



Public-Private Partnerships for Urban Environmental Services

Conclusions and
Recommendations for Action
from the International
Workshop in Berlin/Germany,
October 26-27, 2000

United Nations Development
Programme (UNDP)

Carl-Duisberg Gesellschaft
e.V. (CDG)

I. Introduction

One hundred and twenty participants met at a two-day conference in Berlin to discuss possibilities for PPP to improve water supply, sanitation, solid waste, energy and other municipal services. Mayors, public officials and private sector representatives from 25 countries from Africa, Asia, Latin America and Europe agreed on the need to facilitate private sector involvement in the development of urban environmental services in cities in the developing world. The conference was jointly sponsored by the Public-Private Partnerships for the Urban Environment facility (PPPUE) of the United Nations Development Programme (UNDP) and the Carl-Duisberg Gesellschaft e.V. (CDG) on behalf of the German Government.

The conference participants agreed to the following **principal conclusions and recommendations for action** for public-private partnerships in developing countries.

II. Creating an enabling environment: policies, institutions, legislation, regulation, and local competence

A. Conclusions

1. To make public-private partnerships happen, there must be a strong political will on the part of all tiers of Government to work in partnership with the Private Sector to provide to all local residents, at affordable prices, those services that the Public Sector cannot provide alone.
2. Public-private partnerships need an enabling institutional environment to ensure their viability. This includes clear policies; the rule of law; strong, transparent and independent financial and technical regulatory frameworks; and an unambiguous division of responsibilities between public institutions.
3. A sound decentralisation policy is a pre-condition for successful public-private partnerships at the local level. It is important that the transfer of responsibilities to the local governments is accompanied by a clear understanding of the division of competencies between national and local government institutions and the creation of a sound local financial base through adequate government transfers, increased local revenue base through efficient tax and fee collection, and improved capacities to access other financial instruments such as loans and bonds.
4. Local governments have to recognise that public-private partnerships do not relieve them of responsibilities for the provision of quality services. While local governments must be institutionally, financially and psychologically prepared for the fact that they are no longer the only supplier of public services, it is also essential that they fully assume their new role as supervisor/regulator. This includes the capacity of Local Councils to formulate local legislation in support of PPP.
5. The capacities, especially of smaller local governments, to enter into sound partnerships with the private sector must be strengthened. Development assistance, therefore, should be geared to preparing smaller communities for PPP solutions and should build up local PPP competence.

6. The national private sector plays a pivotal role as a potential partner in the delivery of basic services, whether in its own capacity or in partnership with international investors. The dialogue between government and national and local business has to be strengthened to define common goals and remove potential obstacles. Capacity building activities on PPP policies and options should fully involve the local private sector. In addition, the local private sector should strengthen their technical and managerial capacities in order to run efficient services.

B. Recommendations for Action

1. Needs assessment packages, toolkits and training course modules should be designed to provide training and capacity building for local governments, utility companies, private service providers and regulators.
2. An Internet-based network should be established to allow sharing of good (and bad) experiences and knowledge on PPP, easy access to a database of successful PPP initiatives, and a common platform/forum to allow debates.
3. A collection of successful PPP policies and local legislation should be made available through the network.
4. Regional workshops that foster the policy dialogue between public and private sectors and the exchange of good experiences should be organised.

III. Implementation

A. Conclusions

1. Before entering into a PPP, local governments should evaluate the present status of the services and define a clear strategy with definite objectives to be met through PPP. PPP projects should be developed within the framework of long-term local development plans and, thereafter, be closely linked to the objective of bringing services to the poor.
2. Experience has taught that PPP negotiations should be as inclusive as possible, incorporating National and Local Governments, the private sector, trade unions, NGOs and consumers. Contractual arrangements require broad stakeholder participation to guarantee transparency and to define clearly the role of each participant to avoid conflict of interest. It is also important to inform and educate the population on the positive and potentially negative consequences of new PPP arrangements.
3. Private local partners should become involved in the operation of and investment in PPP and are most suitable for smaller projects. With larger projects they might also become important partners for potential international investors and operators because of their local knowledge and access to local finance.
4. Public and private partners should consider a gradual increase in involvement of the private sector in public services, rather than starting directly with complex PPP arrangements. A process of practical experience with, for example, management contracts, can help overcome potentially different perceptions, goals, interests, mistrust and lack of capacity, and prepare for more sophisticated and long-term arrangements like joint ventures and concessions.

5. The potential of small-scale providers should be strengthened. In some cases, small-scale providers are sufficiently covering entire neighbourhoods or small cities and these providers are often the most effective in poorer areas.
6. PPP will thrive in a system that integrates different categories of paying consumers. The inclusion of big users and wealthy neighbourhoods makes it possible to extend services to the poor and to implement cross-subsidies schemes.
7. Adequate technology and service standards should be developed according to local conditions. This may include the need to phase in the implementation of standards to correspond with affordability and to allow the use of non-conventional technology, including decentralised systems, where appropriate.
8. There is a need to regulate and manage tariff increases to acceptable levels and to recognise the importance of phasing investment plans to meet affordability. It is better to set tariffs that reflect operation and maintenance costs early and to try to phase in increases and investments to avoid large, sudden increases in costs to the consumer.
9. The importance of using sanctions for failure of a partner to meet contractual obligations was recognised, as was the need to debate types of effective sanctions.

B. Specific to particular sectors:

1. Wherever possible, the provision of water supply and sanitation services should be combined when developing PPP initiatives.
2. The provision of solid waste management services is also considered to be an integral part of the provision of effective and sustainable sanitation services.
3. In solid waste management, it must be considered whether a conservancy charge or a user fee is implemented. While lump sum payments out of tax revenues are easier to implement, user fees can have an educational effect, for example, on waste avoidance, and also allow communities to more effectively control the private contractor. In any case, the introduction of a solid waste management service has to be accompanied by education campaigns and local legislation that enforces compliance.

C. Recommendations for Action

1. Methods for the provision of services to the poor within the framework of PPP should be developed. To this end, initiatives that have already proven successful should be evaluated and the lessons should be disseminated.
2. A database of successful PPP initiatives should be established as the basis for the exchange of experiences among developing countries and for the development of training material.
3. A list of generic criteria and indicators should be developed to guide the monitoring and evaluation of PPP projects. These criteria should be applied pre- and post-project development, so that they can measure the success/progress of a PPP project.
4. The capacities for high quality advisory services should be developed in developing countries. To this end, training courses for financial, legal and technical consultants should be established at the national and regional levels.
5. A tool-kit should be developed for public information and participation to contact potential consumers of PPP services.

6. A marketplace and partner matching events between the demand side (interested local authorities) and the supply side (service providers) should be promoted.
7. International and national awards for local PPP champions should be established.
8. Existing training materials and toolkits should be easily available in a central place.

IV. Finance

A. Conclusions

1. User fees, even in developed countries, often do not cover the investment costs for modernising and extending service systems. While tariffs should cover the operation and maintenance costs, they may not necessarily pay for the entire infrastructure development cost. Government subsidies should therefore especially target the capital investment costs for extending services to the underserved poor population.
2. It is important to improve access to local financing so that more investments in the service sector are viable and more independent from exchange rates. The development of local capital markets, therefore, is an important pre-condition for PPP.
3. There is still potential to further strengthen the co-operation between the Commercial banks and the Development banks, i.e. with regards to smaller projects. The possibilities for Venture Capital Funds for environmental service projects should be explored.
4. Municipalities should be able to access international funds directly rather than going through the national governments. Adequate guarantee systems should be put in place.
5. A major reason for the failure to attract the private sector is often the lack of adequate sovereign guarantees and a tendency to want the private sector to accept all project risks. Both sides, Governments and the Private Sector, should share a fair portion of the risk.
6. Corruption is an issue in many countries necessitating that transactions be made fully transparent.
7. Smaller projects represent a main challenge because of the high ratio of transaction costs in relation to the investment. Due to these high transaction costs, innovative solutions must be found (e.g. bundling). Increasing the economies of scale through the formation of conglomerations makes the use of traditional PSP options like concessions possible. However, this may be limited because of geographical, political and other constraints.

B. Recommendations for Action

1. A database of financial instruments and institutions that are able to provide finance to local authorities should be developed.
2. A toolkit and training modules for alternative options for project financing at the local level should be developed.