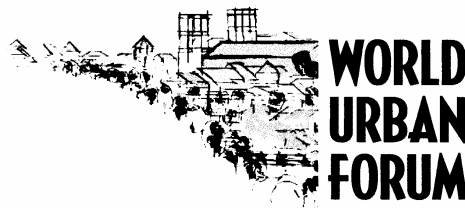


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Dialogue on urban services: making the private sector work for the urban poor**Abstract**

The present paper focuses on how to get the private sector to be more responsive to the needs of low-income urban households which lack adequate access to safe water and sanitation. Too much effort has already been devoted to debating whether the role of the private sector should be expanded or suppressed. Changing the share of the urban water and sanitation market supplied by private operators does not in itself represent progress towards the Millennium Development Goals and the water and sanitation target in particular. But if the private enterprises active in the sector can be made more responsive to the needs of households, progress is furthered. This is a task not just for the private enterprises themselves (which range from large multinational water companies to itinerant vendors, who are often worse off than their customers). It is also the responsibility of the other key actors in the sector, including international agencies, national and local governments, public sector regulators and utilities, and civil society organizations. And there must be a central role for the deprived residents themselves.

The introduction considers the Millennium Development Goals and the role of better urban water and sanitation provision in achieving these goals. The first section then re-examines the controversies over the relative merits of public and private water and sanitation provision, suggesting that these controversies have been misleading, diverting attention from more important issues, at least for those water and sanitation deprived households that the Millennium Development Goals imply should be the focus of international improvement efforts. The third section examines how private enterprises can be made more responsive to the needs of the urban poor, adapting a framework of power and accountability relations from the recent report by the United Nations Human Settlements Programme (UN-Habitat) on water and sanitation in the world's cities and the most recent World Development Report, entitled "Making services work for poor people". The paper ends with a set of questions, intended to assist the World Urban Forum in identifying principles and practices conducive to making private water and sanitation enterprises more responsive to the urban poor, and thereby helping to achieve the Millennium Development Goals.

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Dialogue on urban services: making the private sector work for the urban poor

I. Introduction

1. Most of the world's Governments and international agencies have committed themselves to the Millennium Development Goals and, more specifically, the target of halving, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.¹ If this and related targets are achieved, billions of the world's poorest citizens will be able to live healthier and more fulfilling lives.

2. The water and sanitation target has helped to bring a greater focus on poverty to the international water and sanitation sector. Over the past decade, one of the international agendas promoted most vigorously in the water and sanitation sector was increasing private sector participation in once predominantly public utilities. This agenda was based on a broad economic critique of public sector enterprises and was accompanied by parallel efforts in communications, energy and transport utilities. Those advocating the approach claimed that greater private sector participation would benefit those without adequate water and sanitation, most of whom lived in poverty. These claims were hotly contested. The ensuing debates diverted attention from other less contentious means through which water and sanitation for low-income households could be improved. The water and sanitation target is intended to place deprived households at the centre of a new water and sanitation agenda, not only challenging the pro-poor credentials of existing reform efforts, but demanding a more coherent and focussed approach.

¹ The United Nations Millennium Declaration, adopted by the General Assembly of the United Nations on 8 September 2000, resolved to halve by 2015 "the proportion of people who are unable to reach or to afford safe drinking water". The Johannesburg Plan of Implementation agreed to at the World Summit on Sustainable Development in 2002 reaffirmed the water target adding sanitation, resolving to "halve, by the year, 2015, the proportion of people who are unable to reach or to afford safe drinking water (as outlined in the Millennium Declaration) and the proportion of people who do not have access to basic sanitation."

3. In effect, the internationally agreed upon water and sanitation target provides a benchmark against which local reforms, as well as international support for those reforms, can be assessed. The target does not in itself define an approach to improving water and sanitation for people living in poverty, let alone guarantee that these improvements will be achieved. Indeed, targets were central to the International Drinking Water Supply and Sanitation Decade (the 1980s), and the failure to achieve these targets convinced many people in the sector that promoting structural reform, through for example increasing private sector participation, was more important than adopting new targets. Targets are perfectly consistent with structural reform, however.

4. The large numbers of urban dwellers without adequate water and sanitation, combined with continued urban population growth, do imply that improving water and sanitation provision in poor urban neighbourhoods will be important to achieving the Millennium Development Goals. The role of the private sector in reaching these households is also important, if controversial. Recent controversies over the role of the private sector have not been helpful, however. Too much attention has focused on whether public or private operators are more efficient, or whether public-private partnerships are the best means of providing water and sanitation. Too little attention has been devoted to getting operators, private or public, to be more responsive to the low-income urban households whose services need to improve if the target is to be met.

II. False starts: misleading controversies over private versus public provision

5. At various times and places over the last two centuries, there have been controversies over the choice between public and private water provision, and these controversies have sometimes extended to sanitation. During the last decades of the twentieth century, this controversy became global. At one extreme, proponents argued that increasing private sector involvement would solve the many failures plaguing public water and sanitation utilities, including their failure to provide services to the urban poor. At the other extreme, critics argued that increasing private sector participation was part of the problem; another step in the dismantling of the water and sanitation sector policies and institutions needed to achieve universal coverage. This section elaborates an intermediate position, presented in more detail in the UN-Habitat report *Water and Sanitation in the World's Cities: Local Action for Global Goals* (Earthscan, 2003).

6. It is unlikely that this controversy will be resolved. While increasing the role of the private sector in water delivery clearly benefits some stakeholders within the sector (and harms others), the implications for those without adequate water and sanitation depend upon the particular context. By overemphasizing the choice between private and public, the controversy has diverted attention from what may well be a far more important issue concerning utilities: how to ensure that both private and public operators can be made to provide better services to low income areas, and how to find other means for improving water and sanitation for deprived households.

A. Private providers: from pariah to panacea

7. For much of the twentieth century, the received wisdom in public policy circles was that water and sewerage networks were natural monopolies and provided public health benefits. Left to themselves, private monopolists would overcharge, under-provide, and ignore the public health benefits of water and sanitation. The public sector had to take control to prevent the abuse of monopoly powers, and to take account of the public health benefits of both water and sanitation. Moreover, Governments making political commitments on universal coverage felt obliged to display this commitment in their plans and to set water prices at levels considered affordable to all. As the century drew to a close, however, these assumptions came under attack.

8. In the 1990s, proponents of private sector involvement launched a sustained critique of public utilities and their failures and promoted a regulated private alternative. Especially in low-income settings, it was argued, public utilities were inclined to be inefficient, overstuffed, susceptible to corruption, open to manipulation by politicians pursuing short term political ends, and unresponsive to consumer demands. Low water tariffs, far from ensuring that low-income households could afford piped

water, turned water distribution into patronage and contributed to utilities' financial difficulties, often inhibiting investment, and preventing water and sanitation networks from being extended to low-income settlements (even when residents were willing to pay). Privately run utilities, according to their supporters, would be cost-conscious, apolitical and demand-responsive. Independent regulation, along with competition for concessions or other contracts, would prevent the abuse of monopoly powers. At least for water, cost recovery could be achieved through tariff reform. These privately operated utilities, regulated in the public interest, would achieve what the public utilities had so manifestly failed to do.

9. Not surprisingly, when measures began to be taken actively to promote more private sector participation, resistance emerged. Some opponents re-emphasised longstanding concerns about natural monopolies and the public interest, arguing that private participation would lead to high water and sanitation prices and focus efforts on serving those who could afford to pay. Others argued that water and sanitation were human rights, and that it was inherently wrong for multinational corporations based in the affluent countries to make profits selling water or sanitation to people living in poverty. In the extreme, it was argued that efforts to privatize water amounted to, in the words of the title of a recently published book, the "corporate theft of the world's water". More worrying for the proponents of private sector participation, the perception that so-called "water privatization" policies hurt the poor and were being promoted in the interests of affluent foreigners, became widespread in the popular press of many countries. But perhaps most worrying, actual experiences were far from the ideal that had been promoted.

B. Revisiting popular misconceptions about private sector participation

1. Was private sector participation oversold?

10. The strongly pro-private position was far easier to maintain when the messy realities of public utilities could be compared to idealised versions of private sector participation. Once private sector participation reached significant levels, some of the more ambitious claims became less convincing. Far from depoliticizing water and sanitation provision, it transpired that private sector participation could heighten the politics, not only driving people on to the streets (as in Cochabamba, Bolivia) but also creating new opportunities for patronage and corruption. In the real world, the efficiency and consumer responsiveness of private water and sanitation providers is not guaranteed by the market, but depends upon the nature of their contracts and regulation, as well as on the local and international context. Also, private companies themselves are no longer convinced, if they ever were, that the poor are willing to pay the full cost of water and sanitation.

11. Even those sympathetic to a greater private sector role are beginning to question the strong case for private sector participation, and the manner in which private participation has been promoted. This has contributed to various attempts at more pro-poor private participation. It has also contributed, in South Africa for example, to attempts to combine private sector participation with more explicit recognition of human rights to enough water to meet basic needs. This has not, however, stopped private sector participation from being highly controversial.

2. Has the public-private divide itself been exaggerated?

12. There is also a growing perception that too much attention has been paid to the relative merits of public and private providers. Many of the obstacles to improving water and sanitation provision have nothing to do with whether utility operators are private or public. A public sector having difficulties creating the right regulatory environment for public utilities is also likely to have trouble with private utilities. Residents with insecure tenure, living in difficult-to-reach locations, and lacking sufficient funds to invest in connections (to give just a few examples) can have just as much trouble convincing private as public utilities to connect them. Moreover, public utilities can be forced to face commercial principles, whereas privately operated utilities can be protected from these same pressures. In any case, private companies that do have to face commercial pressures, and recover their costs from user charges, are not necessarily interested in investing large sums of money in the deprived settlements and neighbourhoods.

3. Are large water companies interested in selling water or sanitation in low-income areas?

13. Strong proponents and strong opponents of increasing private sector participation usually agree that international water companies are interested in gaining access to the water markets in the urban settlements of Asia, Africa and Latin America – their differences centre on whether this should be viewed as a good thing, and whether this interest extends to sanitation. Yet despite having been promoted vigorously in the 1990s, the extent of private sector participation in water and sanitation utilities remains small. Privately operated utilities only supply about 5–10 percent of the world's population with water, and even less with sanitation. Since 1997 the number of new contracts has tailed off. Problems arose with a number of existing concessions. Events such as the Asian crisis caused private investors to revise their risk assessments upwards and their profit assessments downwards. Many of the sites most attractive to private investors – large cities, with a large middle class – were quickly snapped up early on.

4. Does private sector participation bring private finance to the sector?

14. In regions with mostly short-term non-investment contracts, such as sub-Saharan Africa, virtually all financing for water and sanitation utilities is still coming via the public sector and user charges, not from private investors. In the poorest areas, investment contracts are rare and global investment in private sector participation projects has not matched expectations. Even where long-term investment contracts have been agreed upon, international development assistance and public sources can still account for a large proportion of the finances invested (although since statistics rarely disaggregate by type of finance, it is very difficult to know how much private finance is being committed).

5. What about the small and informal enterprises?

15. The controversies over increasing private sector involvement have focused attention on the large piped water networks, which both private and public utilities tend to favour. However, a large share of those without adequate water and sanitation are not going to be able to access the large piped water and sewerage networks in the foreseeable future. Among the private enterprises that provide water and sanitation to the urban poor, small-scale water suppliers and informal vendors and service providers are more significant than the large private utility operators. These small enterprises may be private, and they often operate in far more competitive markets than do large private utility operators. But the public-private debates have, for the most part, diverted attention and quite possibly development assistance to large water and sewerage networks.

6. So why is it misleading to debate whether public or private utilities are best for the poor?

16. The following drawbacks might be noted about the public-versus-private debate, in respect of water and sanitation:

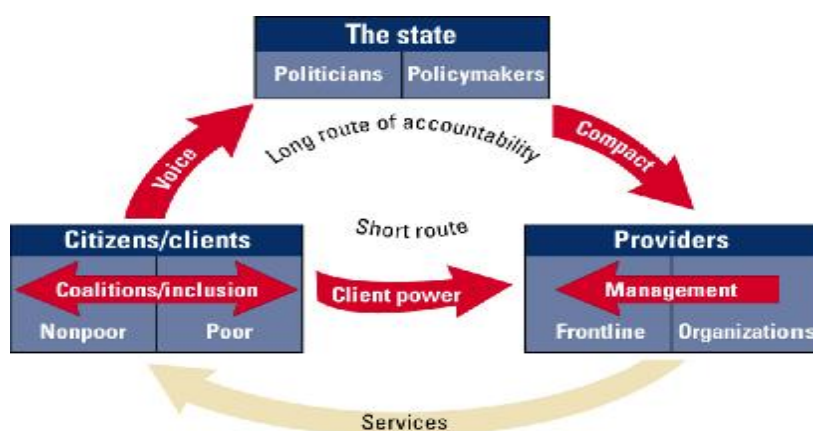
- (a) It is controversial primarily because of vested interests within the water sector, not because of legitimate disagreement over whether deprived residents actually derive any benefit;
- (b) It focuses attention on (and attracts funding to) large networked utilities, when small systems may be more important to poor groups;
- (c) It focuses attention on water, when sanitation may be more important to the poor;
- (d) It detracts attention from governance issues that span the public-private divide; and
- (e) It implies that the distinction between public and private utilities is more pronounced than it really is.

III. New directions: From increasing to improving private sector participation

17. A framework for water governance, emphasizing how the different elements of good management need to be linked to the needs and priorities of citizens, was elaborated in the recent UN-Habitat report entitled: *Water and Sanitation in the World's Cities: Local Action for Global Goals* (Earthscan, 2003). A similar framework that emphasizes the role of negotiation in ensuring that services such as water work better for poor people was developed for the 2004 World Development Report entitled: *Making Services Work for Poor People*. These frameworks are based on the notion that the demands for improvement need to come from the poor themselves, and that the level of improvement will depend upon the influence that poor people can bring to bear on the service providers, either directly or via the Government. There is no presumption that the providers are or should be private or public, although by stressing the importance of making policy decisions more accountable to the poor, they do imply that changes in the role of the private sector should not be driven by an international agenda, but by local processes. Indeed, 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.

18. The following sections combine these two frameworks. As demonstrated in figure 1 below, the focus is on the relations between clients and citizens, providers and the State. Placing the influence of the poor themselves at the centre inevitably raises questions about how the capacity of the urban poor to demand water and sanitation improvements can be increased, how providers can be made more responsive to their demands, and how more pro-poor compacts can be established.

Figure 1: Key relationships of power and accountability



Source: World Bank (2003) *World Development Report 2004: Making Services Work for Poor People*, The World Bank and Oxford University Press, Washington D.C.

A. Increasing the capacity of the urban poor to demand water and sanitation improvements

19. The urban poor often lack the resources needed to yield much influence over government policies or over water and sanitation providers directly. Influencing the State typically involves different actions from those used to influence providers – voting or lobbying rather than paying, for example. Nevertheless, many of the changes that help people rise out of poverty, from receiving a good education to gaining income-earning opportunities, can simultaneously help them to influence Governments and to make stronger demands on providers, be they private or public. Three particularly relevant changes are:

(a) Higher incomes – which allow people to pay more for services, and to live in better served locations, as well as often contributing to their political influence;

(b) Greater housing legality and security – which does not only confer political legitimacy, but can also increase residents’ capacity to negotiate with water and sanitation providers, and their willingness to invest time and resources in water and sanitation infrastructure;

(c) Better organized communities – which are in a stronger position to negotiate with both Governments and with water and sanitation providers (and in some case are in a better position to make local investments in infrastructure).

20. Just how important such changes are depends upon the local circumstances, but they undoubtedly can have a major influence on whether the urban poor gain access to better water and sanitation. Moreover, when the urban poor do manage to address their poverty through these routes, and particularly the latter two, they often also address water and sanitation issues. Indeed, the installation of water and sanitation infrastructure can be the first step, in achieving housing security. Similarly, better organized communities are not only more likely to negotiate for and invest in better water and sanitation, but combining their efforts to get better water and then sanitation can be first steps in becoming a better organized community.

21. In most examples of urban poor groups increasing their capacity to negotiate water and sanitary improvements, the providers have been public utilities or small enterprises rather than large, privately operated utilities. This is probably because privately operated utilities are comparatively rare. Also, while the strategy needed to negotiate with private operators may be different, these differences should not be exaggerated. Even if public utilities are not profit-making enterprises, greater income and savings can undoubtedly help residents get public utilities to respond to their needs, particularly when the public utilities are operated along close-to-commercial principles. Alternatively, while private operators are motivated by the search for profits, they are more likely to respond to better organized communities living in settlements with secure land tenure.

22. While a greater capacity to influence water and sanitation providers is not always accompanied by a greater capacity to influence public policies, or vice versa, many of the more successful cases of urban poor negotiating water and sanitation improvements have combined negotiation with local government and with providers. As set out in figure 1, this effectively combines the “long” and “short” routes, and raises questions about how the long route is sometimes made far shorter than at other times. Box 1 below summarizes some lessons in negotiation from the Slum Dwellers Federation and Mahila Milan in India. This negotiation has produced municipal government support in Mumbai and Pune for hundreds of community-designed, built and managed toilets that now serve hundreds of thousands of slum-dwellers in both cities. It has also encouraged both the Federal Government and many state governments to set up special funds to support such community provision. This kind of negotiation may not always be applicable, but on the other hand it is not specific to negotiations involving public utilities.

Box 5: Notes on the art of gentle negotiation for better water and sanitation

A necessary step in building sanitation partnerships between community organizations and local governments is convincing some reluctant and often suspicious government agencies to stop seeing poor communities as problems but start seeing them as contributors to good solutions to city-wide problems. That means negotiation. The increasingly confident negotiating skills of Slum Dwellers Federation and Mahila Milan in Mumbai, Kanpur, Bangalore and Lucknow have obtained commitments to sanitation in slum settlements from many officials in the municipal corporations and state governments. Here are some of their negotiating strategies:

- **Start small and keep pressing:** Mahila Milan in Kanpur and Bangalore started small – negotiating for the municipal corporations to provide hand pumps and water taps in slums. Through those negotiations they gradually gained the confidence, persistence and visibility to press for the next level – community toilets. Starting with small initiatives can show both government and communities that change is possible. Convince the officials that they can use their limited powers to make a little change. First, they might only give a limited consent, but later, when they see things change, even in small ways, that consent might become support. Support is the first step in the creation of a genuine partnership.
- **Paint beautiful pictures:** Sometimes, grassroots activism involves a great deal of scolding and finger-pointing: “Isn’t this awful!” “Isn’t that shameful!” If you’re serious about exploring new ways to bring the poor and the state together to solve the city’s problems, this kind of approach has limited utility. People in power are more likely to retreat into their bureaucratic shells when you start pelting them with awfuls and shamefuls. A better approach is to kindle their imaginations by describing possibilities in ways that make clear how they can contribute.
- **Know more than they do:** When community organizations come into negotiations prepared, with enumeration reports with data on all households in the settlement, with toilet construction costs worked out and tested, with knowledge of city infrastructure grids, and with examples of community-State partnerships in other cities, it becomes much harder for government officials to argue against the proposals you are making.
- **Cut an attractive deal:** The Slum Dweller Federation and Mahila Milan around India have developed skills of persuasion in showing local governments that entering into an unconventional toilet-building partnership with a well-organized community organization is a realistic, even attractive proposition for solving big problems that stymie municipalities up and down the subcontinent. A sharp city administrator would have difficulties passing up these features:
 - Sharing costs with a community reduces the city’s sanitation cost burden;
 - When communities build toilets, the city’s construction burden is eliminated;
 - When communities maintain the toilets, the city’s maintenance costs are eliminated;
 - Community-built toilets often cost less than those the city builds, so a city’s infrastructure budgets can be spread further, increasing service delivery.

Source: Burra, Patel and Kerr, 2003, Community-designed , built and managed toilet blocks in Indian Cities, *Environment and Urbanization*, Vol. 15, No. 2, pages 11-32.

23. The capacity of urban poor groups to influence water and sanitation policies and providers also depends, of course, on how responsive the Government and the providers are. Politicians often promise better water services. Democracy should help to increase the accountability of politicians, and help make Governments more responsive to the demands of their less well off citizens. Ideally, democratization and decentralization ought to be a particularly effective means of making Governments more responsive to water and sanitation demands. Indeed, this combination may well have been a factor explaining why public water and sanitation services improved in many urban centres in Latin America even when their economies were not improving during the 1980s and 1990s.

24. Similarly, the capacity of urban poor groups to influence providers directly depends on how responsive these providers are, and what they are responsive to. This depends in turn on the compact that they have with the State – whether this takes the form of a contract, an agreed on regulatory regime or just the rule of law. Again, it is important not to exaggerate the distinction between a privately and publicly operated utility. Under many circumstances, the distinction between negotiating with large utilities as opposed to small enterprises is more significant, especially since large private utility operators are almost always working under contract.

25. Many contracts with large water companies involve fees that are paid to the company for providing water (and in some cases sanitation facilities), that are distinct from the fees paid by users. Moreover, like a public utility, they are usually officially prohibited – and with good reason – from accepting above-tariff payments for better services. If the company’s contract gives them a strong

incentive to do so, they are likely to be very responsive to the demands of the urban poor. If the contract does not give such incentives, they will be less responsive. Market conditions matter, but are mediated by the State.

26. A small-scale vendor earning revenue from sales has different motivations for responding to demands. Much depends on the level of competition in the market (rather than for the market, as is the case with competition for large concessions). But small-scale water and sanitation vendors include such a large variety of enterprises that it is hard even to begin to generalize. The following two sections look first at issues concerning private sector participation in water utilities and then at issues concerning the small scale enterprises. The second section is shorter, not because private utility operators are more important, but because there is comparatively little documentation on small-scale enterprises, and how best to negotiate with them.

B. Developing compacts with (private) water and sanitation utilities that serve the urban poor

27. Whether the water utility is public, private or some combination, the State plays the lead role in setting the rules by which a water or sanitation utility operates. In the case of long-term lease and concession contracts, this includes negotiating the contract and creating the regulatory framework (though these two roles may be played by different State agencies, and at different scales – thus the contract could be negotiated at the level of a municipality, while the regulatory framework could be national).

28. In terms of the framework presented above, for the urban poor to benefit from negotiations for private water and sanitation contracts, it is important:

- (a) That water and sanitation issues of concern to the urban poor are part of the negotiations;
- (b) That information pertaining to these issues is available; and
- (c) That the interests of the water and sanitation-deprived are effectively represented.

29. Indications are that none these conditions were typically met for most of the contacts negotiated in the 1990s. In many instances, there was pressure to appoint an operator in a timely fashion. Technical and financial issues were given priority. Tariffs and, in the case of investment contracts, expansion plans were negotiated. Bidders were not, however, required to outline their strategy for improving services to low-income residents. Measures were not taken to ensure that information about conditions and problems in low-income areas was available to bidders. Few efforts were made to represent the interests of the urban poor in the process, let alone to involve representatives from urban poor groups directly.

30. The concerns of low-income residents also tended to be neglected within the regulatory regimes. The initial focus was almost invariably on contract deliverables such as investment activity, service standards, and payments. As long as there are problems with these fundamentals, the regulatory activity is unlikely to extend beyond these concerns. In the words of a recent review of water and sanitation regulation and the poor, “Unless the regulatory framework properly contemplates issues in relation to services to the poor and confers on the regulatory authority for acting, it is unlikely that pro-poor policies can be implemented in the early stages of a PSP [private sector participation] contract”.

31. Even comparatively well-designed concession agreements were inclined to neglect basic issues concerning low-income residents, since the primary goal was to create an economically viable and efficient operation. Thus, two of the best known obstacles to extending water and sanitation to low income settlements are, first, that low income households rarely have large sums of money available or access to market rate loans, and hence find it particularly difficult to pay high connection costs; and, second, that many low income households live in squatter settlements with insecure tenure. Nevertheless, the initial concession agreement for Buenos Aires specified connection fees of up to \$600 for water and up to \$1,000 for sanitation, and did not make provisions for water extensions to be extended to squatter settlements. The connection costs were reduced in a later renegotiation, and localized negotiations between civil society organizations, local government and Aguas Argentinas helped to extend provision to at least some settlements on disputed lands. Until the economic crisis

undermined much of the basis for reform, some progress was being made. Generally, however, it is more difficult to negotiate with concessionaires once they are in place, and leaving the concerns of the poorest households out of the original negotiations adds to their already considerable disadvantages.

32. The urban poor are likely to have a particular interest in the expansion plans, and the mechanisms through which these plans will be realized. Among other issues that are likely to be of particular concern are:

(a) Connection costs and procedures – where the urban poor are unconnected, high connection costs and complex procedures can be a major barrier;

(b) Disconnection procedures and rights and procedures of appeal – the urban poor often lack the means of recourse in the case of disconnection;

(c) Rights to water abstraction – granting the utility operator exclusive rights to water abstraction can undermine the alternatives available to the urban poor;

(d) Secondary water markets – the urban poor often depend on secondary and often informal water markets, and the utilities operations affect these secondary markets (which in some cases are a form of competition, and in others an extension of the utility's operations); and

(e) Standards – standards that are too low may leave the urban poor at risk, while standards that are too high may exclude the poor.

C. Getting better services from small-scale providers

33. If insufficient attention has been devoted to getting the most for the urban poor from privately operated utilities, it still far more than has been devoted to getting better services for the urban poor from small scale and informal water and sanitation vendors. Yet small-scale and informal water enterprises are important for at least three reasons. First, they provide water and sanitation services to a large proportion of low-income urban households, and particular those living in areas difficult to service with conventional water distribution and sewerage networks. Without them, many of the poorly served would be even worse off. Second, informal vendors and providers generally operate without a subsidy and with prices and services that compare favourably with what official providers make available: if they did not, they would not be able to operate. Third, there is increasing evidence to suggest that, in many locations, working with and through such independent providers can be a cheaper, more effective way of improving and extending provision for water and sanitation than conventional public sector provision or reliance on large scale private (often international) companies.

34. The informal sector is unregulated, virtually by definition. In any case, the issue is not one of deciding whether, how much or in what manner small-scale providers should be regulated. What are needed, as in other parts of the water sector, are effective, accountable local governance structures that can encourage and support effective local action and innovation, particularly when it will benefit the urban poor. The appropriate responses by local or national governments and international agencies need to be rooted in the specifics of each city or even neighbourhood.

35. Not all informal water or sanitation vendor systems deserve support. In some cases, the profits to be made from reselling scarce water have led key suppliers to create non-competitive markets, and the water supplies are in effect restricted in order to drive up prices (this is rarely the itinerant vendors, who are unlikely to be able to affect market prices through their actions). In such cases, good water governance may require working with low-income groups and with vendors to determine how best to make the market function more effectively in the interests of users. Simply trying to close down the vendors on the grounds that they do not meet some official standard entails the danger of further restricting water supplies, driving prices up even further. Sanitation vendors are less likely to drive down supplies to achieve monopoly prices, but may be selling services that simply address one household's sanitation problems at the cost of others – releasing the waste in hazardous locations.

36. In other cases, the markets are highly competitive, but supplies may be restricted by the water utility's practices. There may be insufficient water hydrants to supply the vendors, or they may be located without any consideration of the convenience of the vendors, or the concerns of the users themselves. In some urban centres, itinerant vending is actively discouraged in a variety of ways, at least in the informal sector. There is comparatively little experience working with local residents to help design a strategy for improving water supplies that takes account of how the secondary water markets are functioning. On the other hand, in the course of participatory processes surrounding more conventional improvement projects, residents do sometimes develop strategies for addressing problems that arise in the secondary water markets. In Nairobi's Kibera district, for example, residents proposed a strategy involving the formation of a water vendors association and a collective bargaining process that would address the concerns of both vendors and users.

37. As with large-scale utilities, there is the challenge of ensuring that the interests of the urban poor are brought to bear on policy discussions involving small-scale enterprises and informal sector operators. Perhaps even more important is the challenge of responding directly to the legitimate demands of low-income residents. Even itinerant water vendors operating in the informal sector are subject to pressures from the Government as well as from local residents and residents' associations. Often, even the very small-scale enterprises are regulated, and are required to have licenses to operate. Yet this does not necessarily mean that local residents have any recourse when they suspect that vendors are engaging in monopolistic behaviour, selling contaminated water, providing hazardous sanitation services, or engaging in otherwise dubious practices.

38. And while the services that small-scale water and sanitation enterprises provide should not be forgotten, nor should it be assumed that they are appropriate. There are usually very large returns to scale in water delivery and in sewerage provision. In many circumstances, the prevalence of itinerant water vendors or water tankers is a symptom of a failure to provide larger, lower-cost systems. Attacking the symptom, and making it harder for the small enterprises to perform their role, will usually make matters worse. But the presence of small water and sanitation enterprises is no excuse for neglecting the task of finding less costly alternatives, which may not emerge spontaneously, and may require replacing the small enterprises with a large-scale water network. The appropriate choices are more likely to emerge where the local government is responsive to the concerns of low-income residents, and the residents themselves are able to articulate and negotiate for their interests – taking us back to the issue of increasing the power voice of the urban poor to demand better water and sanitation.

IV. Challenges for the World Urban Forum

39. From this discussion a number of critical questions emerge, including:

- (a) Under what conditions will private operators fail low-income residents, and what are the most effective ways of reversing this tendency?
- (b) How can local, national and international negotiations involving private enterprises and other stakeholders be made more pro-poor?
- (c) What capacities do public authorities and regulators need in order to get the best out of the private water and sanitation enterprises?
- (d) How can civil society organizations best put pressure on – or collaborate with – private enterprises and the State to extend affordable services to low-income areas?
- (e) What sort of role can informal water and sanitation vendors play in achieving international water targets, and how can this role be improved?
- (f) Are there important measures that can help make water and sanitation utilities more pro-poor regardless of the level of private sector participation?
- (g) What are the most effective means of giving low-income residents a stronger voice in the political and policy processes in the water and sanitation sector?

(h) What are the measures outside the sector that can help improve the provision of water and sanitation for low-income households – including housing finance, upgrading and support for self-help construction and the land sites that it requires?

40. Most of these questions cannot be answered in general, but only in particular locations and at particular times. Nevertheless, by comparing and contrasting experiences, it may also be possible to identify underlying principles that can help turn the very simple framework described above into a useful tool for local negotiation.
