

# Policy Principles

Framework for Sustainable  
Partnerships



## **Policy Principles**

**Framework for Sustainable  
Partnerships**

*Preamble*

*Water is a unique resource, an absolute prerequisite for life, an economic, environmental, social, cultural and spiritual good and may therefore not be treated like an ordinary commodity.*

*Inadequate environmental sanitation impairs public health and economic growth. Recognizing this, governments, religions, civil society, businesses and users have throughout cultures and throughout history paid close attention to this special character of water supply and adequate environmental sanitation. This knowledge and sensitiveness must continue to be the basis for today's projects: both a warning to avoid one-size-fits-all prescriptions, and a call for constructive dialogue when facing challenges due to the great diversity of environments, development circumstances and priorities.*

## Preface

Water is fundamental to life and health. By extension, it is a prerequisite for realizing other, basic human rights and in the fight against poverty. The vital importance of water for development is also reflected in one of the Millennium Development Goals (MDGs): by 2015, the number of people without access to safe drinking water and adequate sanitation must be cut in half. Innovative partnerships are needed to meet this huge challenge. Concerning such partnerships there are various options; one of them is a Public-Private Partnership (PPP) between the public authorities and the local, national or international private sector. Deciding on the best option should be the result of an informed and transparent local process.

One of the main challenges in introducing PPPs lies in the proper definition of governance structures for all actors: roles and responsibilities must be assigned and regulatory mechanisms must be established from the outset. What is more, a PPP can only be successful if the involvement of civil society is ensured. Not surprisingly, these issues are crucial for public utilities as well. Yet, while under public service provision, the relevant policies may be adapted gradually, in a PPP, the “rules of the game” need to be set from the start.

The Swiss Agency for Development and Cooperation (SDC), the Swiss State Secretariat for Economic Affairs (**seco**) and Swiss Re have facilitated a process to develop instruments to respond to these challenges. The objective of this initiative is to enable optimal use of PPP as one of the options and contribute to the overall performance improvements of water supply and sanitation services. While Swiss Re contributed its risk expertise in this partnership, SDC and **seco** placed additional emphasis on improving the sustainability and poverty focus of PPPs. The tools were developed on the basis of a multi-stakeholder process and input from a variety of experts, and have benefited from many individual contributions. We would like to take this opportunity to thank all those who contributed for their constructive criticism and advice. We believe that effective PPPs have the potential to play an important role in achieving the MDGs. In this regard, we hope our initiative will contribute to providing access to safe drinking water and adequate sanitation for the rural and urban poor, and, in turn, deliver the basis for improved health and prosperity.



*Walter Fust,  
Director General  
Swiss Agency for Development  
and Cooperation*



*Walter Anderau,  
Chairman  
Swiss Re Centre for  
Global Dialogue*



*Jean-Daniel Gerber,  
State Secretary  
State Secretariat for  
Economic Affairs*

This document is the result of a multi-stakeholder process. It does not necessarily reflect the views of all the partners.

## Table of Contents

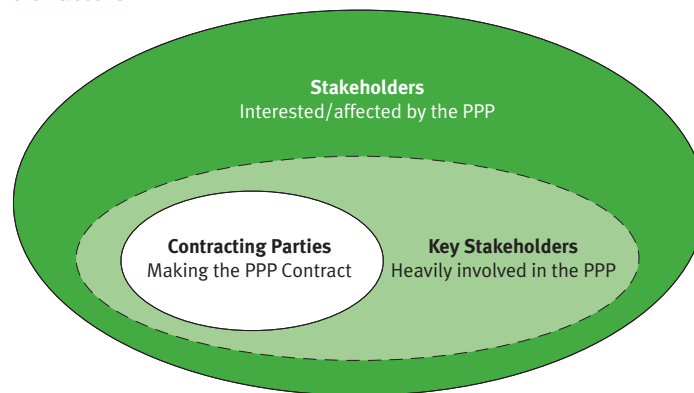
<b>1</b>	<b>Purpose of the Policy Principles</b> .....	<b>7</b>
<b>2</b>	<b>Basic Values</b> .....	<b>9</b>
21	Human rights	9
22	Good governance	9
23	Sustainable development	10
24	Equitable participatory processes	11
25	Sustainable services for safe and affordable water and sanitation	11
<b>3</b>	<b>Key Factors</b> .....	<b>12</b>
31	Poverty responsiveness	12
32	Water resource protection	12
33	Results orientation	13
34	Accountability	13
35	Transparency	13
36	Sound financing mechanisms	14
37	Shared incentives	15
38	Customer focus	16
39	Power-balanced partnership	16
310	Proactive risk management	17
<b>4</b>	<b>Framework Requirements for PPP</b> .....	<b>18</b>
41	Political and legal framework for water sector development	18
42	Local ownership and leadership	18
43	Effective regulatory mechanisms	19
44	Adequate framework for investment	19
45	Coordination with poverty reduction policy	19
46	Smoothly functioning supply chains	19
<b>5</b>	<b>Roles and Responsibilities</b> .....	<b>20</b>
51	Importance of role definition and institutional separation	20
52	Roles, rights, responsibilities and incentives of typical actors	20
53	Other roles assigned by these Policy Principles	24
	Annex 1: Commitment Signature Template	26
	Annex 2: Overview of Negotiable Elements	27
	Annex 3: Glossary	28

## Acronyms

GL	Implementation Guidelines
IFI	International Finance Institutes
ILO	International Labor Organization
IWRM	Integrated Water Resource Management
MDGs	Millennium Development Goals
MSP	Multi-Stakeholder Process
NGO	Non-governmental Organizations
NWDF	National Water Development Funds
ODA	Official Development Assistance
PRSP	Poverty Reduction Strategy Paper
PPP	Public-Private Partnership in Water Supply and Sanitation Services
SC	Stakeholder Committee
SLA	Service Level Agreement
UN	United Nations
UNDP	United Nations Development Program
WHO	World Health Organization

*(The full glossary with definitions of the terms used throughout the document is appended as Annex 3 to this document)*

## Nomenclature of actors



## Examples of actors in a given PPP:

**Contracting Parties:** Local authority, service operator

**Key Stakeholders** (strongly influencing the PPP): Both contracting parties and national and municipal governments, investors, regulator, donors, trade union(s), consumer NGOs

**Stakeholders:** All above and gender & community groups, beneficiaries, households etc.

# 1 Purpose of the Policy Principles

## **Provide a framework for discussion of principles at the political level**

111 The present document serves as a basis for a policy statement by the key stakeholders involved in the decision to allow the provision of water supply and sanitation services to be entrusted to private entities<sup>1</sup>. The “Basic Values”, “Key Factors”, “Framework Development” topics and “Roles and Responsibilities” proposed herein are put forward for the discussion agenda to ensure that there is a common understanding and broad support at the political level before the discussions move on to technical questions. This understanding will preempt ideological blockages to PPP.

## **Target audience of the Policy Principles: Key stakeholders in Public-Private Partnerships**

- Policy-makers in governments (national, regional and local)
- Civil society and other nongovernmental stakeholders
- Institutional stakeholders (e.g. UN organizations, IFIs, donor agencies)
- Financing institutions, commercial banks, investors
- Private sector companies delivering public services
- Regulatory agencies
- Public-services trade unions
- Advisors in PPP projects

## **Clarify the core elements of well governed water supply and sanitation services**

112 The content of the document has been developed in multistakeholder dialogues with a multitude of actors from very varied backgrounds, regions, and social standing. The core elements necessary for any successful PPP in water supply and sanitation have been supplemented by additional elements that might not apply to every context. Their applicability to a specific PPP needs to be discussed among the local stakeholders. Such elements are marked with a green bar on the left. The list of commonly agreed exclusions is an integral part of the signed policy statement. (Templates for both the signatures sheet and the list of exclusions are given in the annex and are available online at [www.partnershipsforwater.net](http://www.partnershipsforwater.net).)

Example negotiable elements

## **Areas of application**

113 The principles apply to urban areas (including slums and informal settlements), to small towns, and to rural areas. While many of the principles are general preconditions for good water and sanitation<sup>2</sup> sector governance, the main focus is on PPP – a condensed, immediate transition requiring carefully managed sector governance.

114 It therefore focuses on stakeholder involvement, cooperation, and partnership in service delivery for drinking water supply, domestic water uses<sup>3</sup>, and domestic sanitation.

115 The “Policy Principles” are intended as input for a broad, participatory discussion process about how the sector can be organized to allow for effective, efficient, and socially acceptable partnerships with the private sector.

## **Provide role models for effectively delegated, well managed, and sustainable services**

116 The document also provides a description of the relevant actors’ roles, rights, responsibilities, and incentives (chapter 5). Mutual acknowledgement of the discussion partners’ roles can contribute greatly to identifying solutions that are not at the expense of one party but to the benefit of both (all) parties. That is why this chapter has been included. As the roles are based on a vision of a decentralized government structure, with an existing range of civil society organizations accustomed to participatory decision-making, it should be read as a vision rather

1 or for more general sector reform discussions (because many of the common challenges today can very effectively be remedied through improved water sector governance as stipulated in this document).

2 including wastewater and fecal sludge collection and treatment, excluding solid waste collection and treatment.

3 water used for washing, cleaning, or domestic irrigation (e.g. vegetable patch).

than as a prescription for distributions of tasks for obtaining well managed, sustainable services.

### **Limitations**

117 This set of Policy Principles does not offer guidance on whether PPPs are a suitable option for any specific situation. It mainly applies once the parties have decided to use PPP as a possible option, and it highlights the special requirements and opportunities of such arrangements.

118 The Policy Principles cannot be and are not intended as a substitute for well-crafted contracts for specific partnerships. But the drafting of a contract will be simplified enormously if agreement has already been reached on the underlying values and principles for the service.

119 Industrial, bulk water, and large-scale commercial water uses as well as water for irrigation have a great influence on both the availability and quality of drinking water. These uses need to be considered in the context of overall sector management. However, provision of the related services is not covered in this set of principles.

### **Added value of using the present “Policy Principles”**

110 This set of Policy Principles will help to mobilize the potential of PPPs, to smoothen the process of establishing a PPP, to reduce the risks to investors, and thus to encourage the flow of funds. This should in turn facilitate the provision of water services and environmental sanitation and should foster political will for action.

### **Hand over to the “Implementation Guidelines” for translation to the project level**

111 It goes without saying that translating the present policy principles into project reality can be very demanding and that the consistent application of all key factors may prove impossible without adequate guidance. For this reason, supporting documents are provided to assist project developers and operational staff in transposing the present principles into “project reality”. While the “Policy Principles” structure the political dialogues, the complementing “Implementation Guidelines” steer project developers and practitioners through the project cycle while making sure that the principles will be applied. The “ToolContainer” references materials for direct access to original information. Consistency across these products ensures a systematic approach to a very complex and demanding task: delivering safe drinking water and providing adequate sanitation to all.



## 2 Basic Values

### 21 Human rights

211 According to the relevant international legal instruments, access to sufficient, safe, and physically accessible water for drinking, personal hygiene, cooking, and washing is a human right<sup>4</sup>.

212 The right to basic water supply and sanitation does not imply the right to free services. These services have a real cost. It is in the responsibility of public authorities to ensure that the population has access to these services at an affordable price – now and in the future.

213 While access to basic water supply and sanitation is a human right, access to more sophisticated water and sanitation services that go beyond basic needs cannot be expected to be provided to all people under all circumstances.

214 In the event of competing demands (domestic, industrial, agricultural use) for scarce resources, the basic necessities for life and health will be prioritized.

### 22 Good governance

221 Political commitment to good governance and its implementation in a stable, equitable and predictable way will improve the performance of the water supply and sanitation sector in general, and PPP arrangements in particular.

222 All stakeholders support the principles of good governance, and, where it lies within their influence, promote:

- transparency
- the rule of law (especially equitable and reciprocal enforcement of contracts)
- accountability
- anticorruption policies, measures, and actions
- participatory decision-making processes (in line with defined rights and obligations)
- responsiveness to stakeholders' concerns and interests (particularly the needs of women)
- consensus-oriented and incentive-based solutions
- equity and inclusiveness, especially with respect to vulnerable groups (children, poor, and underprivileged persons)
- clear institutional separation of roles and competencies

223 All stakeholders are aware of the particular difficulties facing developing or transition countries. They support – while respecting national sovereignty – the relevant authorities in addressing poverty, corruption issues and lack of capacity.

224 The stakeholders make every effort to prevent negative political interference in water supply and sanitation projects. A well-drafted, objective-oriented PPP contract will define the contracting parties' respective spheres of action and influence.

225 Where national and/or regional regulation and law do not set standards for good governance, international parties act in accordance with the relevant legal requirements of their home countries and make these transparent to their partners in the country of intervention.

<sup>4</sup> “Water is fundamental for life and health. The human right to water is indispensable for leading a healthy life in human dignity. It is a prerequisite to the realization of all other human rights.” General Comment No. 15 of the UN Committee on Economic, Social and Cultural Rights, adopted November 27, 2002.

## 23 Sustainable development

231 All stakeholders in a PPP will promote sustainable development of the water and sanitation sector and ensure that all activities are environmentally sound, socially desirable, economically viable, and in compliance with applicable law.

### Social and cultural values

232 All stakeholders will respect social and cultural values. They will take all measures within their power to promote such values, including in particular:

- respecting cultural behavior relevant in the local context
- gender balance in decision-making, implementation, and operation, especially in cultures not traditionally used to acknowledging gender equity as a social value
- respecting civic duties towards authorities and towards service providers (as a prerequisite for fulfilling their functions in the provision of water and sanitation services)
- recognition of the social value of water and sanitation services and their critical role as drivers of urban and rural economic development, which can lead to the creation of jobs and improvement of health conditions, especially for the poor
- strong standing for underprivileged people: importance of the fight against poverty, balance and solidarity among user groups with different levels of capacity and affluence.

### Environmental values

233 All stakeholders acknowledge the importance of a well balanced natural environment for water resources in the whole water cycle and are committed to ensuring protection of the environment, including in particular:

- Water will be used efficiently. Pollution will be prevented at the source, water resources will be conserved and managed following an integrated approach (e.g. IWRM).
- Natural ecosystems, animals, and plants will be respected. The monetary and other values of the services they provide will be acknowledged.
- Safe disposal of excreta, fecal sludge, and wastewater will be promoted.
- Responsible use of water by applying the “polluter pays” and “user pays” principles, possibly on the basis of charges that are redistributed to projects that encourage (a) the prevention of risks relating to harmful activities, both for residents and for the receiving environments, and (b) the polluter to remove pollution, and the consumer to avoid wastage.

234 Services related to the conservation of natural ecosystems will be remunerated to ensure their long-term availability.

### Economic values

235 Efficiency, effectiveness, equity as well as profitability, and customer orientation are core values of good, sustainable, long-term business.

236 Adequate investment in infrastructure and maintenance ensures operational sustainability.

237 Contracts are the backbone of business; they must be enforceable for all contracting parties. Oral agreements will need to be made in front of reliable, independent witnesses.

238 Water services produce added value for customers. The consumers pay for them and accept that the service provider earns an attractive and socially acceptable margin.

### Resolution of conflicts

239 Conflicts of goals and interests will be a reality in any arrangement trying to satisfy all aspects of sustainable development and good governance. The stakeholders will address the necessary prioritization transparently and collaborate to identify workable solutions.

## 24 Equitable participatory processes

241 All stakeholders acknowledge the importance of adequate stakeholder participation in the critical stages of the project. The contracting parties will ensure that stakeholders may participate actively and suggest corrective measures if necessary. They will allow sufficient time for consensus-building.

242 Recognizing the crucial importance of a stable, reliable and equitable partnership based on mutual trust and respect, all stakeholders in a PPP share the following values:

- effective and constructive cooperation
- honesty in all communications
- common interest in effective dispute settlement
- no undue pressure and exploitation of differences in capacity and/or knowledge

243 A sound balance of participatory decision-making and operational efficiency will be established in a consultation process among the stakeholders. A Stakeholder Committee (SC) will be established in the earliest stages of the partnership.

### Respect for consumer rights

244 The contracting parties treat all consumers (domestic, governmental, industrial) equitably.

245 Consumers (men and women) will be actively informed about the service and represented in decision-making on their behalf (user charges, service levels, service extension, etc.).

246 All consumers have easy, nondiscriminatory access to independent consumer rights offices.

247 Consumers who incur prejudices will be compensated if the prejudices are related to non-compliance by the service operator with the agreed levels of service.

248 Consumers' complaints will be resolved quickly. Consumers will be notified promptly in cases where longer-term action is required.

### Respect for workers' rights

249 The contracting parties adhere to labor standards within the national legislation or as laid down in the relevant Conventions of the International Labor Organization (ILO).

2410 In the transition to a PPP, workers' rights and obligations will be explicitly considered.

2411 The work environment will encourage contributions by female and male workers. Equivalent, nondiscriminating working conditions will apply.

2412 Adequate staffing of private or public service operators, regulatory authorities and other institutions involved is a necessity for well governed, high-performing services.

2413 Local staff will be employed whenever possible.

2414 Workers will be represented in the shaping of the relevant contractual agreements concerning their role. They will subsequently act accordingly.

## 25 Sustainable services for safe and affordable water and sanitation

251 All stakeholders will collaborate with governments at all levels to prioritize affordable longterm access to sustainable water supply and sanitation services.

252 Safe drinking water and adequate sanitation in accordance with World Health Organization (WHO) and/or pertinent national standards will be made available whenever possible.

253 An adequate supply of drinking water will be assured, continuous service targeted if possible.

254 Drinking water supply of significantly improved quality and significant improvement in environmental sanitation as compared to the previous situation is also considered acceptable. Remaining quality issues will be made intelligible to all.

## 3 Key Factors

### 31 Poverty responsiveness

311 The contracting parties and key stakeholders will make special efforts to include low-income user groups in the design and implementation of projects that affect their interests, and will invite and support their participation, particularly at neighborhood and community level.

312 It is the responsibility of the public authorities to ensure that water and sanitation services will be affordable to the poor. Affordability surveys will be conducted and will consider the various poverty levels and geographical differences.

313 Propoor solutions will be identified and jointly developed (e.g. low-cost technical alternatives or appropriate payment mechanisms).

| 314 Special solutions will be required for people (temporarily) not able to pay for the service.

#### **Subsidies and cross-financing of services, connections, users, and water uses**

315 Tariff policies with subsidies are often proposed as propoor measures. But general tariff subsidies distort demand and usage patterns and very often fail to (exclusively) reach the poor. Subsidies financed from external sources (tax money, ODA) should be decoupled from the water charges and instead used for service extension (making new connections).

316 If cross-subsidies of user charges between water users and/or water and sanitation services are needed, they must be designed to (a) be transparent and easy to understand (b) be easy to allocate, (c) target the poor directly and (d) work with all usage patterns.

| 317 A transitional tariff policy with gradually declining subsidy levels can make the final cost-covering tariff more acceptable, as prices and service levels increase in parallel.

### 32 Water resource protection

321 Ownership of water resources must at all times remain public.

322 All stakeholders will, as far as it is within their power:  
(a) cooperate to avoid overabstraction and pollution of water resources,  
(b) participate in initiatives for Integrated Water Resource Management (IWRM) and  
(c) facilitate mediation of conflicts on competing interests in transparent and fair discussions.

323 Wherever possible and technically appropriate, water supply and sanitation services will be combined in the same project or program to address the full domestic water cycle including nongrid solutions.

| 324 Water losses due to leakages in the system must be reduced to an acceptable level. Increasing abstraction charges are an incentive for such improvements.

| 325 Leakages from sewer systems need to be minimized as they may affect groundwater resources or downstream water usages.

### 33 Results orientation

331 Universal coverage with safe drinking water supply and adequate sanitation is the shared vision of all stakeholders striving to protect both the health of the population and the environment.

332 In an initial assessment the key stakeholders will analyze the present water supply and sanitation services, identify the gaps and reevaluate whether privately or fully publicly managed service provision will be the most efficient option for achieving the desired results.

333 Transforming the shared overall goals into measurable and attainable results, the local key stakeholders will cooperate in preparing the contract.

334 They will conduct a thorough analysis of economic, legal, institutional, socio-cultural, environmental and technical aspects in the PPP context. The unavoidable uncertainties in this assessment require explicit sharing of associated risks.

335 The PPP contract will provide the basis for (a) efficient, pragmatic cooperation in a strong and reliable partnership, (b) sufficient room for flexible solutions, as the context and the related issues are subject to constant change, and (c) continuous improvement and institutional learning. The level of flexibility will be carefully defined to prevent deviation from agreed overall goals and original risk/benefit-sharing arrangements.

336 Service Level Agreements (SLA) in the contract will contain performance targets and measurement criteria. They will be adapted if needs and boundary conditions change.<sup>5</sup>

337 Service Area delineations must be clear but adaptable.

338 Planning horizons and internal procedures (contract duration, master plan periods, investment plans, election cycles) will be coordinated between the key stakeholders.

### 34 Accountability

341 The contracting parties, their consultants and the key stakeholders will be accountable at the local level for (a) fulfilling their roles and responsibilities, (b) their contribution to the overall service performance and (c) their compliance with existing laws and regulations.

342 Mechanisms of accountability and consultation will be established: each actor will have at least one counterpart he is accountable to. Effective oversight from the counterpart will further ensure that accountability mechanisms are followed properly.

343 Stakeholders will have the possibility to contest (a) insufficient accountability or (b) individual wrongdoing by a party.

344 All parties will be accountable for initiating the participatory processes in their spheres of action as stated in this document. The results of participatory processes will be public and the status of implementation of agreed measures will be reported back to the stakeholders.

### 35 Transparency

#### Countering corruption by transparent financial flows

351 All stakeholders will apply a no-tolerance policy towards corruption and make every possible effort to eradicate bribery<sup>6</sup> in their activities, including the transparency of financial flows.<sup>7</sup> Well functioning services and procedures offer less opportunity for bribery and corruption.

<sup>5</sup> e.g. user needs may evolve from "survival" to "quality" to "comfort"

<sup>6</sup> including "petty corruption" on an individual basis (e.g. a plumber suggesting or accepting such a bribe for quicker connection to the grid)

<sup>7</sup> for further guidance on this subject cf. "Business Principles for Countering Bribery", Dec 2002, Transparency International [http://www.transparency.org/building\\_coalitions/private\\_sector/business\\_principles.html](http://www.transparency.org/building_coalitions/private_sector/business_principles.html)

352 The separation of power and functions within the water supply and sanitation sector will contribute to better transparency.

353 All service operators in the water supply and sanitation sector will adhere to defined transparency standards to retain their permit for service operation.

354 External audits of service providers and privately managed water entities (e.g. asset holding body) must be established to verify the transparent flow of financial resources.

#### **Sharing information for maximum transparency**

355 Transparency will be achieved through structured, systematic, and periodical sharing of information, which reduces risks.<sup>8</sup> Clear data protection rules will ensure that legitimate corporate secrets are not divulged.

356 Communication with all stakeholders, particularly poor, illiterate, and informal actors, will be factual, appropriately presented, and accessible to all target-groups. Care will be taken to assure this in terms of complexity of information, gender sensitivity, language and communication channels.

357 All stakeholders are committed to open exchange of undistorted factual information.

358 The dispute commission can overrule information requests inducing excessive costs.<sup>9</sup>

#### **Areas of special transparency requirements in water and sanitation services**

359 The underlying goals of the government's water and sanitation strategy (including the tariff strategy and changes therein) will be actively communicated to all stakeholders.

3510 The agreed level of service and results of periodic service measurements will be made publicly available in unambiguous format and will be communicated to all stakeholders.

3511 As investments in water supply and sanitation systems are often buried, their volumes and allocation will be publicly reported.

3512 If different entities are responsible for investment, maintenance and repair/replacement works, clear procedures will be established for resolving unavoidable ambiguous cases<sup>10</sup> and/or conflicts of interest.

## **36 Sound financing mechanisms**

### **Unambiguous financial and operational structures**

361 Water and sanitation service providers will have financial autonomy.

362 Operational functions and tasks must be openly allocated, and institutional powers in the water sector must be clearly separated (cf. Chapter 5).

### **Asset ownership and investments**

363 Grid-based water supply and sanitation services are natural monopolies. To avoid abuse of monopolistic power, it is strongly recommended that the public sector retains ownership of public water supply and sanitation assets.<sup>11</sup>

364 Private ownership of privately funded new infrastructure is very much encouraged, if the private partner agrees to transfer the assets to public ownership on termination of the contract.

365 Asset ownership must be clear, the inventories agreed between the contracting parties and the responsibilities (for management, maintenance and repair works) clearly assigned.

<sup>8</sup> Sharing of procedural, financial, organizational, operational, and regulatory information should be perceived as an investment in risk and thus in cost reduction, as it enables potential conflicts to be detected and solved early.

<sup>9</sup> The party requesting the information will be invited to participate if it is not a permanent member of the dispute commission (for functions and roles of the dispute commission cf. § 3104 and 532).

<sup>10</sup> e.g. full replacement of a frequently breaking stretch of piping, substitution of pumps by more efficient models.

<sup>11</sup> Simply because after a potential bankruptcy of the private partner, the (sunk) assets (piping, treatment plants, boreholes, wells, etc.) will naturally fall back into public ownership (with potentially enormous rehabilitation costs)

366 The loan architecture of new investments must be aligned with the overall objectives of the PPP. Financing elements tied to counterproductive conditionalities must be substituted.

367 Water service operators will make efficient use of capital to balance infrastructure investments against water conservation measures.<sup>12</sup>

#### **Cost recovery for sustainable services**

368 Overall income from water and sanitation services must allow cost recovery and ensure sufficient cash flow for sustainable, reliable long-term operations.

369 Cost recovery must include operations, maintenance, cost of asset modernization, risk-adjusted profits, cost of private capital, and also costs for ecosystem services.

3610 Expensive technology or over-ambitious quality targets can boost the cost of water and sanitation services. A consensus on the targeted service level and technologies to be used must be found with the stakeholders for the present and the future.

3611 Official Development Assistance (ODA) can be an initial and/or temporary solution for overcoming financial straits. Great care should be taken that it does not create contradictory incentives and produce adverse long-term impacts in (weak) markets.<sup>13</sup>

3612 The contract will include strong incentives for the service operator to drive down costs while encouraging internal investment in the system.

#### **Sources of revenue**

3613 The sources of revenue are customers or governments, through tariffs/fees or subsidies/taxes.

3614 The contracting parties will agree on measures to be adopted if revenue sources do not meet their obligations (nonpayments of bills, cuts in subsidies, etc.)

3615 Consumer-friendly billing and payment collection will improve collection rates.

3616 Special payment collection procedures will be developed for the event that public bodies (armed forces, hospitals, schools, etc.) do not meet their agreed obligations.

#### **Fair and economically sound pricing**

3617 Tariffs will be designed in an open consultation process. They will encourage efficient use of water, operation, and maintenance of water and sanitation infrastructures, resource recovery and will promote the financing of investments in the sector.

3618 Normal profits<sup>14</sup> on water and sanitation services are acceptable, if the quality and affordability criteria are met. To avoid rumors, it is advisable to disclose actual return on investment.

3619 Economic realities will be fully taken into account in pricing discussions. Pricing below cost is a political decision and will require subsidies from governments to ensure sustainable services. Intelligible long-term cost prognoses of possible technology/service level alternatives will assist consumers in understanding the cost of meeting their needs.

3620 The contracting parties in a PPP will explore and promote income-generating water usage schemes<sup>15</sup> wherever possible, as they create added value for water users and have a positive affect on willingness and ability to pay.

## **37 Shared incentives**

371 Particular objectives and common interests of all stakeholders will be openly discussed to identify possible incentives in the arrangement.

372 Diverging expectations of any partner are a serious risk, if not properly addressed.

<sup>12</sup> e.g. by reducing “unaccounted for water” and losses in the existing infrastructure

<sup>13</sup> ODA loans to businesses can stimulate but also prevent the creation of local capital markets, ODA grants may unbalance markets by creating unspecific incentives, especially if they come from uncoordinated sources.

<sup>14</sup> It is advisable to agree on a bandwidth for “normal” profits and not to prescribe a fixed amount or percentage, as this removes any incentive for private operators to improve their cost structure. See the GL for details.

<sup>15</sup> e.g. drip irrigation for vegetable patches, or combined use



373 The process of actively disclosing particular interests, seeking an acceptable balance in conflicting objectives and diverging expectations will in itself reaffirm the common interest in achieving the overall goals.

374 To learn about the interests and incentives of vulnerable groups, their dreams of better living conditions will be approached tactfully, not technically.

375 Salaries of local employees of private operators must be commensurate with real local income levels.

### 38 Customer focus

381 Users of water supply and sanitation services are legitimate actors, and have roles, rights, obligations and responsibilities as customers. They demand affordable quality services, including customer services.

382 Current and future demand and resource availability are the basis for designing (a) the range of services and (b) organizational and technical options for meeting the demand.

383 Water and sanitation services are delivered locally, and therefore planning and negotiation must focus on the most local and economically viable level possible. Local water organizations, existing sanitation habits, traditional and cultural water rights, household structures, and water-related gender roles are taken into account.

384 To identify the customers, the full service-delivery chain must be taken into account. For water supply services this includes: (a) source protection, (b) water production, (c) treatment, (d) distribution, (e) sale, (f) billing / invoicing, (g) complaints handling, (h) maintenance, (i) system upgrades.

In the case of sanitation services this includes: (k) social mobilization, (l) installation, infrastructure upgrading / system connection (m) usage instruction (n) maintenance (o) collection and transportation, (p) treatment, (q) disposal and/or reuse.

### 39 Power-balanced partnership

#### **Special efforts to compensate rather than exploit unequal capacities**

391 The contracting parties must be on an equal footing in contract negotiations<sup>16</sup> and during operation. Outside assistance will be sought if one party lacks necessary capacity. Funding will preferably come from a neutral source outside the future partnership.

392 Mutual trust contributes greatly to balancing out potential inequalities. Key stakeholders prove themselves trustworthy by sharing their expert knowledge, by acting with political tact and being honest in communications – including knowledge gaps and mistakes made.

393 Special measures will be taken to promote gender balance. In societies with male-dominated power structures, special techniques will have to be used to encourage women to voice their needs.

#### **Common understanding of mutual roles**

394 The discussion of roles, rights, obligations, and responsibilities for all stakeholders will help to understand the respective motivation, incentives, and objectives.

395 A clear role assignment will prevent gaps in responsibilities and clarifies mandates.

396 All decision-makers in the PPP assess the potential impact of their decisions on gender roles. Significant impact (including improvements) will be discussed directly with relevant groups.



### **Good, result-oriented contracts**

397 The contracting parties will be strongly committed to a well-crafted, result- and performance-oriented PPP contract during the full life span of the contract. They cooperate to resolve conflicts, to preserve the fundamental goals of the arrangement and to avoid sanctions.

398 Participatory processes during contract drafting involving reliable and legitimate stakeholders from civil society (religious leaders, water user associations, community councils) add political stability to the contract.

### **Partnerships with alternative service operators**

399 Particularly where the main provider cannot (yet) provide adequate water supply and sanitation services, the potential for partnering with independent service providers, community-based services; small or medium enterprises and water supply and sanitation service associations will be considered.

310 A possibly transitory nature of arrangements with alternative service providers must be clear from the start. Some form of (self-)regulation of these services will be needed. Enforcement mechanisms against illegally operating service providers have to be established, which will not deprive the served customers of their services.

## **310 Proactive risk management**

### **Management of risks and their distribution**

3101 The contracting parties will develop an open and ongoing risk-management culture. Commercial and noncommercial risks will be (a) assessed in a thorough risk analysis (identification and estimation) and risk evaluation process, (b) addressed with appropriate mitigation measures and (c) controlled systematically (monitoring, external perception, safety & security checks, risk communication, and risk reporting).

3102 The allocation of risks (social, economic, technical, environmental, etc.) among contracting parties should be transparent and fair, taking into account the capacity of each party to influence, mitigate, or transfer the risk.<sup>17</sup>

3103 Major unpredictable or nonattributable risks in water and sanitation projects are shared among the contracting parties, funding providers, and donors.

3104 A PPP dispute commission comprising experts and key stakeholders can be created to review and mitigate potential risks and resolve acute problems.

3105 The facilitators of the PPP (e.g. financing institutions, development agencies, specialized NGOs acting as transaction advisors) will – if there is explicit demand for such outside catalysts – maintain their engagement and support and will thus contribute to minimizing risks. Funding will be shared if the achievable risk reduction is equally beneficial for all parties.

### **Definition of arbitration and renegotiation procedures**

3106 The contract will designate an independent, highly credible arbitration authority to reconcile disputes about the contract. The arbitration authority will collaborate with the contracting parties to develop/adapt its arbitration procedures and sanctions.

3107 Renegotiation criteria and procedures will be included in the risk management system.

### **Exit scenarios**

3108 The contracting parties develop exit scenarios for regular termination or breach of contract. The impact of these scenarios on all stakeholders will be openly discussed.

<sup>17</sup> The service operator will assume operational risks in return for the profits it siphons off, government will assume political risk etc.

## 4 Framework Requirements for PPP

### 41 Political and legal framework for water sector development

411 National and local governments are responsible for water and sanitation service provision to all citizens in all population groups.

**The competent government authorities, the local and national policymakers, the contracting parties, and all stakeholders will, as far as it is within their power**

412 ensure that the national legislation, as well as government policies and structures, allow for Public-Private Partnership in water supply and sanitation services.

413 ensure that the legal framework explicitly allows for the development of locally owned and managed water service providers, particularly in rural areas and small towns.

414 coordinate water sector development with the development of the policy and institutional framework, and aim at effective and attractive participation opportunities.

415 clarify possible implications of water rights, relevant local custom and usage, and gender-specific rights issues in consultation with all stakeholders prior to initiation of a PPP.

416 establish platforms for policy coordination in water supply and sanitation services and general water sector planning at the national and local levels.<sup>18</sup>

417 assess the cost and potential of reforms to improve underperforming public water and sanitation service provision before the decision for a PPP is taken.

418 create an enabling environment for various models of water and sanitation service delivery including Public-Private Partnership and continued public provision.

419 determine and respect the boundaries for political involvement in service operations.

4110 compensate parties if changes in the legal framework lead to financial implications because the new legislation is inconsistent with contractually agreed rights and obligations.

4111 All stakeholders will contribute their know-how to assist the competent government authorities in developing the political and legal framework where necessary. They will do so in a role of honest brokers and not try to prioritize/favor their particular interests.

### 42 Local ownership and leadership

421 Wherever possible, the administrative and political leader of the entity to which the service is provided (city, town, village, water utility for service contracts, etc.) will be the public contracting party (e.g. mayors in towns, head of water user association) for the PPP.

422 Policy coordination ensures that local authorities have sufficient financial resources (or competences to raise resources) and can establish an adequate institutional structure to fulfill their water and sanitation obligations.

423 Investments in long-term capacity building and education up to university level will be needed for fostering/ensuring the availability of qualified staff at the local level.

424 If local authorities lack adequate capacity, an entity at the next higher level may temporarily act on their behalf. A medium-term schedule for knowledge transfer and shifting of responsibilities back to the local level must be developed, communicated, and pursued to ensure continued local ownership and project involvement.

### 43 Effective regulatory mechanisms

431 A competent and respected regulatory authority must be created to monitor water and sanitation services and their economic aspects in the best interest of the public.

432 Effective regulation is independent of the legal status of the provider (public/private/informal) and will be implemented by objectives and output (e.g. quality and quantity of the services), not by process prescriptions and input requirements (e.g. fixed amount of yearly investment in piping).

433 The contracting parties recognize and adopt the concept of multiple service providers. If informal small-scale providers respect the general principles of the official policies and follow regulatory standards, they will be regarded as legitimate actors in the water economy.

434 Environmental regulation and enforcement of laws/policies must also be addressed, but, to ensure institutional separation, should not be assigned to the same regulatory authority.

435 The regulatory authority will carry out periodic internal audits of the instruments used for regulating in order to ensure effective and constantly improved regulation.

436 As the continuity of regulatory capacity is crucial for a long-term PPP, capacity for regulation will be developed accordingly.

### 44 Adequate framework for investment

441 National, regional, and local governments will make every effort to create favorable conditions for investment and the development of local capital markets.

442 Autonomous water service providers will have access to the local capital market to increase their capacity for becoming reliable partners in the delivery of water services.

443 National Water Development Funds (NWDF) can help to minimize risks by providing local funding for projects and by securing financial resources for ongoing services in the event of under-performance or bankruptcy of the service provider.

### 45 Coordination with poverty reduction policy

451 Poverty Reduction Strategy Paper (PRSP) processes conducted by the national governments will include water supply and sanitation service targets and measures.

452 To ensure effective collaboration, local governments and other stakeholders will be involved in the PRSP process.

### 46 Smoothly functioning supply chains

461 To ensure quick and easy maintenance and repair works, spare parts must be readily available. Supply chain considerations should be a part of any technical project, especially in inaccessible or remote areas.

462 Where supply chains are underdeveloped, market opportunities for spare parts and repairs will be promoted.

463 A skill pool with local capacity for technical and financial auditing services will also be required to ensure the long-term self-supportiveness of PPPs in water supply and sanitation.

## 5 Roles and Responsibilities

### 51 Importance of role definition and institutional separation

511 The roles in complex partnerships such as a PPP for water and sanitation services need to be clearly defined and institutionally separated.

- 512 Regarding the water and sanitation sector, the key roles and actors are:
- The *national government* sets the policy and legal framework for water and sanitation, Public-Private Partnerships, and represents the interests of all citizens.
  - The *local government* (regional, municipal as appropriate) ensures access to basic services, has authority over user charges, and concludes service delivery contracts.
  - The *consumer* becomes a legitimate customer of the service provider and is responsible for paying the bills issued on the basis of an agreed tariff.
  - The *regulator(s)* monitor the performance of all parties, provide information on the execution of the contract, and act to balance the interests of governments, service providers, and consumers.
  - The *service provider(s)* are responsible for executing the contractual agreements and for delivering services.

### 52 Roles, rights, responsibilities, and incentives of typical actors

#### 521 National governments

Roles	<ul style="list-style-type: none"><li>– Representatives of public interests (e.g. PRSP implementation)</li><li>– Setting and enforcing the legal and institutional framework</li><li>– Macroeconomic management and risk limitation</li><li>– Owners and managers of water resources of national importance</li><li>– Mobilizing foreign and local investments</li><li>– Actors on behalf of local governments with insufficient capacity. Decentralization processes will ensure a medium-term transition of responsibilities and powers to the local level.</li></ul>
Rights	<ul style="list-style-type: none"><li>– To be internationally respected as a sovereign entity</li></ul>
Responsibilities	<ul style="list-style-type: none"><li>– To translate the human right to water into the national context, create an enabling environment and pursue a consistently planned approach to provide sufficient and safe water supply and sanitation services for all.</li><li>– To allocate public financial resources for water supply and sanitation</li><li>– To formulate and coordinate overall and cross-border water policies and strategies, water resource management and sector development goals and priorities in constant consultation with local governments.</li><li>– To improve framework conditions to attract capital investment and to develop local credit markets.</li><li>– To establish effective regulation of public and private sector activities.</li><li>– To formulate the national tariff policy</li><li>– To pay for water use by government entities (armed forces, hospitals).</li></ul>
Incentives	<ul style="list-style-type: none"><li>– Fulfill the duty of equitable access to water and sanitation services.</li><li>– Economic growth within the country as a consequence of increased access to basic water and sanitation services.</li><li>– Better living conditions ensure support from voters.</li></ul>

## 522 Local governments/Local authorities

- |                  |   |
|------------------|---|
| Roles            | <ul style="list-style-type: none"><li>– Process owner and principal party to PPP contracts</li><li>– Facilitator of local dialogues (demand, affordability studies, etc.)</li><li>– Managers of local water resources</li></ul>   |
| Rights           | <ul style="list-style-type: none"><li>– To decide with sufficient autonomy from national governments on realization of water and sanitation projects</li><li>– To have authority over revenue flows from water and sanitation user charges from their area<sup>19</sup> (with some contributions to a national equalization fund, if appropriate).</li><li>– To have their interests represented through a higher-level entity in case of lack of capacity (e.g. early in an ongoing decentralization process).</li><li>– To form regional associations for more efficient service organization.</li></ul>  |
| Responsibilities | <ul style="list-style-type: none"><li>– To provide the local population with a reliable supply of drinking water in sufficient quality and quantity and adequate sanitation, in accordance with national government policies.</li><li>– To honor the PPP contract, to be accountable, and to hold other contracting parties accountable for their actions.</li><li>– To formulate local tariff policy by translating national tariff policy to suit the local situation.</li><li>– To ring-fence revenue flows from water and sanitation user charges.</li><li>– To coordinate their efforts with neighboring districts/regions, exchange know-how, and mutually contribute to capacity building.</li><li>– To develop socially acceptable mechanisms for enforcing payments.</li></ul> |
| Incentives       | <ul style="list-style-type: none"><li>– Fulfill the duty of equitable access to water and sanitation services.</li><li>– Direct action for poverty alleviation and local economic growth.</li><li>– Direct access to subsovereign loans or ODA.</li></ul>   |

## 523 Consumers/Users

- |                  |  |
|------------------|--|
| Roles            | <ul style="list-style-type: none"><li>– Users of water (domestic, industrial, agricultural use).</li><li>– Producers of excreta, fecal sludge, and wastewater.</li></ul>   |
| Rights           | <ul style="list-style-type: none"><li>– Access to clean and safe drinking water, and adequate sanitation.</li><li>– To participate in the demand-assessment and tariff-setting processes.</li><li>– To be informed regarding the services received.</li><li>– To be compensated in the event of prejudice through inadequate services.</li></ul> |
| Responsibilities | <ul style="list-style-type: none"><li>– To pay for services received.</li><li>– To respect service agreements.</li></ul>   |
| Incentives       | <ul style="list-style-type: none"><li>– Improved service standards (quality and reliability).</li><li>– Better living conditions.</li></ul>  |

## 524 Regulatory authorities

- |       |   |
|-------|---|
| Roles | <ul style="list-style-type: none"><li>– Work towards a “fair price for the right service” for all.</li><li>– Supervision of the contractually agreed outputs without interfering with corporate processes and business development.</li><li>– Protector and advocate of the interests of the customers (including corruption monitoring and prevention).</li><li>– Protector of the contractually agreed rights of the private operator.</li><li>– First arbitration institution.</li></ul> |
|-------|---|

<sup>19</sup> Or to concede them to an autonomous water utility

Rights	– To obtain access to accurate information on service performance from all parties within the jurisdiction of their regulations.
	– To make qualified judgments within their competence on the extent of compliance with agreed service levels as specified in the contract.
Responsibilities	– To balance the interests of contracting parties and consumers.
	– To register all water service providers and treat them equitably.
	– To monitor compliance of tariffs with the national tariff policy.
	– To provide subsidiary information regarding the services (quality issues, price projections, etc. not made transparent by the operator).
	– To establish readily accessible independent offices on consumer rights.
Incentives	– To contribute to better overall performance of the water sector.

### 525 Private sector: commercial service providers

Roles	– Operator of water services in accordance with the contract.
	– Reservoir of capacity and management experience (know-how provider).
	– Guarantor of efficient and effective use of financial and other resources, which should in turn attract capital.
Rights	– To have the contract respected.
	– To be paid for the services provided.
	– To obtain collaterals for and returns on own investments.
Responsibilities	– Service delivery in line with the requirements set out in the contract.
	– To be credible and reliable, transparent partners respecting the contract.
	– To do socially responsible and good business.
	– To manage accounts in a transparent manner.
	– To treat all water users equitably.
	– To provide quick and easy ways to address (minor) operational problems and deliver appropriate solutions (e.g. Customer Hotline).
	– To consider all approaches for improvements to services (e.g. demand management, leakage controls, source protection, etc.).
	– To assist the public authorities in water resource management activities.
Incentives	– Profits earned from the services.
	– Smooth operations, minimized risk and positive reputation.

### 526 Private sector: small and/or informal service providers

Roles	– Providers of services in non connected, off-grid areas.
	– Providers of transitory solutions or low-cost alternatives to grid services.
Rights	– Access to capital on the local credit markets.
	– Access to bulk water at reasonable cost that allows a sufficient margin.
Responsibilities	– To comply with quality standards set by the regulatory authority.
	– To respect agreed or regulated tariff levels.
	– To be a reliable partner.
Incentives	– Profits earned from the services.
	– Potential to grow.

### 527 Trade unions

Roles	<ul style="list-style-type: none"><li>– Negotiating representative defending the rights and interests of workers.</li><li>– Partner for social dialogue with the contracting parties.</li></ul>
Rights	<ul style="list-style-type: none"><li>– To participate as legitimate stakeholders in the process of sector reform.</li><li>– To participate in shaping future modes of water service operation.</li></ul>
Responsibilities	<ul style="list-style-type: none"><li>– To be legitimate representatives of their members (as workers).</li><li>– To be accountable in their decisions and democratic in their structures.</li><li>– To expedite the implementation of negotiated agreements.</li></ul>
Incentives	<ul style="list-style-type: none"><li>– A satisfied and respected workforce.</li><li>– Satisfactory wages and working conditions.</li><li>– Ability to participate in the provision of quality services to all citizens.</li></ul>

### 528 NGOs, community groups

Roles	<ul style="list-style-type: none"><li>– Advocates of specific user and interest groups, e.g. poor consumers.</li><li>– Build-up of Water Committees/Water User Associations.</li><li>– Facilitators between the user groups and the partners in a PPP.</li><li>– Social mobilizers for complementary activities, e.g. hygiene education.</li></ul>
Rights	<ul style="list-style-type: none"><li>– To observe the implementation of the PPP.</li><li>– Active participation in the PPP as stakeholder, as provided for by this set of Policy Principles.</li><li>– To get the information on the PPP that is necessary for planning their own legitimate activities.</li></ul>
Responsibilities	<ul style="list-style-type: none"><li>– To help to solve conflicts between stakeholders, facilitators, and contracting parties.</li><li>– To substantiate the legitimacy of their positions.</li><li>– To adequately and accurately inform water users and interested parties about the nature of the issues when raising concerns about the PPP.</li><li>– Not to interfere with the contract and its implementation in illegal ways.</li></ul>
Incentives	<ul style="list-style-type: none"><li>– Contribution to sector development and innovative solutions.</li></ul>

### 529 International cooperation agencies

Roles	<ul style="list-style-type: none"><li>– To provide complementary funding through ODA to finance water sector development activities such as transforming rural to urban systems in urban fringes, bridging, construction periods in which no returns are generated, or paying one-time connection charges for poor people.</li><li>– To provide assistance as needed to the Government for effective capacity building in water, sanitation, and hygiene programs, long-term training and education up to university level.</li></ul>
Rights	<ul style="list-style-type: none"><li>– To participate in those aspects of discussions on the contract that concern poverty alleviation, capacity building, and tariff/subsidies models.</li></ul>
Responsibilities	<ul style="list-style-type: none"><li>– To ensure that financing through ODA does not permanently distort the market for services (e.g. through provision of subsidies which are not consistent with the agreed tariff).</li><li>– To respect national policies for the sector.</li></ul>

- Incentives – Contribution to meeting the MDGs and improved international stability.
- To stabilize the PPP environment by reducing non-commercial risks.
- To promote PPP in areas which are not viable for larger commercially operating firms.

### 5210 Commercial investors

- Roles – To provide capital for investment.
- To develop innovative financing mechanisms (in collaboration with other partners).
- Rights – To obtain a risk-adjusted return on investment.
- Responsibilities – To monitor the financial performance of investments.
- To secure their investments with adequate guarantees.
- To appoint staff with sector experience to manage the investments.
- Incentives – As they respond to basic needs, water, and sanitation services can be expected to yield dependable, constantly growing long-term returns.

### 53 Other roles assigned by these Policy Principles

#### 531 Stakeholder committee (SC)

- Permanent body of stakeholder group representatives.
- Involved in participatory discussions and consultations.
- Subcommittees on poverty and tariffs.

#### 532 National platform for policy coordination

- Sector planning and monitoring the performance of all water operators.
- Develops sector reform with all stakeholders (esp. local governments).
- Includes community-based initiatives and independent service providers.

#### 533 Dispute commission

- Commission with representatives from the contracting parties, key stakeholders involved, and potentially a mediator for conflict resolution.
- Finds solutions to disputes, decides on filing of disputes for arbitration.
- Holds regular meetings to forestall potential conflicts among the partners in the PPP.

#### 534 Arbitration authority

- Authority “of last resort” in disputes relating to the PPP contract.
- Is consulted during contract negotiations for elaboration of renegotiation criteria and sanctions in cooperation with contracting parties.



## Annex

# A1 Commitment to the Policy Principles

1. We, the subscribing parties, are committed to cooperating to improve the performance and the sustainability of the water supply and sanitation services in our sphere of action. We strive to identify and implement better solutions by openly addressing and transparently balancing conflicting interests in the water and sanitation sector, supported by a constructive dialogue between all stakeholders.
2. We, the subscribing parties, agree to promote and apply the present Policy Principles' chapters 2, 3 and 4 \_\_\_\_\_ in accordance with our individual situations and needs.
3. We, the subscribing parties, accept the core principles and indicate the range of negotiable elements that we consensually consider not appropriate to our circumstances. The list of agreed exclusions is attached to this document.
4. We, the subscribing parties, appoint \_\_\_\_\_ as a monitoring entity over these principles and will respect and follow its requests for renewed discussions if the monitoring entity ascertains any infringements of the principles agreed herein.

Signed by:	Date:	on behalf of:	(National government)
Signed by:	Date:	on behalf of:	(Local governments)
Signed by:	Date:	on behalf of:	(Consumers' representative)
Signed by:	Date:	on behalf of:	(Regulatory authority)
Signed by:	Date:	on behalf of:	(Private sector)
Signed by:	Date:	on behalf of:	(Trade union)
Signed by:	Date:	on behalf of:	(NGO)
Signed by:	Date:	on behalf of:	(Donor)
Signed by:	Date:	on behalf of:	(Investor)

(Electronic versions of this template are available online on [www.partnershipsforwater.net](http://www.partnershipsforwater.net))

## A2 Exclusions in the Policy Principles

This list repeats all elements of the Policy Principles that are marked “negotiable”. It will be used to highlight the paragraphs that the signatories of the “Commitment to the Policy Principles” consensually suggest for exclusion.

- 225 Where national and/or regional regulation and law do not set standards for good governance, international parties act in accordance with the relevant legal requirements of their home countries and make these transparent to their partners in the country of intervention.
- 234 Services related to the conservation of natural ecosystems will be remunerated to ensure their long-term availability.
- 248 Consumers’ complaints will be resolved quickly. Consumers will be notified promptly in cases where longer-term action is required.
- 2413 Local staff will be employed whenever possible.
- 2414 Workers will be represented in the shaping of the relevant contractual agreements concerning their role. They will subsequently act accordingly.
- 254 Drinking water supply of significantly improved quality and significant improvement in environmental sanitation as compared to the previous situation is also considered acceptable. Remaining quality issues will be made intelligible to all.
- 314 Special solutions will be required for people (temporarily) not able to pay for the service.
- 317 A transitional tariff policy with gradually declining subsidy levels can make the final cost-covering tariff more acceptable, as prices and service levels increase in parallel.
- 324 Water losses due to leakages in the system must be reduced to an acceptable level. Increasing abstraction charges are an incentive for such improvements.
- 325 Leakages from sewer systems need to be minimized as they may affect groundwater resources or downstream water usages.
- 344 All parties will be accountable for initiating the participatory processes in their spheres of action as stated in this document. The results of participatory processes will be public and the status of implementation of agreed measures will be reported back to the stakeholders.
- 353 All service operators in the water supply and sanitation sector will adhere to defined transparency standards to retain their permit for service operation.
- 354 External audits of service providers and privately managed water entities (e.g. asset holding body) must be established to verify the transparent flow of financial resources.
- 358 The dispute commission can overrule information requests inducing excessive costs.
- 3512 If different entities are responsible for investment, maintenance and repair/replacement works, clear procedures will be established for resolving unavoidable ambiguous cases and/or conflicts of interest.
- 366 The loan architecture of new investments must be aligned with the overall objectives of the PPP. Financing elements tied to counter-productive conditionalities must be substituted.
- 367 Water service operators will make efficient use of capital to balance infrastructure investments against water conservation measures.
- 3612 The contract will include strong incentives for the service operator to drive down costs while encouraging internal investment in the system.
- 3615 Consumer-friendly billing and payment collection will improve collection rates.
- 3616 Special payment collection procedures will be developed for the event that public bodies (armed forces, hospitals, school etc.) do not meet their agreed obligations.
- 3620 The contracting parties in a PPP will explore and promote income-generating water usage schemes wherever possible, as they create added value for water users and have a positive affect on willingness and ability to pay.
- 374 To learn about the interests and incentives of vulnerable groups, their dreams of better living conditions will be approached tactfully, not technically.
- 375 Salaries of local employees of private operators must be commensurate with real local income levels.
- 398 Participatory processes during contract drafting involving reliable and legitimate stakeholders from civil society (religious leaders, water user associations, community councils) add political stability to the contract.
- 3104 A PPP dispute commission comprising experts and key stakeholders can be created to review and mitigate potential risks and resolve acute problems.
- 3105 The facilitators of the PPP (e.g. financing institutions, development agencies, specialized NGOs acting as transaction advisors) will – if there is explicit demand for such outside catalysts – maintain their engagement and support and will thus contribute to minimizing risks. Funding will be shared if the achievable risk reduction is equally beneficial for all parties.
- 417 assess the cost and potential of reforms to improve underperforming public water and sanitation service provision before the decision for a PPP is taken.
- 418 create an enabling environment for various models of water and sanitation service delivery including Public-Private Partnership and continued public provision.
- 419 determine and respect the boundaries for political involvement in service operations.
- 4110 compensate parties if changes in the legal framework lead to financial implications because the new legislation is inconsistent with contractually agreed rights and obligations.
- 4111 All stakeholders will contribute their know-how to assist the competent government authorities in developing the political and legal framework where necessary. They will do so in a role of honest brokers and not try to prioritize/favor their particular interests.
- 424 If local authorities lack adequate capacity, an entity at the next higher level may temporarily act on their behalf. A medium-term schedule for knowledge transfer and shifting of responsibilities back to the local level must be developed, communicated and pursued to ensure continued local ownership and project involvement.
- 435 The regulatory authority will carry out periodic internal audits of the instruments used for regulating in order to ensure effective and constantly improved regulation.
- 436 As the continuity of regulatory capacity is crucial for a long-term PPP, capacity for regulation will be developed accordingly.
- 443 National Water Development Funds (NWDF) can help to minimize risks by providing grants for projects and by securing financial resources for ongoing services in the event of underperformance or bankruptcy of the service provider.

**Preliminary remark: For many terms listed below there is more than one definition available. This glossary indicates in which sense such terms are to be understood in the present instruments. Wherever possible, the source of definition is given in brackets.**

## **Basic Need**

Minimum amount of a public service that society would like to provide to everyone. (ADB)

## **Basic Water Supply and Sanitation**

Water supply and sanitation services which are based on relatively simple technologies, often managed either directly by families or by a water committee at community level. In the majority of the cases, expenses are covered by the payment of user charges.

## **Capacity Building (individuals, organizations, institutions)**

The process by which (i) individuals and groups develop the skills, knowledge and competence to perform functions, solve problems and achieve objectives more effectively and efficiently, (ii) an organization or a system of organizations is strengthened to serve a specific existing or new purpose and role, and (iii) the institutional framework (laws, attitudes rules, norms) is created, reformed, developed, and/or strengthened. (OPM)

## **Charge**

Total amount a customer pays for the service consumed. (ADB)

## **Commercial Water and Sanitation Service Providers**

Public or private sector water and sanitation service providers operating under commercial terms, seeking an adequate return on their investments.

## **Concession**

A contractual arrangement whereby a private company acquires the right to provide a service at a given standard or specification, for a fixed time, usually on behalf of the government or a government agency. The private company operates and manages the system, usually makes the necessary investments, and carries the commercial risks for the agreed concessionary period, usually of around 25–30 years. This allows the contractor to recoup expended capital. The role of the government in concession contracts is predominantly regulatory and as the owner of the assets.

## **Connection**

On-grid provision of water and/or sanitation services to a user (customer) on commercial terms in a piped system. The connection itself is normally compensated through the payment of a connection fee. Water consumption is usually metered, and afterwards billed to the customer on the basis of a water tariff.

## **Contingent Valuation Method (CVM)**

A direct method of nonmarket valuation in which consumers

are asked directly their willingness to pay for a specific quantity or quality of goods or services such as water supply.

## **Contracting Party**

An actor who has concluded a PPP contract with one or more other actors and is bound by the terms of that contract.

## **Cost-Benefit Analysis (CBA)**

CBA provides a mean for systematically comparing the value of outcomes with the value of resources achieving the outcomes required. It measures the economic efficiency of the proposed technology or project. When there are many options to consider during a decision-making task, it is useful to evaluate the options with a common metric. CBA refers to any type of structured method for evaluating decision options.

## **Decentralization**

The transfer of authority and responsibility for public functions from the central government to intermediate and local governments or quasi-independent government organizations and/or the private sector.

## **Deliberative Process**

See Integrated Deliberative Decision Process (IDDP).

## **Force Majeure**

An event or effect that cannot be reasonably anticipated or controlled.

## **Independent Providers in the Water and Sanitation Sector (or Small-Scale Providers)**

Small scale enterprises, often of the informal sector, providing goods and services for the water and sanitation sector. Examples are: water sellers, producers of latrine components, hand pumps, cement rings, private drillers.

## **Indexation**

Adjustment of price levels in accordance with movements of economic indicators, primarily related to inflation or deflation rates in the economy in question.

## **Informal Sector**

The informal sector consists of persons engaged in the production of goods and services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate on a low level of organization, with little or no division between labor and capital as factors of production and on a small scale. The informal sector includes, first, unregistered commercial enterprises, and second, all noncommercial enterprises that have no formal structure in terms of organization and operation (ILO). In African cities, the informal sector accounts for 40 to 80% of all employment.

## **Integrated Deliberative Decision Process (IDDP)**

A deliberative decision process consisting of one or more debates with different participants' representations, based on social

robust information and knowledge; taking explicitly into account in its design and conduct the presence of multiple values and being embedded in an inclusive and discursive governance framework (institutional, regulatory, social). (Advisor project)

#### **Integrated Water Resources Management (IWRM)**

A concept to deliver a required quantity of water with an admissible quality to the required place in the specified time using organizational and technological frameworks and other resources in a sustainable manner. A system that bases on accounting all potential water sources, on hydrographic methods, and rational water resource use, coordinating intersectoral interests and all levels of water use hierarchy, widely involving all water users. It ensures ecological security and sustainable water supply to society and nature. (IWMI)

#### **Lease Contract**

A lease contract is a written agreement between the public owner of a facility/property and an operator that stipulates the conditions under which the operator may possess the facility/property for a specified period of time and amount of rent. Under a lease contract the private firm operates and maintains the assets at its own commercial risk, providing services to the customers and deriving revenue directly from tariffs. In contrast to the concession contract, the private operator does not invest in infrastructure, and hence only receives the parts of the revenue which cover operation and maintenance cost. Investment costs are borne by the public partner. The usual duration of a lease contract is 6–10 years.

#### **Management Contract**

Contractual arrangement in which management, operation, and maintenance of the public infrastructure are contracted to the private sector; but in which ownership, capital investments, and commercial risks remain with the public sector, typically with a duration of around 5 years. There is usually a performance-based component in the remuneration for the private operator. This is therefore a medium-risk contract but with greater responsibility of the private company than a service contract.

#### **Monitoring**

The measurement of information on the implementation progress of a project, program, or policy and the achievement of its objectives. There is a distinction between implementation monitoring, which concerns progress in undertaking activities, completing the work plan and utilizing the budget; and results monitoring, which concerns the measurement of results and the attainment of the project purpose. (OPM)

#### **Normal Profit**

Profit required to induce the owners of an enterprise to keep it in operation indefinitely. (ADB)

#### **Operation and Maintenance Costs**

Costs necessary to operate the water supply and/or sanitation system, and to maintain the existing infrastructure, including rents, payments to the regulator, duties, and taxes, etc.

#### **Key Stakeholders**

Actors directly involved in the Public-Private Partnership. It includes the contracting parties, other government agencies, major sector organizations, donors, financing institutions and facilitators but excludes loosely associated or consulted stakeholders with no active role in the PPP.

#### **Partnership**

In general: Individuals and/or organizations that collaborate to achieve mutually agreed upon objectives. The concept of partnership connotes shared goals, common responsibility for outcomes, distinct accountability and reciprocal obligations. Partners may include governments, civil society, non-governmental organizations, professional and business associations, multilateral organizations, private companies, etc. (OECD)

#### **Private Sector**

A commercial organization of any scale that is self-financing and operating on profit. Comprises all formal and informal businesses.

#### **Pro-Poor**

Focusing activities on the low-income segment of the society, which often has inadequate access to water services of sufficient quality and at affordable price. Pro-poor implies that the overall aim is beneficial towards the poor, while poverty focused implies a greater degree of targeting.

#### **PPP Contract**

A legally binding agreement concluded between two or more actors under the applicable legislation with the aim of developing and implementing a PPP for water and sanitation services.

#### **Facilitator / PPP Facilitator**

An entity involved in the facilitation of a PPP contract, in assisting in the negotiation, establishment and implementation of PPPs, and in the mediation of disputes. This term includes financing institutions and development agencies if they act in a facilitating role between the contracting parties.

#### **Public Sector**

International, regional, national and/or local (municipal) authorities; in the context of this document in particular authorities entrusted with policy and law making, regulation and financing in water-related fields.

#### **Public Service**

Output of a public utility. The paper refers to all such output as a “public service”, or simply a “service”, even though the paper is meant to apply also to outputs that are perhaps better described as goods rather than services. “Public good” has a specific, technical meaning in economics, not necessarily associated with public utilities. (ADB)

#### **Public Utility**

Privately or publicly owned enterprise that has a legal monopoly over the supply of a good or service. A public authority usually regulates the operations of a privately owned public utility. (ADB)

**Public-Private Partnership (PPP)**

Agreement between the public sector and a private sector entity, whereby both parties share risks, responsibility, and in some cases investment. PPP arrangements typically involve a government agency contracting with a private partner to renovate, construct, operate, maintain, and/or manage a facility or system, in whole or in part, that provides a public service. PPP differs from PSP in that the private sector has a greater responsibility with regard to service provision. (WEDC, USGAO)

In the present documents PPP always refers to contract-based Public-Private Partnerships in water and sanitation services.

**Regulator/Regulatory Authority**

A public and/or independent institution or institutions, monitoring and observing operations and behavior of the operators with a particular focus on its compliance with the PPP contract. It also monitors tariffs and services, manages reset processes and arbitrates disputes between consumers and the service providers.

**Regulatory Capture**

This is an economic term describing a situation where one operator (or group of operators) in the market uses its influence or resources to extract a regulatory decision, or lack of decision, for their own benefit rather than the benefit of society as a whole. It is associated with patterns of behavior on the part of a regulatory body in one, or a combination, of the following situations:

- the regulatory body is tending to further producer interests over consumer interests,
- the regulatory body has become overly protective towards the regulated entities,
- the regulatory body is tending to adopt objectives that are very close to those of the entities it is supposed to regulate.

**Revenue Target**

Revenue required from a tariff to provide funds to sustain the utility. (ADB)

**Sanitation (Environmental Sanitation)**

Interventions to reduce people's exposure to disease by providing a clean environment in which to live, with measures to break the cycle of disease (WHO). This usually includes disposal and treatment of human excreta, solid waste and wastewater treatment, and disposal, hygienic management, control of disease vectors, and provision of washing facilities for personal and domestic hygiene. In the context of this document solid waste treatment and disposal is not included under the term sanitation.

**Service Providers in the Water and Sanitation Sector**

Organizations (profit, nonprofit; government, municipal, private firms), officially registered and recognized to provide water and sanitation services in a defined area.

**Small Towns**

Small towns are settlements that are sufficiently large and dense to benefit from the economies of scale offered by piped systems,

but too small and dispersed to be efficiently managed by a conventional urban water utility. They require formal management arrangements, a legal basis for ownership and management, and the ability to expand to meet the growing demand for water. Small towns usually have populations between 5,000 and 50,000 but can be larger or smaller. (The Small Towns Water and Sanitation Electronic Conference)

**Stakeholder Participation**

Stakeholder participation means that those affected by decision-making processes are able to make their voices heard in these processes. This requires consultation in decision-making and articulation of interests within the decision-making process either through direct participation or through representatives who are effectively accountable to those they represent.

**Stakeholders**

Agencies, organizations, groups, or individuals who have a direct or indirect interest in or who are affected by a project, program, or development intervention, e.g. national and local governments, municipalities, residents, water users, politicians, service providers, suppliers, and contractors.

**Subsidies**

Contributions to the costs of an enterprise from other sources, (governmental or nongovernmental) external to the particular purpose for which these costs are incurred.

**Sustainable Development / Sustainability**

Development which meets the needs of the present without compromising the ability of future generations to meet their own needs. (Brundtland Report) While there is no universally accepted interpretation of this term, it is usually seen as having three dimensions:

- economic,
- social,
- environmental (UNDP).

**Tariff**

General schedule of charges that a customer faces in using a public service. The term "tariff" can also refer to a tax on imports, but this paper uses "tariff" only to refer to the schedule of charges for a public service. (ADB)

**Transaction Costs**

The time, effort, and money necessary to implement a PSP project, including such things as process consulting, capacity building with governments, adaptation of legal frameworks, multi-stakeholder processes, etc., including the costs for the contracting process and the costs for establishing the financing arrangements.

**User Groups**

User groups are defined on the basis of the type of water user, average water consumption and with specific tariff structures. Examples are: (a) households in residential areas, (b) residents in

apartment blocks, (c) commercial users, (d) industrial users, (e) municipal water use.

**Value for Money (VfM)**

VfM is the optimum combination of whole life cost and quality (or fitness for purpose) to meet the user's requirement, and does not always mean choosing the lowest cost bid.

**Water Governance**

Water governance refers to the range of political, organizational and, administrative processes through which communities articulate their interests, their input is absorbed, decisions are made and implemented, and decision makers are held accountable in the development and management of water resources and delivery of water services. (Bakker, 2003)

**Water Operators**

Public or private water service operators, formal or informal.

**Water Supply System**

System for the collection, transmission, treatment, storage, and distribution of water from source to consumers, e.g. homes, commercial establishments, industry, irrigation facilities, and public agencies.

**Water Use**

In the context of this document, the term water use is restricted to domestic, commercial, industrial, and municipal water uses. It includes the production of wastewater.

**Water User (Groups)**

An individual or group of individuals requiring access to water at a specific place and on a regular basis. Water-user groups imply some sort of aggregation of several users into a group which shares interests and responsibilities regarding water services.

The material and conclusions contained in this publication are for information purposes only and the authors offer no guarantee for the accuracy and completeness of its contents. All liability for the integrity, confidentiality or timeliness of this publication or for any damages resulting from the use of information herein is expressly excluded. Under no circumstances shall the partners (SDC, seco, and Swiss Re) be liable for any financial or consequential loss relating to this product. The publication is based on expert contributions, has been refined in a broad consultation process and carefully compiled into the present form. The partners of the initiative consider it a living document that will be adapted to the circumstances based on new findings and concepts, future experience and lessons learnt.



## Contacts and ordering information

You can order more copies of this document in print and on CD via

**Internet:** <http://www.partnershipsforwater.net>

**Email:** [info@partnershipsforwater.net](mailto:info@partnershipsforwater.net)

**Postal mail:** D. Rothenberger, seco, Effingerstr. 1, 3003 Berne

**Fax:** +41 31 324 09 65

For further information on the initiative please contact:

François Münger, Swiss Agency for Development and Cooperation, Freiburgstr. 130, 3003 Berne,

Fax: +41 31 323 17 64,

Email: [francois.muenger@deza.admin.ch](mailto:francois.muenger@deza.admin.ch)

Dieter Rothenberger, Swiss State Secretariat for Economic Affairs, Effingerstr. 1, 3003 Berne, Fax: +41 31 324 09 65

Email: [dieter.rothenberger@seco.admin.ch](mailto:dieter.rothenberger@seco.admin.ch)

Public Release Version 1, as of April 2005. Work in progress. Implementation Guidelines for community-based services are currently in preparation. For document feedback please send your comments to [feedback@partnershipsforwater.net](mailto:feedback@partnershipsforwater.net).

## Steering Committee of the Initiative

François Münger  
Swiss Agency for Development  
and Cooperation

Dieter Rothenberger  
Swiss State Secretariat for  
Economic Affairs

Martin Weymann  
Swiss Reinsurance Company

These documents are intended to evolve as “living documents”. New findings and concepts, future experience and lessons learnt from other sectors will be assimilated. The website [www.partnershipsforwater.net](http://www.partnershipsforwater.net) will also feature the latest version of all available documents and the ToolContainer. We are curious to hear your experience from working with the instruments and look forward to reading your feedback at [feedback@partnershipsforwater.net](mailto:feedback@partnershipsforwater.net).