries.

Capacity building is necessary to involve people in the decision making processes and for the stakeholders to set up urban services efficiently.

Education can help to improve awareness of the economic, environmental and social realities of urban services: without peoples' involvement, no progress is possible (*Bangkok, Manila, Samoa, Chinese Taipei, ...*). Water supply can be at the heart of all such evolutions because based on essential needs. Public authorities have to set up this education, sometimes thanks to specialized NGOs. **Global learning network and NTIC** are tools that help promote this education and improve capacity building for all the stakeholders.

Educating women and children is a long term investment that has proved its high efficiency. Micro-credits may help them to take an active part in the improvement of urban services.

Capacity building has to be enforced in many **Public Authority administrations**, in order to help them set up the appropriate institutional framework and to reach efficient management. This situation is amplified by the brains exodus in many developing countries. In some countries the Public Authorities at the national level help, either by paying external consultancy or through their own national consultants (*Philippines...*). Most important, in developing countries, it is essential that International Development Banks **fund external independent consultants** to help Public Authorities set up the necessary institutional and financial frameworks, to make an inventory of the existing situation (infrastructures,...) and to help Local Governments prepare the bids (in case of PPP or outsourcing contracts) and manage the agglomeration (*Cartagena de Indias, Samoa,...*).



III - FINANCING URBAN SERVICES

Urban services have a cost. Many sources of financing must be put together by the Public Authorities to finance urban services: international or bilateral financing, public funds, financing coming from a Public Private Partnership. Each of these financing has its specificities and a good balance between all of them has to be found.

III - 1 - GRANTS AND LOANS

In developing countries the municipalities are often not in a position to fully participate to the financing of their infrastructures. International (WB, ADB, IADB, EU...) or national grants and loans enable to initiate " virtuous " public policies or to secure private enterprises' investments. All these funds are matched with the setting up of institutional reforms, definition of long term strategies, evaluation processes and improvement of the local capacity building.

The Public Sector's financial sustainability implies a clear recognition that the local public entity is willing to comply to its financial obligations by guaranteeing quality of management. When municipalities demonstrate their capabilities of local financial governance (eventually rated by international agencies), this capability can open access to enlarged financial sources: banks, capital markets, international multilateral agencies...

Special funds can help local authorities manage urban services: **international funds** can be devoted to countries where PPPs are out of economic and/or institutional realities (*European Union funds in Fiji and Bora-Bora*) or more generally in developing countries (*WB funds to Cartagena...*). **National Authorities' financial aids** can also stimulate local authorities to invest in urban services. These funds can help secure a future PPP (*Cartagena: 20 Millions US\$ national fund, Mexico...*). In Kyoto, **Worldwide Solidarity Funds** for developing countries have been discussed as promising solutions to help meet the Millennium Development Goals.

According to the financing capacities of the municipalities, these financial aids can be non-reimbursable grants matched with technical assistance (*Fiji*), national and sub-national debts restructurings, low interests loans (*Chinese Taipei*), exemption of taxes (*Noumea*), minimization



Urban services have a cost. Many financing sources must be put together by the Public Authorities to finance them.

of financial risks, development of guarantee funds... The aim of these funds and financial arrangements is to develop, step by step, the local capacities for infrastructures financing.

The delivery of these grants are subject to conditions (*Cartagena de Indias*), such as:

- a very clear repartition of the roles and functions between the national government and the local municipalities;
- good governance, accountability and transparency accompanied by the necessary related tools;
- improvement of local capacity building;
- necessity of people's involvement in the decision making processes;
- a clear accountancy making easy to understand which expenses are covered by the funds and to identify what are the real urban services' costs.

The appropriate use of the non reimbursable grants should be regularly assessed. In many cases, the use of the grants is not transparent and doesn't achieve the aims described in the contract. The major problem lies in finding the best body to take charge of this assessment: agreements with private independent controllers should be set up. Furthermore, 100% of the funds should never be granted; a minimum of 20% should be paid by the local authorities, in order for them to fully take part in the financial and reimbursement processes.

III - 2 - PUBLIC PRIVATE PARTNERSHIPS ? PUBLIC FINANCING ? BANKS ?

Public Authorities must set up the financial framework necessary to finance their urban services. Private enterprises may contribute to this financing through Public Private Partnerships. A clear breakdown of public and private financing has to be found.

Local Public Authorities contract with private enterprises for financial reasons, (as well as for good governance and technical know how reasons (*see II.2*)), if they do not have enough financial capacities to invest for the improvement of their urban services (*Manila, Jakarta...*) or because they make the choice to invest in priority in other services (health, education...), where it is more difficult to set up PPPs (*Santiago de Chile*).



Private Entreprises, with their technical and managerial expertise, must play their part to meet the Millenium Declaration objectives.

Local Public Authorities contract with private enterprises to stimulate the local economic dynamics, the urban services being a necessary condition for the improvement of the agglomeration's attractiveness (*Shanghai, Chinese Taipei...*), to take advantage of this specific know-how to become an internationally recognized high level industrial town (*Adelaide*). This return of investment reduces financial risks (external profitability).

But contracting with international companies may not be the panacea everywhere:

- PPPs can have negative effects for the **employees**, high technologies can throw some people out of work (*scavengers in Bangkok*)... For cultural reasons, **people are against privatization**, considering water and urban services as goods that cannot be privatized (*Mexico...*). Furthermore, given the magnitude of funds that are coursed through the private sector, accountability to the government and transparency of the enterprises should be set up.
- From the **private sector's** point of view, the rate of return during the first 10 years of a project is considered as too low related to the risks which are the foreign exchange exposure and the frequent non-respect of the concession agreements, especially tariff increases agreed in the business plan. The debt burden impacts negatively on the rating of the private sector whatever the sophistication of the financing structures proposed by the tenders. Furthermore, the banks being more and more "risk adverse" are either withdrawing from water project financing in developing countries or are imposing terms and conditions which, in addition to the cost of equity required by them, contribute to impose non or less affordable tariffs.

A good balance has to be found between public financing and private enterprises' financing:

- the world demand for urban financing is very high and private enterprises will not be able to afford to cover it alone;
- private enterprises are at the best place to maintain, rehabilitate the infrastructures, manage the water treatment processes and to make the related investments (10 to 15 years);
- public financing, supported by international or bi-lateral funds, is competitive for heavy infrastructures and long term investments: 50 to 100 years if well maintained; it does not require private equity participation, therefore the overall cost of the financing contributes to a better "tariff's affordability"; and public financing is less sensitive to macro economic crisis.

III - 3 - PPP CONTRACTING PRINCIPLES

The mobilization of all available resources often calls for multi-player partnerships, especially in the fields of know-how, management, feedback, financing and the guaranteed continuity of actions to be taken. Contractual relationships are the preferred form for companies' participation.

Johannesburg declaration

"Public interest" is the fundamental principle of any urban service public-private partnership: quality and continuity of service, equality of access and treatment, affordability for all.

The transfer of the ownership of service assets to a predominantly private entity is often made difficult because of the highly sensitive nature of water service provision: only a tiny handful of countries have fully privatized their water and sanitation services (*Santiago de Chile*). The other countries have adopted delegated management solutions according to which ownership of the facilities built by the private firms is transferred to the public authority upon expiration of the contract (25 to 30 years) (*Cartagena, Manila, Jakarta...*).

The partnership may take on a variety of contractual forms: service contracts (*Mexico*), Design Build Operate-DBO (*Hong Kong*), affermages (*Cartagena de Indias*), Build Operate Transfer-BOT, concessions (*Manila, Jakarta, Shanghai...*), privatization (*Santiago de Chile*); they correspond to different degrees of involvement and investment on behalf of public authorities and private enterprises. The contracts signed must be clear regarding each party's responsibilities, objectives to be reached, financing, resources and risk sharing.

Form of the agreement	Assets ownership	Operational responsibilities	Tariff collection
Management & service contract (2 to 5 years)	public	-specific responsibilities: private - general management: public	public
Lease contract (affermage) (7 to 15 years)	public	Private operator: - leases the assets - operates during the lease contract	private
Build-operate & transfer (10 to 30 years)	- until transfer: private - after transfer: public	- during the concession period: build & manage: private - then: public sector	public
Concession (15 to 50 years)	private	Private sector: full management responsibility during the concession contract	private
Privatization (Assets sales) (perpetuity)	private	private	private

Source: Vivendi Environnement

Public Private partnerships may take on a variety of contractual forms: a good balance has to be found between public and private partner financing.

20 Local Public Authorities can contract either with worldwide enterprises or with local SMEs. The latter are often supply oriented and well placed to integrate all the local constraints and ways of doing. Networking of SMEs leads often to lower costs and mutual learning. But they generally don't have the necessary financial base to invest in the long term. Micro-enterprises, micro-credits are a solution in some cases.

A Public Private Partnership contract is based on a risk and profit breakdown for each of the partners, in accordance with the principle of financial and economic balance. It is built around the notion of upholding an equilibrium between the contracting parties. It concerns: assets ownership, breakdown of share capital, good and reasonable allocation of public resources, business efficiency, clear objectives and obligations (with respect to social progress and environmental protection), remuneration bases, staff status, phasing of project operations and investments and establishment of mechanisms for assessment and control.

Risk sharing - financial, social, political as much as technical ones - **is at the heart of all contracts.**

- The Public Authorities run the risk of allowing a "private company" to get involved with no assurance of continuity, adaptability, impartiality and equality of public access.
- The company's stability depends highly on the institutional and political framework under which it operates.
- Some risks are due to the project's external conditions such as natural disasters, political breakdowns, financial crisis, currency devaluation.

The breakdown of risks must allow the Public Authorities to transfer those risks as follows:

- basic technical and financial risks tend to be transferred, whenever applicable, onto the private sector;
- demand and price related risks should be split between the various partners in accordance with expected level of benefit;
- risks due to the changing external conditions of the projet cannot in reality be transferred to the private partner. Some of these risks may be covered by guarantee organizations (such as the Multilateral Investment Guarantee Agency-MIGA/WB) and thanks to coverage instruments that are not totally set up yet.

The life cycle of a contract is fundamental (*Jakarta, Manila, Santiago, Shanghai...*).

Flexibility measures must be introduced in the contract to allow for adjustments and adaptation to institutional, economic and unpredictable changes: rate and capital investment programme revisions, contract adaptations and renegotiations...

III - 4 - TARIFFS HAVE TO CONCILIATE SOCIAL ACCEPTABILITY AND ECONOMIC STABILITY

Tariffs are a key factor of social equity. They are a background condition of the economic stability of the provision of urban services in the long run. They have to be regularly renegotiated. The issue of tariffs is a socially and politically very sensitive one.

Tariffs are fixed, according to the countries, at the national level (*Colombia*), by the local Public Authority (*Jakarta*) or by mixed boards with the help of the regulator (*Manila, Shanghai*) and sometimes with representatives of the population.

Tariffs must be regularly updated and adapted (*Manila*). Most contracts include complex adjustment formulas and the perfect adjustment formula does not exist. Regular readjustment sessions (every 5 year at the most) with a neutral and competent regulator seem to be the best solution to take into account the political dimension, the affordability for users and the enterprises' financial balance.

Full cost recovery is a good target (*Jakarta, Santiago*). Regarding water and sanitation, the need to maintain tariffs within an affordable range in the early years of reforms, when efficiency gains are not fully realized, can be achieved thanks to stepwise tariffs adjustments and funds to support cash shortfalls. As for waste, funds are always necessary.

Social equity in the field of tariffs can be set up thanks to:

- demand subsidies for low income people either for one specific service or for all the services including housing (*Chile, Colombia*);
- cross subsidies between different segment of users (*rich and poor in Colombia, enterprises and low income people in Jakarta or between hotels and inhabitants in Bora-Bora...*); but generally, rich people and enterprises try to supply themselves independently (wells) (*Santiago, Jakarta, Cartagena*). Therefore, cross subsidies with only two different tariffs (one for the 15% lower income people, a second one for the other users) seems to be a better solution.
- rising block tariff structures (depending on water consumption) in order to help people be aware of their water needs and consumption (*Manila*).

All these systems help low income people, but they also **create inequalities**: along side with the problem linked to cross subsidies, demand subsidies are difficult to set up and to reach all the people who need them, and there are always non distributed areas in which people have to buy water from vendors.

III - 5 - REGULATION MAKES URBAN SERVICES EFFICIENT IN THE LONG HAUL

The regulator has to be positioned towards overseeing the proper implementation of public service related rules, in accompaniment of State and local authorities efforts in the long haul; in case of PPP it has the mandate for inspecting/validating contract execution. Regular assessments enable it to monitor and to contribute to the evolution of certain terms of the contracts.

The Public Authorities must institute basic regulatory mechanisms in order to guarantee the successful execution of the goals they have fixed. The regulator has to make sure that the public interests are always taken into account (social, cultural, environmental and economic sustainability) and that urban services are managed in good conditions (transparency, accountability).



The regulator has to make sure that the public interest is always taken into account.

The major tasks of the regulator are the following:

- rate fixing in accordance with the parties and its necessary evolutions (*Santiago*);
- mediation and arbitration in case of conflicts if they can be solved locally; if not, international courts (UNCITRAL...) (*Jakarta*);

- collecting and spreading of all the necessary information from and to all the stakeholders (transparency) (*Public Performance Assessments in Manila*);
- defense of the users and treatment of their complaints (*Chile, Mexico...*);
- control of the agreement concerning coverage, quality, investments (*Chile, Adelaide*)...;
- control of the transparency and accountability of all the stakeholders, both public and private (NGOs, community-based organizations, enterprises...).

The primary contract adjustment variables are service rates, capital investment plans, contract period and (ultimately) compensation payments.

The regulation function is not the same in developing countries and in countries where contractual relationships between local authorities and private operator are integrated in a long term setting of laws, rules and standards structured by the State. In many cases and in particular in developing countries, the contract cannot address all the project parameters; **the regulator** is at the right place to alleviate the lack of administrative and legal background and to **set up the step by step necessary evolutions** (*Manila*).

Where does the regulator stand? Depending on the countries' maturity, the regulator/regulating authority can be the Public Authorities themselves (*Hong Kong, Chinese Taipei...*), an entity belonging to the Public Authorities (*Chile, Manila, Colombia...*) or an independent organization made up of experts (*Jakarta*).

Regulation is a necessity that has a cost. A great number of experts are needed to fulfill all the tasks to be done. Furthermore, high level experts have to be involved. This needs financial capacities, and capacity building (*see II.6*).



IV - CONCLUSIONS, RECOMMENDATIONS

Agglomerations are at the heart of the economic growth of their countries. These agglomerations are undergoing a rapid and explosive growth, and urban services are essential tools in the hands of the Public Authorities at the national and local levels to make the cities livable, attractive and competitive. The goal is not to build "perfect urban services" but to provide the best possible cost/quality ratio to the whole range of consumers.

In order to reach this goal:

- urban services must be socially, environmentally and culturally sustainable in the long haul;
- consumers must be active partners and must be involved through community based organizations that can help them become aware of the environment and of urban services' costs;
- private enterprises, with their technical and managerial expertise, supported by large R&D budgets, must play their part in meeting the Millennium objectives. They can become financial partners of the Local Governments;
- international financial institutions must take their responsibilities and take more risks especially in developing countries; they should also become imaginative advisers of Local Public Authorities; the international guaranty bodies must cover risks such as governmental breakdowns, rate exchanges breakdowns...;
- Local and National Governments must not simply relieve their responsibilities onto private enterprises. They must set up the adapted institutional, legal and financial frameworks as well as the accountability and regulatory procedures. The necessary flexibility has to be integrated in order to be able to manage in the long haul;
- high level capacity building must be set up to improve the capabilities related to institutional and legal reforms, financing search and urban management; international organizations must help and finance this capacity building improvement along with local multi-stakeholders groups.







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