

# Key Issues in PPPs for the Poor

## Full Description

### **Monopoly of service providers**

Poor customers in informal and often inaccessible settlements are less likely to be supplied by the formal provider with transport, electricity or water and so have to resort to buying services from alternative unofficial providers. Often these unofficial providers form cartels which also has the effect of a monopoly and makes it difficult for others - even those offering better services - to gain entry. Where there is an official service provider, laws or contractual arrangements may be in place to protect the incumbent, granting it a monopoly of service in an area and outlawing alternative providers. Alternative providers are often prevented from operating, without the incumbent provider having first connected these areas to infrastructure services. Whilst there may be good reasons for giving the incumbent provider exclusivity in a service area, consideration should be given to allowing limited competition from alternative providers in neighborhoods where the incumbent supplier is providing no or poor service, perhaps until a formal connection or service is established. It might also be appropriate, in transport for instance, to encourage competition – to drive down prices, and increase supply and choice for the poor. It should also be considered whether a legal prohibition extends to providing a bulk supply to a slum area.

### **Prohibition on the delivery of service to informal settlements**

Much of the urban poor in developing countries lives in informal settlements. Access to infrastructure services may be inhibited by the illegal nature of these settlements as there is the uncertainty of tenure. Some of the residents may be migrant workers who are not documented in the country, adding a further complication. Laws and regulations may be in place that actually prohibit service delivery to those unable to assert a right of tenure or produce a local residency document. In other cases, services delivery may be dependent on having an address, which may be non-existent in informal settlements. In jurisdictions with adverse possession laws, citizens who have been living in such settlements for a longer period of time may be able to argue for such rights. Another line of argument may be along a constitutional right to equal access to services if one exists (see for example the [recent ruling of the Bombay High Court](#) on the Constitutional right of access to water for people living in informal settlements in Mumbai). However, such grassroots-level “formalization” is rare. For more extensive access to services in informal settlements, a Government will need to review its policy regarding illegal settlements and whether to regularize these settlements, or to de-link the right to service from tenure (linked with compensation and incentive mechanisms in the contract for the service provider to deliver to those areas – see [here](#)

### **Ad hoc solutions to services delivery**

The poor are often being served by poor quality services, which do not meet safety or public health standards. This is often the case if the services are being provided through unofficial or ad hoc channels rather than through a centralized system: such as poor households using coal-fired or biomass-fueled indoor stoves for heating rather than being part of a district heating program, or unsafe drinking water being provided through bottled water services rather than through the municipal water supply system. Besides the legal barriers described above, there are also often physical barriers to providing high quality services to the poor: it can be difficult to connect households to a centralized system if they are remote or if basic infrastructure to reach the households is lacking.

### **Unnecessary/inappropriate engineering and quality standards**

Engineering and quality standards may be in place that has been adopted from standards crafted elsewhere in the world, with little consideration of local relevance or fostering access to the poor. For example, requirements for water and sanitation pipes to be a certain distance below ground, which are important in cold countries to reduce the risk of pipe bursts in winter – but have little relevance in developing countries with warmer climates. Similarly, poor customers may be willing to receive a different service level from that that is required by law – for example, a low voltage power source may be more appropriate to meet the demands and needs of the community and is likely to be more affordable – but may be prohibited by law. Such standards can increase the costs of infrastructure and new connections unnecessarily.

For examples of different technical standards for rural areas, please see our [rural electrification page](#).

## **Judicial system**

If a host country's court system is corrupt, inefficient or costly, the poor are usually the ones to suffer first. Whilst full-scale judicial reform may be needed, it may take years to implement. Therefore, thought should be given to introducing low-cost courts or other dispute resolution forums to address disputes relating to utilities, especially for customers from poor communities.

## **Regulator**

If there is a regulator in place that is setting tariffs and monitoring service standards, its main focus may be on existing customers and less on new customers. A large proportion of people without access is likely to be poor. The regulator's mandate could be modified to specifically protect the poor and to encourage new connections, innovative solutions for connecting the poor, formal and informal consultation with the poor and finding billing solutions.

## **Tariffs**

Tariffs can be structured to optimize cost recovery (a key consideration in a PPP) while still minimizing the impact on the poor. Legal limits on tariff increases across the board may hurt the poor as it prevents needed increases to improve services and/ or create cross-subsidies for poorer areas. Furthermore, in some cases where tariffs increases are in “blocks” whereby the heavy users pay higher tariffs, this may disproportionately hurt the poor as there is often only one tap in the community, which is shared amongst several households. Therefore the tariff and subsidy policy and structure should be considered holistically, as discussed in [“Other Mechanisms Supporting Pro-Poor Services Delivery](#)

## **Billing Collection**

The government needs to establish a simple billing mechanism and accessible booths/ offices for the poor to make payments. Payments should also be in increments that are affordable for the poor- say on a weekly rather than monthly basis. One of the options for bill payment that could be made available to the poor is payment (sometimes prepayment) through phones or apps which could help them save time and expense on travel.

## **High initial costs of setting up the service**

(e.g., cost of grid connection, solar panel installation or setting up trash hauling)

There is typically a one-time connection fee payable to connect a household to a service such as electricity or water. This fee may be disproportionately costly for a poor household, particularly as a onetime payment. The connection fee for poorer more remote communities may be even higher than that paid by the better off in city centers as new infrastructure may be required. Consideration should be made to making this more

affordable, whether through spreading out the cost over time or through cross-subsidy or grant so that the initial costs do not deter the poor from getting connected.

It must be noted that such remedies need to [target the poor](#) and, ideally, to be paid out as results-based financing. Non-targeted cross-subsidization blurs the goal of moving towards cost-reflective tariffs. Targeted grants paid out after the connection has been set up (i.e. Results-Based Financing) nudges the PPP operator to look for solutions appropriate to low-income customers, thus helping deal with the supply-side issues of “High service standards” and “Unnecessary/inappropriate quality standards”. The majority of Output-Based Aid projects are fine-tuned at the time when the service provider, public or private, attempts to convince potential low-income customers to sign a service contract and to start paying.

## **Community engagement through consultations**

Consultation meetings may be held periodically to maintain community engagement as well as understand and accordingly suggest sound solutions to address the community’s needs. Such meetings could be conducted with the help of NGOs who may already be involved in the project.

*For more information on [Pro-Poor PPPs](#), visit [Laws and Regulations Supporting Pro-Poor Services Delivery](#), [Contractual Examples Supporting Pro-Poor Services Delivery](#), [Other Mechanisms Supporting Pro-Poor Services Delivery](#) or the section on [Case Studies](#) and [Further Reading](#) for additional resources.*

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