

Institut de la Gestion Déléguée

- Committee for the Charter of Essential Services -

Governance, partnership and financing
for essential services

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L'Institut de la Gestion Déléguée

The Institut de la Gestion Déléguée (French Institute for Public-Private Partnerships) is a foundation of french companies created in 1996. Its President is Claude Martinand, who is also Vice-President of the Conseil Général des Ponts et Chaussées (advisory council for civil works). The Institut de la Gestion Déléguée has asserted itself as the organism of reference for delegated management and for different types of public-private partnerships. Its authority depends on the plurality of the actors that it assembles (public authorities, consumers, administrations, experts, operators, bankers); its independence which is guaranteed by its foundation status, the origin of its resources, and the composition of its board of administration; the quality and representativity of its work, research, synthesis, propositions; and finally its contribution to the principles of public services sustainable management.

These principles, which concern all the partners, are the following: free administration for local governments, implying the free choice of public service management mode and the reversibility of this choice; performance and emulation by comparison (bench-marking); equilibrium and respect of the roles of different actors; transparency, evaluation and public debate.

By developing a special approach based upon voluntary and mutual engagement of all parties; the Institut de la Gestion Déléguée has promoted a Charter of local public services in France, from which was taken the Charter of essential services that has been discussed in international arenas. This Charter is the starting point of the international initiative for access to essential services, led jointly with UNITAR. In April 2005, upon the proposal of France, the Philippines, Republic of South Africa and Bresil, ONU-Habitat received the mandate to head a series of efforts which should lead from 2007 to a recognition by the United Nations of the principle guidelines for promoting access for all to essential services.

The Millennium Development Goals are the starting point for the first time ever of a mobilisation of the international community for the definition and the implementation of one common project to reduce poverty all around the world. As its vocation stands for, the Institut de la Gestion Déléguée has associated itself with this dynamic by putting in place a working group for the governance and financing of essential services, with the perspective of making active “access for all to essential services”, an indispensable step in the fight against poverty and development. This contribution completes the Charter of Essential Services that was presented at the Johannesburg Summit by providing a common guide for the definition, organisation and implementation of essential services. The MDP and ISTED, as far as they were concerned, get deeply involved in the process to identify the questions and to propose orientations for a real progress.

The goal of the following document is to have a few fundamental recommendations for the governance and financing of essential services, to which all stakeholders are invited to refer.

Summary

I-Access to essential services is a dynamic, long term process, to be drawn up in stages

The progressive access for all to essential public utilities is constructed in the long term and organised according to an Agenda made up of a public authority engagement to reach total cover through successive phases. This progressive access should be supported by a principle of equity which implies a notion of universal service. Differentiated techniques should be used in an evolutive way, regarding the specific needs of populations and territories concerned. Negotiation should be the privileged method of discussion between the parties, taking into account realistic objectives. The choices should request an equal contribution of all generations.

Key words: differentiation, equity, guaranteed service, stages, long term.

II-Partnerships constitute the most efficient way to encourage the performance of essential services

Partnerships rely on the idea of a cooperative and regulated relationship between a public manager and an operator, between suppliers and users. The contract, which is at the heart of partnership, enables the different phases of the collaboration between the two parties to be tackled via anticipation. It defines realistic performance objectives. It leads to the sharing of different categories of responsibility between the partners: those inherent to the nature of the partners as well as their rights and obligations. The fundamental idea of a partnership is that of explicit and assumed separation of organisation and regulation (public authority), and operation functions (operators) for essential services. The nature and contents of partnerships depend on the services, the needs of services (first setting up or management of the service), the concerned territory, and the implied public authority. The financing clauses vary according to the characteristics of these partnerships.

Key words: partnerships, contract, performance, roles distribution

III-Financing of essential services necessitates long term resources, sometimes without counterparts

Primary infrastructures (material or not) or the cost of mobilising the resource should integrate an important part of public funds in function with the length of time of these investments. Often, the public sector only can have access to long term loan schedules, and the financing of the debt by fiscal resources enables the necessary initial effort, which comes from solidarity, to be divided between the generations. Sometimes, the law prevents local governments from getting into debt; the weight of the existing debt or the quality of the borrower can influence a fall in the capacity of a loan; sometimes the lenders cannot even lend to local collectivities because of their status. A prerequisite is therefore an easing of these clauses. It is important, on a secondary basis, to develop techniques to lengthen loan maturities. Financing in hard currency is risky: the mobilisation of local resources (still underestimated and under-employed) is therefore of primordial importance for developing countries and

essential services, by reassuring them in order to lengthen their duration (guarantee funds ...). Access to private financing can be envisaged for middle and long term financing.

Key words: public funds for initial investment, long term resources by borrowing, local governments, priority to local resources.

IV- The tarification answers current essential public services' stakes

The tariff must be the privileged mode of recovering immediate costs of the service (service, connection, base collection) and must lead to a behaviour which preserve the resource. The tariff should be affordable for the different user categories, while assuring revenues permitting the finance of all charges related to the present use of infrastructures and resources (including repairs and maintenance). If it is necessary to use a method of recovery of costs different to the tariff, this should be made on a temporary measure via a conscious choice of design. The level of tariffs is the produce of a compromise between the real costs supported by the service and the contributory capacity of different user categories. The tariff can also satisfy solidarity objectives through perequations. However, it is necessary that the solidarity beneficiaries should be clearly identified and that the subsidized part should be transparent in order to make the requested supplementary effort acceptable to those who contribute more. The instruments for the putting in place of solidarity are the social tariff, the direct subvention to the identified user, the equilibrium subvention to the operator. The costs of access to the service should be paid by the direct users. The technical methods to access services and therefore the costs of access, should be adapted to the contributory capacities of the different population levels.

Key words: tariff, cost recovery, solidarity.

V- Create continuity elements in the principles of management and access to essential services.

The long term perspective necessitates the putting in place of principles and rules assuring a visibility in the length of development objectives of the essential services. These principles must, in part, be common to all the services, in order to offer to all parties similar references and a common basis for dialogue. On the national level, the Charters of Governance of essential services are federative instruments which take into account the achievements and trace the path towards the progress of essential public utilities. On the local level, they can supply a vision and gathering framework for the definition of objectives and projects which should orientate local action. Each country should also create a legal framework which organises the rules of the game in a transparent manner for all the actors, including fighting bribery. A high level of dialogue should be maintain in order to improve the performances of essential services. Contracts and rules of service enable principles to fit with each of the services and each of the territories.

Key words : continuity, principles, Charter of essential services, legal framework, corruption, contracts, rules of services

- Governance, partnership and financing for essential services -

I. Access to essential services: a long term dynamic process to be drawn up in stages.

It took many years for households in industrialized countries to benefit from drinking water, drainage or electricity. This long experience enables the highlighting of several basic principles for the development of essential services.

- ✓ Access for all to essential services is built over the long term. Time is a fundamental variable of the economy of essential public utilities. The progressive accumulation of wealth over time enables the mobilisation of growing resources year after year. The limited availability of natural resources, finance, capacities, construction material, should lead to a realistic programming which is compatible with the rhythm of mobilisation of all resources. A long term Agenda should constitute an engagement from the Authorities to realise the foreseen planning. The more credible the notice, the greater the understanding that the unavailability of the service is temporary. Thus this situation becomes acceptable to the populations.

Box 1 : Setting a schedule that is credible and adaptable, so that all may have access to the process.

In Romania in 2000, VEOLIA Environnement won two international calls for tender for water purification and supply for the cities of Bucharest (1,700,000 inhabitants) and Ploiesti (230,000 inhabitants). These cities, which had abandoned their previous practice under which utilities were under direct municipal control, were faced with a badly deteriorated situation. In Bucharest, 50% of the water supply was lost in the distribution process; the 2,500 kilometer (1,550 miles) water supply network suffered some 700 leaks every day, while drops in pressure caused supply problems above the seventh floor of buildings. At the same time 300,000 people (17.64% of the population) were not connected to the water supply at all, and obtained water from fountains. With so much at stake, a program for bringing the system up to standard has been set up in cooperation with the local authorities. The first step was to take certain urgent measures, including a geographic information system and splitting the network into sections, with valves to cut the flow in order to isolate the most heavily damaged portions. The next step includes more in-depth measures, including the replacement of 30 kilometers (18.5 miles) of mains each year for the next ten years, the replacement of 36,000 defective water meters within three years, and working with the municipal governments to determine required levels of service, with a basic standard to be attained within two years and full compliance attained between 2002 and 2010. This program has gone hand-in-hand with progressive rate increases that track improvements in service, with water bills increasing from €0.15 per cubic meter in 2000 to €0.26 in 2004.

- ✓ Equity is measured locally in terms of access, standards, or level of service. Financing is often insufficient, the contribution capacity of the population is limited. This is why different technologies should be employed, involving different service standards from minimal requirements. The technical differentiation should enable the realisation of viable infrastructures which could be maintained at affordable costs. The principle of equity should be privileged to that of equality, which thus implies

the recognition of a guaranteed service. The differentiation should be conceived as progressive: techniques of the least cost should be used in anticipation of infrastructure realisation or improved service levels. Differentiation is accepted if it is perceived as temporary or objectively justified and if it relies on the assurance of access to a guaranteed service in a sufficiently near timescale.

- ✓ Human or territorial specifications should be integrated into the definition of services. The choice of technologies orientated by objective criteria and by demand characteristics should lead to the retention of the most adapted option, the most economic of resources, and the least costly. For example, on-site sanitation is often the most founded technical choice in rural zones; the animal motivity force can be economically or ecologically preferred to the machine, or when employment of machines is inappropriate (lack of competence in repairs or spare parts). Objective differences can lead to the retention of different service modalities, without it prejudging the performance. Aerial networks rather than underground ones or collective delivery points bring guarantees to appreciated services.

Box 2 : Technologies adapted to the territory and to the income of the people served

Morocco's national electricity authority (Office National d'Electricité - ONE) has signed a contract with TEMASOL (a company providing decentralized services, which has EDF, France's historical electric company, as a shareholder). Under the contract, electric power supply kits for household use is offered in some 30 mainly rural provinces of the Kingdom. Energy sufficient to run several household appliances is produced through solar-energy cells. TEMASOL provides ten years of after-sales service to the kits, but ONE provides the installation and start-up of the cells and provides maintenance and replacement for the system, services for which it collects a fee. The fee structure depends on the number of appliances connected. Costs to users is reduced through subsidies from international development finance agencies: Germany's KfW, France's national development agency - AFD, and the French world environment fund (Fonds Français pour l'Environnement Mondial). The project has a potential of reaching 400,000 people.

An agreement needs to be found between all stakeholders (organising authorities, investors and financial backers, operators, users and communities) in stages of essential service development. Negotiation needs to be the preferred mode of discussion between parties, taking into account realistic objectives. Choices need to result from an equitable contribution of all committed generations.

II Partnerships constitute the most efficient methods to generate the performance of essential services

Negotiation on the definition of services and their organisation should continue in the area of its implementation. Several models have marked the development of essential services.

These models result from particular circumstances and the relations between political, administrative managers, technicians, users, companies ... At the centre of these models is the idea of governance, which tries to solve the question of the adequacy between objectives and means. The partnership is built on the idea of a cooperative and regulated relationship between the giver of orders (public manager) and an operator, suppliers and users, ratepayers and beneficiaries.

- ✓ Partnerships help to specify responsibilities. The contract constitutes the angular stone of a partnership. It enables the different phases of collaboration to be approached through anticipation. Some are specific: the public authority is always responsible for the definition of the service, its organisation, control, evaluation and determination of tariffs; the operator engages himself on performance and accessibility criteria, on the quality of service and financial, human and technical means. Other responsibilities, as well as rights and partner obligations, need to be clarified. The decisions taken by a partner have consequences on the behaviour of others: the determination of a price that is too low can lead to a lower than foreseen performance; on the contrary, the choice of inadapted technologies can have for consequence unjustified price rises.

Box 3 : Defining responsibilities and accepting them clearly

On October 24, 2005, the French government and EDF, the long-standing national producer and distributor of electricity, signed a public service contract that will henceforth serve as the reference for the company's agreements covering its different activities as a producer and supplier of electricity and the manager of the electric power grid. The agreement also sets down EDF's commitments as manager of the public electric power transmission company (RTE-EDF-Transport). It specifies the company's commitments for the period 2005-2007 as well as the fees for the public services that are required either by law or contract. The contract specifies EDF's planned level of capital expenditure for electric power production and distribution.

In Colombia, a reorganization of the public transport system in the Bogota urban area demonstrates the value added that can come from a multi-partner PPP (public-private partnership) that provides for the simultaneous and coordinated action of several participants, all aiming at the same set of coherent and complementary goals. Indeed, the municipal government was confronted with a series of problems: a high level of pollution (Bogota is at an altitude of 2,600 meters or over 8,500 feet, which impacts negatively on fuel combustion), a very high rate of traffic accidents (800 deaths a year, mainly of pedestrians) and a worn-out and unreliable fleet of buses, in a city where 80% of the population depends on public transport. The answer could have been a series of separate and successive steps, including classic anti-pollution and road safety measures, the purchase of new buses, etc. Instead, the municipal government opted for an integrated approach using PPP. It divided responsibilities, taking charge of infrastructures itself, including segregated-lane bus corridors, a system of bus stops using closed platforms and pedestrian overpasses, 230 kilometers (over 140 miles) of bicycle paths, sidewalk repair and cleanup of swampy areas. The list of specifications in the call for tender for transportation services as such required setting up a network for collecting passengers from remote suburbs, as well as modernization of the bus fleet. Seven companies were selected, each with a basically homogenous area of service. Capital expenditures were split between the city government (171 million euros) and the operators (80 million euros). The results showed the choice was the right one: the number of accidents implying

buses dropped by 94%, average bus speed tripled and the number of muggings declined by 60%. Only such an overall approach could have created a coherent traffic policy • with rush-hour driving restrictions based on license-plate numbers and the creation of parking areas near bus terminals • and encouraged the efforts of the operators.

- ✓ Partnerships are tools permitting a transparent command of essential services. The fundamental idea of partnership is that of the explicit and assumed separation of organisation, regulation and operation functions of essential services. The organisation function naturally belongs to the public authority. The regulation function can be exercised by the same public body or by another independent actor, depending on cultural or professional specifications. The operation function is wholly distinct: an operator, public or private, should be chosen with regard to its professional capacities. The best way to choose a partner is by introducing concurrence for the attribution of contracts, on a performance criterias basis. The organising public person or regulator cannot himself be the operator without creating conflicts of interest, at the expense of the service. The partnership is built on the principle of contract control and of its regular evolution through a progress approach, which is the gauge of a constantly improved performance. A transparent control on the service is translated by objective criteria for evaluation, which should orientate the cooperation between the partners in the unfolding of the contract. Each partner should have the capacity and faculty to denounce eventual drifts.

Box 4 : Transparent relationships between the organizing authority, operators and users

In France, companies delegated by local governments to operate public utilities are obliged to report annually on their finances and asset operations, and on their capital expenditures programs both for new equipment and replacements, as well as providing an analysis of the quality of service provided, preferably with reference to contractually-defined indicators.

Likewise once a year, the chief executive of the local government must report to his legislative body and to the public on the following aspects of the contract, regardless of the form of management: quality and price of the service (water supply, sanitation, waste collection and treatment, etc.). Various operational and financial indicators enable comparisons over time and with other regions.

Each of these reports is examined by a consultative committee on local public utilities, including representatives of local legislative bodies and users. The committee also receives reports on the activities of public utilities directly run by local governments, and on projects to create such services or delegate them to the private sector.

- ✓ The nature and contents of partnerships depend on the needs of services and of the public authority. The choice of partners and the contents of partnerships results from the negotiation between all the stakeholders. Partners should be searched in function of financial or technical needs of the service: national or international bankers, national companies or international operators, associations... The definition of service levels and the taking into account of the long term should lead to choices

founded on partnership types and expected levels of performance. The expectations are placed at various degrees according to whether the services are considered as utilities, facilities, or commodities (in function with their link to human dignity). The service specifications need to be taken into account: different qualities should be demanded from telecommunication service partners or collective transport. For networks, which can be immaterial, the partnership can be knotted around capacities, rights (licences), or exploitation of infrastructures. The specific needs of the public person should be also taken into account: the acquisition of external skills contributes in a more efficient management.

Box 5 : Determining the private-sector partner's in relation to the needs of the public-sector party and the constraints to which it is subject

In 1994, the Mexico City federal district turned to the private sector, after an unsuccessful effort to reform water supply and sewerage utilities, in which responsibility was split up among many levels of public bodies, and criticism of their performance nearly unanimous. Two factors determined the degree to which the private sector would be involved: the fact that the government department in charge of water distribution failed to assess either its own assets or real consumption; and the consequences of the decision of the city government to install water meters. The choice was therefore made to use management contracts, which would make it possible to obtain detailed data of the infrastructure and the service. Four zones were delineated in order to make performance comparisons (benchmarking) among the different service providers chosen.

The contracts granted provided for three steps:

- 1994-1996: a census of users, installation of water meters and drawing up a map of the installations;
- 1995-2003: contracts to measure water consumption and determine the corresponding billing. Collection and the related risks remain the responsibility of the local government authorities;
- 1998-2003: grant of contracts for the operation and maintenance of secondary mains and sewers (detection and repair of leaks). The service providers carry the risk of any difference between water produced and water distributed and billed.

It should be noted that the ten-year contract was signed with an administration controlled by the PRI, and that it was renewed for five years by an administration of an opposition party.

Box 6 : Adapting the partnership to available local capacities

In France, urban electrification (in the second half of the 19th century) was mainly carried out by private monopolies operating under concession contracts. Until the first quarter of the 20th century, the rate of electrification remained low in rural areas, with only about 20% of rural townships served. There was no legal obligation to companies to serve these localities, and the companies had little economic interest to do so. Against this background, many rural townships chose to join forces in joint electrification groupings (Syndicats intercommunaux d'électrification -SICAE) through which they could finance the infrastructure for electricity distribution themselves, together with

farmers also interested in developing this source of energy. Electricity was purchased from urban producers at wholesale rates, and distribution then either conceded to local companies or taken on directly by the groupings. A national rural electrification fund was set up in 1936 to provide partial subsidies to these efforts. This institutional solution, largely used in rural areas and grounded on local partnerships among municipalities, with the support of farmers and local construction companies, made possible the electrification of all rural townships by the time the system was nationalized and turned into a national public utility in 1946. Today, many SICAE still operate rural electricity distribution networks.

III. The financing of essential services necessitates long term resources that are sometimes without counterpart.

The development of railways in France in the second half of the 19th Century was essentially carried out by private companies; the same goes for electricity. However, none of these companies could have survived over a long period without the help of the State. The nationalisation of these companies before or after the Second World War (EDF, SNCF, Air France ...) is more linked to their catastrophic financial situation or to the necessity of interconnection and a heightened effectiveness, rather than a will for socialisation of essential services. The great difficulty that these companies had not been able to overcome was that of the debt generated in investments in the primary infrastructures. The initial investment in extremely long life duration infrastructures does not come easily to middle-term logic, according to the perspectives of the private sector. In order to put in place a service, a typology of investments and charges is necessary: for those of which the amortization happens in the long term (production, resource transport, primary distribution infrastructures...), long term resources should be researched; service infrastructures and management and maintenance expenses can be envisaged as in keeping with a shorter time perspective.

- ✓ Initial investments should integrate an important part of public funds. The length of life of primary infrastructures can pass fifty years in certain cases. These infrastructures are thought out for serving populations over several generations. It is therefore necessary that their length of amortization should be divided over the length of use, without provoking excessive rises in initial tariffs. The taking in charge of these investments should therefore be assured at least in part by the public bodies, by the intermediary of public funds (subsidies, loans ...). The public sector can have access to longer loan maturities, and the financing by service tax on the debt, enables the necessary initial effort to be divided between the generations. In certain cases, access to a loan is difficult; international solidarity, by intermediary of donations, should support the part of investment that a public collectivity cannot take in charge.

Box 7 : Directing long-term savings towards essential services

In France, the Caisse des Dépôts et Consignations has been an indispensable stakeholder in the financing of essential services, with loans to both the central and local governments. The Caisse provides long-term loans to public authorities at below-market rates, made possible by the fact that it receives abundant and cheap financial resources from small savers' accounts and on the passbook savings accounts offered by the major retail banks and the Post Office.

In Brazil, the Fundo de Garantia por Tempo de Serviço, an unemployment insurance system fed by withholding from wages and operated by a national bank (Caixa Economica Federal), can likewise make long-term loans at preferential rates to finance capital expenditures for water sanitation and housing. More recently, loans are also made available to private-sector participants in water sanitation projects.

In the Netherlands, at the close of the Second World War the local authorities in charge of the distribution of potable water needed to rehabilitate much of their infrastructure. These operations could not be financed by user fees. Nor could they obtain commercial bank financing, given the prevailing credit crunch, the short maturities of the loans that were offered, and the small size of the municipalities seeking to borrow. These local governments joined together to become the shareholders of a bank, the Nederlandse Watershopsbank, specialized in financing infrastructure for water services. In this way, they could obtain long-term loans at lower rates, thanks to the economies of scale resulting from their pooling of means and capacities. The bank's profits were reinvested in developing new activities, including the financing of all kinds of public works projects, or paid out to the shareholders.

- ✓ The private banking sector can finance in the long term, under certain conditions. Situations of public borrowers are unequal. The law sometimes stops local governments getting into debt; the weight of the existing debt or the quality of the borrower can limit the capacity of the loan; sometimes even the lenders can not lend to local bodies because of their status (as is often the case at an international level). A prerequisite is therefore an easing of these dispositions. It is important on a secondary level to use the technics that are already in place, or even to imagine some, to lengthen the credit duration. Methods like the credit enhancement, international guarantees based on the latest loan annuities should be used. It is necessary to keep in mind that long timing is a succession of short timings: the connectivity between different successive loans is a path that has not yet been explored. Finally, specific guarantees can be brought to lenders to secure the recovering of debts: international instruments, affectation of fiscal resources, assurance mechanisms, assignments of future receivables... All these instruments enable the everlasting flow of reimbursement of the debt to be assured. It is suitable to privilege the loan to local governments, and to those that are responsible for the organisation of services. But the scope of the project or the size of the public authorities can necessitate the implication of other actors (State, specialised public institutions).

Box 8 : Mobilizing local financial resources

Lydec operates the water supply, sanitation and electricity utilities for the city of Casablanca in Morocco. Although the company is a subsidiary of the international group Suez-Environnement, and can therefore attract foreign capital, the company's strategy is first to seek local financial resources to develop its operations. In June 2000, using an original technique, Lydec was able to put together an 800 million dirham (nearly 80 million euro) syndicated loan from five commercial banks, under very favorable conditions: a 12-year maturity with a 3-year grace period, and a rate lower than 8% per year. In 2005, Lydec accentuated the "localization" of its capital by placing 14% of its shares in local capital markets, thereby also permitting Suez to repatriate its initial equity invested in foreign currency and eliminating its foreign exchange risk.

International lenders can also help mobilize local savings under better conditions. In 2005 in Kenya, a micro-credit organization, Faulu-Kenya, placed a 5-year bond issue in the Kenyan financial market. The success of the loan is largely due to the guarantee of 75% of the capital given by the French development agency (Afd).

- ✓ The local private resources are under-estimated and under-employed. A paradox of the financing of essential services is to mobilise resources in foreign money (often the dollar), even when the revenues generated by these investments are in local money. The risk of currency fluctuations weights a risk which increases the weak financial attractiveness (in the sense of the private sector) for essential services. The massive introduction of public obligations on the stock exchange can meet with success thanks to the confidence of small savers: the funds of which they dispose are weakly banked and therefore not accountable, but they exist in more important proportions than anticipated. The mobilisation of these savings is a stake of the first order for developing countries and for essential services: the horizon of small savers, corresponding to the preparation of their retirement or to pre-finance the studies of their children, is identical to that of essential services. Instruments like pension funds, when they exist or are possible, are a source of finance that are extremely adapted to these services. The possibility of canalising financial transfers between countries (notably coming from diasporas) by fiscal instruments must be studied: these flows often go beyond the amount of international public aid.

Box 9 : Solidarity of a diaspora helps build infrastructure

In Senegal, the municipality of Thilogne (about 15,000 inhabitants) has succeeded in maintaining strong ties with emigrants from the town, enabling it to mobilise the funds needed to improve and expand the infrastructures of its potable water and sewerage utilities. The diaspora community has formed an international association that receives contributions from in-country (Dakar), from France, the United States, Italy, Gabon and the Congo. Every year, each emigrant (now as many as the population remaining in Thilogne) pays the equivalent of 30 euros to the association; the funds collected are then invested in the rehabilitation of wells, pumps and pipes, the construction of new infrastructure, and in setting up a financial management system that permits the utilities to be financially independent (part of the capital expenditures is financed through user fees). Priority projects concerns household access to these utilities, although farmers and artisans are also served.

IV Tarification meets today's stakes in essential services.

In the majority of cases, the supply of essential services implies the consumption of a rare natural resource: water, environmental quality, air, soils, combustibles The service tariff is the direct counterpart of the consumption of the service or resource: it is a signal of consumption, it creates the status of the user, it constitutes a legal link between the user and the supplier. This should be the preferred method of recovering service costs, at least direct costs. For this, solidarity between people could prove to be indispensable: financing of primary infrastructures, subventions for access to the service, for its consumption, standardisation between users or services... From an individual point of view, the tariff should be affordable, but from a collective point of view, tariff revenues should enable all exploitation charges (including servicing and maintenance) to be financed. If necessary, other sources such as fiscal policy should assume part of these charges, though political arbitration: but all charges should be financed, otherwise the service tends to collapse.

- ✓ Tariff finances the current performance of essential services. Utilisation of the service has a direct cost which is represented by wage costs, raw materials, the costs of servicing and maintenance, small renewable investments, costs of receiving and informing the public... Globally, revenues from tariffs should enable the financing of all these costs which conditions the economic survival of the operator in the short term and therefore the quality of the service. The negotiations between partners can lead to the financing of these charges by other means apart from tariffs: fiscal policy can be used, providing that a margin for manoeuvre exists; donors can also be researched, notably in the form of output-based aid. Whatever the complementary method of recovering the retained costs, it should be a conscious and transitory choice: the objective must be to recover all charges related to the present use of the service via the tariff.

- ✓ Tariff is at the heart of solidarity and access policies. The level of tariffs is the result of a compromise between real costs supported by the service and the capacity to pay of the different social levels of the population. The tariff therefore presents different levels according to the type of service, standard of service, localisation and contributory capacity. In all cases, it should be affordable, that is, it should not constitute a motive for exclusion. In order to generate a sufficient revenue flow while at the same time answering solidarity objectives, different tariff mechanisms should be used: péréquation between categories of users (industries/households, rich/poor, urban/rural ...), tax on the consumption, affected to extension of services, compensation between services (households will more voluntarily pay for water or electricity rather than sanitation: transfers between services can be foreseen), or in zones that continue to pay for the financing of new investments despite the initial

investment already being paid off. It is necessary that beneficiaries of solidarity should be clearly identified and that the subsidized part is transparent. The instruments for the putting in place of this solidarity are the social tariff, the direct subsidy to identified users, or the equilibrium subvention to the operator.

Box 10 : Targeted and transparent subsidies

In 1994, there were about 1.5 million people without access to public telephones in Chile, most living in 2,300 small country towns. It was common to think that providing service to most of these would not be profitable, and that subsidies would therefore be necessary. It therefore created a telecommunications development fund. In its call for tenders for 46 zones covering 1,285 villages and about 460,000 people, it organised auctions on the basis of the lowest level of subsidies requested by the bidder. Certain standards (service 24 hours a day, seven days a week) and maximum rates were included in the specifications, while bidders were free to choose the most appropriate technology for serving the phone booths. There were 62 bids submitted, and 16 were accepted without any request for subsidy. Since the rates fixed in the call for tender were slightly higher than those in other areas served, the projects could be economically viable. Many candidates received subsidies for putting the needed infrastructure in place, and as their licenses are exclusive in the medium term, they benefited from this infrastructure to offer individual subscriber services at low marginal rates.

Also in Chile, at the end of the 1980s, the government launched a reform of sewerage and water supply utilities, aiming at the full recovery of costs (before the reform, revenues covered only 50% of costs). Since great majority of homes in urban areas were already connected to the water supply, this question was not of great importance in the reform. However, to reduce the impact of the rate increases on poorer households, a system of subsidies tied to water consumption was set up. The subsidy could be between 25% and 85% of a set ceiling, and would cover only the difference between the water bill and the amount the household is able to pay • based on an international standard limiting water expenses to 5% of household revenue. City governments identify eligible households, based in individual interviews. Utility operators bill users for the full amount, net of the subsidy, and bill the municipality for the subsidies granted. The central government transfers the overall amount of the subsidies back to the municipalities. Households must keep up with their payments to continue to be eligible for the subsidy.

Box 11 : Reconciling social solidarity and efficiency

Cross-subsidies have the praiseworthy objective of causing those who can afford it to pay higher fees in order to lighten the burden on the less advantaged. However, in some situations, such adjustments can have negative effects, and indeed be counterproductive. The rate structure for sewerage and water supply in Manaus (Brazil) had been set up to have industry subsidize individual consumers, and among the latter, large individual consumers subsidize small consumers. As a result, the operator, Aguas do Amazonas, became the victim of avoidance strategies that deprive it of substantial resources; industries and the largest individual consumers have developed their own alternative water supply system, leaving as the public utility's only source of income the fees of small individual consumers, who pay at less than cost. The same happened in Cancun (Mexico): tourist hotels, charged heavily to finance the extension of municipal water utilities, have dug their own wells and disconnected from the public utility.

Many solutions are possible to alleviate such effects. These include a finding a new balance between real costs and the fee structure, or legal limitations on the use of alternative sources of supply. Fee structures need to be a compromise between social solidarity and efficiency.

- ✓ The costs of access to the service should be paid by the direct users. It is necessary to repeat that access to all to essential services is the final objective of the public authorities, and that access can be attained through different ways. When this is possible, the access costs should be included in urbanisation costs: a property promotion campaign must integrate the connection charges of essential services. But this situation does not correspond to all cases which occur in developing countries: urbanisation sometimes misses out on any control, old residences were not initially linked up... For this reason, the technical methods of access to services should be adapted to contributory capacities, and the formula of individual connection should constitute the outcome of a progressive process. The owner or occupier of the habitation can be solicited to repay the connection charges. Finance techniques exist to favour access in more developed forms: micro-credit, the spreading out of charges on consumption payment, direct subsidies to the operator according to mechanisms like output-based aid. The rhythm of improvement in the method of access should be part of the negotiation on the long term objectives of the service.

Box 12 : Creating the financial conditions for connection to a public utility

In Bolivia, the concession for potable water and sewerage utilities granted to Aguas de Illimani, a subsidiary of Suez-Environnement, covers two neighbouring municipalities: La Paz, where the poverty rate was 45%, and El Alto, where it reached 73%. Connecting the poorest to the system was a major challenge, with the economic and political success of the project at stake. An infrastructure Fund, fed by a 3 million dollar grant from the Swiss development agency and headed by a committee including all stakeholders, was set up for the express purpose of connecting the poorest households. The initial expenditure on connection was financed in part by the households benefiting (25-35%) and in part as an advance by the Fund (65-75%). The advance would be repaid by the users over a five-year period, as an addition to their water bills. The flow of the reimbursements makes it possible to finance new connections. This system could permit 12,500 new connections to potable water and 14,500 connections for waste water.

A different system was set up in Jakarta (Indonesia): A fund provides subsidies to the operator for the costs of connecting households to the water supply, once the connections have been made (Output-Based Aid). The operator only bills households for the non-subsidized portion of his costs. Still a pilot project, when set up the system should assist the connection of 10,000 households. The system is set up so that the operator cannot recover its costs before the connections are effectively in place.

- V. Create the elements of continuity in principles of management and access to essential services.

The long term perspective that needs to be adopted necessitates the putting in place of principles and rules which assure a visibility in the length of objectives. These elements of continuity should in part be common to all essential services in order to offer to all recipients similar references and a common basis for dialogue. They should also be specific to each service in order to assure the working order of common principles. The example of the Charter of local public services in France can be cited as an example: it proposes that the different stakeholders become committed to quality of service, transparency and participation objectives, sustainable management on economic, environmental and social plans. These principles can then be adapted to each of these services through specific performance indicators, or rules of services. The Charter of essential services, which goes across boundaries, also promotes geographic adjustments, which take into account the local characteristics of production, definition and setting up of essential services.

- ✓ Each country should create a legal framework constituting a unity of strong signals for external and internal use. The legal framework of essential services should find its anchorage at all legislative and reglementary levels. The national constitutions, possibly completed by a Declaration of rights, are the first texts to consecrate the main principles (such as equality for all citizens in access to essential services) and the rights and general obligations of public authorities and the citizens. The texts should foresee a clear distribution of responsibility between the different administrative levels. Other laws or rules should thoroughly study the economy of essential services, and can consecrate the existence of guarantees: maintain access to essential services without conditions of resources, protection of investments, liberty in the choice of the management mode, and participation modalities of each of the stakeholders. Indicative networks can be put in place in order to consecrate supplementary efforts to essential services: conditions of fiscal policy of investments, help in constructing fully equipped residences..... All of these texts supply the references as much as for the country's internal use (knowledge of rights) as for external use (attractiveness of the country). Quality of justice procedures and dispute resolution mechanisms are complementary to this legal criteria. In order to be a credible reference, the legal framework should research the stability of principles over time.

- ✓ A high level of dialogue should be maintained with the perspective of improvement in performance of essential services. The legislative debates are punctual and do not include all actors. It is important to maintain a constant dialogue between these parties, in a constructive perspective which will often be at the source of future legal evolutions. The Charters of Governance for essential services are well adapted instruments for instigating this dialogue: they presume the assembly of a number of representative actors (tending towards exhaustiveness) involved in one

way or another in essential services. It's a collective negotiating method for objectives and a medium of essential services. It can be a method of remedy in the absence of political representation of certain actor categories, which increases the degree of participation and democracy. Interests being openly discussed, the Charters tend to overrun the legal framework in order to integrate the economy, management, environmental protection, to give a more complete vision of essential services. The principles contained in the Charters should in part be common to all services, in order to offer all stakeholders stable references and a common basis for dialogue. They should also be partly specific for each service in order to assure the operating capacity of common principles. On the other hand, the Charters can constitute stimulus towards progress, which isolates those who infringe on engagements or who refuse to subscribe to them. Other ways for maintaining the dialogue can be used: forums, institutionalisation of dialogue platforms.... The financial backers can attribute more favourable conditions to the parties engaged in such steps.

Box 13 : The French Charter of Local Public Services

Signed in January 2002 by the most important associations of elected local government officials in France's Regions, départements, and towns, by the IGD and then by some 20 organizations representing utility operators, employees and consumers, the Charter of Local Public Services is a voluntary effort to bring together the efforts of all stakeholders in essential services in support of common goals and standards. Signatories do not commit themselves to adopting specific mechanisms or systems, but rather to methods and procedural frameworks, i.e., agreement to clarify and share responsibilities, joint definition and use of performance indicators, involvement of all participants in the process of defining services, setting up transparent management, encouraging comparison and emulation, etc.

Since then, industry-based working groups (water, waste management, transportation, institutional catering, etc.) have met to translate these goals into tangible measures that are adapted to each industry and type of area (cities, countryside, etc.).

- ✓ The contracts and rules of services enable adaptation of the principles to each of the services and territories. At the pertinent level of organisation of essential services, it is necessary to indicate the objectives and means of the services. The Charters can also be sector-related or territorially declined to the initiative of the public authorities, by the intermediary of development schemes of essential services, or by other documents of a statutory or contractual nature. For reasons bearing down to transparency, to equality concerning access to services, and to visibility (notably as concerns extension objectives), contracts must be the privileged option for regulating relations between the public authority and the operator. For essential services, contracts are generally mid or long term contracts : they should be periodically adjusted as the external parameters evolve, and renegotiations should not be perceived as systematically opportunistic. The rules of services then constitutes the interface between the service operator and the users; a relation in which the

organising authority places itself in appeal. The concrete rules of access to services in terms of schedule, standards and costs are herewith mentioned, just like the principles which determine the level of contribution expected by the users.

Box 14 : Quality requirements based on firm commitments by all parties involved

In France, operators of potable water and sewerage utilities, working through professional associations (SPDE) including the great majority of private operators, have jointly developed a Quality Charter for the management of service-related assets, which they are committed in towards local governments. This Charter is intended to serve as an alternative to onerous legislative and purely administrative approaches to the rehabilitation of run-down water systems. It is based on four commitments: greater familiarity with the water systems through data collection, digitalization and dissemination of water systems data; support to local governments in drawing up a program for management of service-related assets; selection and use of technologies adapted to the local environment and chosen jointly with the local government; monitoring and evaluation of contractual objectives, with penalties if they are not respected.

- ✓ Ethic of business should be part of good practices in the management of essential services. Developed countries, like developing countries, have and still encountered, to different extents, problems of collusion, restrictive practices and corruption, to the detriment of the general interest. In the end, taxpayers and users of essential services are suffering from corruption and finance its cost. Fighting bribery is leading to pay the real and just price of services. Four types of corruption can be identified : little corruption on massive scale (populism, complaisancy recruitments, administrations or rich users who don't pay for the service...); corruption during contracting procedures (on which international institutions focus, but a monitoring of contracts during their execution should also be useful); great corruption at the head of states (which should be considered as racket for entry rights); Mafia phenomenons (often a collusion between organised criminality, economic activities and some public authorities). The first type of corruption is the major source of inefficacy for essential services, and concerns basically and directly individual users. By rupting with populist behaviours, a sensible improvement could be reached : "twice more revenues for the service, and twice less expenses" could be an order of idea, in some cases.

All these elements constitute the core of the economic and financial governance of essential services, which borrows from four areas: law, economy, social and political scenes. It is technically possible and desirable to go further in these principles: much researches, and works from expert groups have more precisely tackled the questions of financing, and have identified or proposed guides, criteria, mechanisms. All this work is placed under the politics of development of essential services, but it is necessary to point out that no universal or unique solution is conceivable. The choice and articulation of these solutions depends on

local contexts: the work led by the Institut de la Gestion Délégée offers a framework for global comprehension of the economy of essential services, in order to support all the parties in the orientations that they have and will have to take.

The Committee for the Charter of Essential Services

The Committee for the Charter gathers members-founders of the Institut de la Gestion Déléguée that are the most involved in the daily supply of essential services. Their field of action spreads as much from developed countries as from developing countries. Among members of the Committee, four have decided to bring a specific support to the programme "Essential services" of the Institut de la Gestion Déléguée:



With the support of other members of the Committee, (Agence Française pour le Développement (French Agency for Development), Bouygues Construction, Caisse des Dépôts & Consignations, Gaz de France, SEFI) and partners from the public and international sectors (ISTED, Ministère des Affaires Etrangères (Foreign Affairs Ministry) -Direction des Collectivités Territoriales, Partenariats pour le Développement Municipal, UNITAR), the Institut de la Gestion Déléguée endeavours to bring into operation an innovating process to push forward reflexion on access to essential services.

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