



World Urban Forum

Cities: Crossroads of Cultures

Inclusiveness and Integration?

14-17 September 2014, Valencia, Spain

Dialogue On Making The Private Sector Work For The Urban Poor

Revisiting the debate over privatization of public utilities

Better access to water and sanitation has a key role to play if we are to achieve Millennium Development Goals (MDGs) and the welfare of billions of people is at stake. Whether public or private providers are best placed to provide those services has been a topic of controversy over the past decade. The debate is unlikely to be resolved. More importantly, it has been misleading. What matters instead is for water and sanitation providers to respond to the needs of low-income households, and civil society has a significant role to play in this respect.

Changing the share of the urban water and sanitation services supplied by private operators does not in itself further MDGs. Target 7/10 (to halve "by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation") places deprived households at the centre of a new water and sanitation agenda. This challenges the pro-poor credentials of existing reform efforts, and demands a more coherent and focussed approach.

Public vs. private

For much of the 20th century, policy-makers saw water and sewerage networks as natural monopolies that provided public health benefits. In their view, private sector participation could only threaten the water/sanitation policies and institutions that were needed to achieve universal coverage of rich and poor alike.

Over the past decade or so, critics have been arguing that, especially in low-income settings, public utilities tend to be inefficient, overstaffed, susceptible to manipulation by elected politicians and to corruption, and unresponsive to consumer demands. Far from ensuring that low-income households can afford piped water, low charges turn water distribution into patronage; they contribute to the financial difficulties of utility companies, which more often than not inhibit investment and prevent network extension to low-income settlements.

From pariah to panacea

As the controversy developed, promoters of the private sector turned its image around. From a greedy pariah, it became a progress-minded panacea that could redress the many failures plaguing public water and sanitation utilities - including failure to provide for the urban poor. Independently regulated and privately run utilities would be cost-conscious, apolitical and demand-responsive, the proponents of privatization claimed.

Critics of the private sector objected that privately run utilities would discriminate against the poor. To others, access to water and sanitation was a human right; as such, it could not be turned into a profit-making activity, especially when it came to serving the poor. Some even proclaimed that privatizing water amounted to the "corporate theft of the world's water".

However, the more serious blow to the case for privatization was to come from the real world, as practical experience amply demonstrated that privately run utilities were susceptible to the same shortcomings as public monopolies were.

So what is the real difference?

In reality, many of the obstacles to improving water and sanitation provision in developing countries have nothing to do with



public or private status. Government inability to create the right regulatory environment for public utilities is likely to extend to private ones as well. Poor residents with insecure tenure in remote locations may find that public utilities are just as reluctant to connect them. Neither are private firms, under commercial pressure to recover costs from user charges, necessarily keen on massive investments in deprived areas.

In practice, public and private (often international) utilities tend to behave in much the same way. The controversy really opposes vested interests within the water and sanitation sector, and has little to do with poverty reduction. Exclusive focus on large networks overlooks the often-important role of small local providers in the developing world. Moreover, the debate focuses attention on water, when sanitation may be more important to the poor. The controversy also ignores governance issues, which span the public-private divide. In fact, the real difference lies between large network operators and small providers.

Small is very useful

A large number of those without adequate water and sanitation are not going to be able to access extensive piped water and sewerage networks in the foreseeable future. Small, often informal providers and vendors typically reach out to the poor better than large firms do. These small enterprises may be private, and they often operate in far more competitive markets than do large private utility operators. Owing to their size, their modes of operation are very different from those of large utilities, whether public or private. A regrettable side-effect of the public-private debate is that it may have diverted not just attention, but also development assistance, away from small providers and to large networks.

Let the poor decide!

Once the focus shifts to poverty reduction, the framework for action becomes clear. The demands for improvement in water and sanitation must come from the poor people themselves; and the degree of improvement will depend upon the influence that poor people can bring to bear on the service providers, either directly or via political representatives.

As laid out by the World Bank, the framework is indifferent to public or private provision. Whether or not private sector participation increases, policy decisions must become more accountable to the poor. Just as successful private enterprises are more likely to emerge from fair competition in the marketplace, so successful engagements with private enterprises are more likely to arise from fair competition in the local political arena.

The needs of the poor

Experience shows that so far, contracts with privately operated utilities have not paid sufficient attention to the needs of the urban poor in developing countries. The same holds for regulatory frameworks and concession agreements. Lack of financial resources and insecure tenure have acted against the poor.

Regarding small providers, the major need - as in other areas of the water sector - is for effective, accountable local governance structures. These structures must encourage and support local action and innovation, particularly when beneficial to the urban poor.

Negotiating improvements

The market by itself does not guarantee the efficiency or consumer responsiveness of private providers, which instead depend upon the nature of contracts and regulation. Private sector involvement must improve and it is for the urban poor to decide what improvements they require. Democratization and decentralization have a critical role to play, as this can make government more responsive to demands for water and sanitation.

Public authorities and international agencies must adapt their responses to the specifics of each city, or even neighbourhood. To the poor, water and sanitation can be the first step to secure tenure, stronger communities, enhanced bargaining power and heightened political influence.

Therefore, the poor must increase their capacity to voice their needs, with help from civil society. The poor must develop compacts with utilities and better service from smaller providers, as already done by some communities whose success can and must be replicated.

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