

Service-Level Agreements for Inclusive Urban Sanitation Services

Lessons from a Global Review



In 2013, the Bill and Melinda Gates Foundation (BMGF) and Department for International Development (DfID) initiated a partnership to promote private sector participation in non-networked sanitation and improve capabilities of sanitation service authorities to govern these partnerships.

Targeted cities were expected to have a clear mandate to provide urban services for all, including for the non-networked poor and develop and test models to engage the private sector in a coordinated, formal manner through structured service-level agreements (SLAs), as a form of public-private partnership, to ensure the delivery of equitable, sustainable sanitation services at a city level.

Eleven cities (five in Sub-Saharan Africa, six in South Asia) with demonstrated evidence of long term commitment to improving sanitation service outcomes were selected to benefit from this opportunity. In August 2017, BMGF/DfID commissioned a rapid cross-regional review of the outcomes of this partnership portfolio to identify lessons which can be applied to future projects and in cities' future investments in sanitation services.

This brief documents key lessons from this partnership portfolio regarding the engagement of private partners in the delivery of inclusive and sustainable urban sanitation services through structured SLAs.

Review Funded by:

The Bill & Melinda Gates Foundation
Department for International Development, UK

Countries: India, Bangladesh, Ghana Senegal, Malawi, Sierra Leone, Uganda

Review Timeline: September 2017- March 2018

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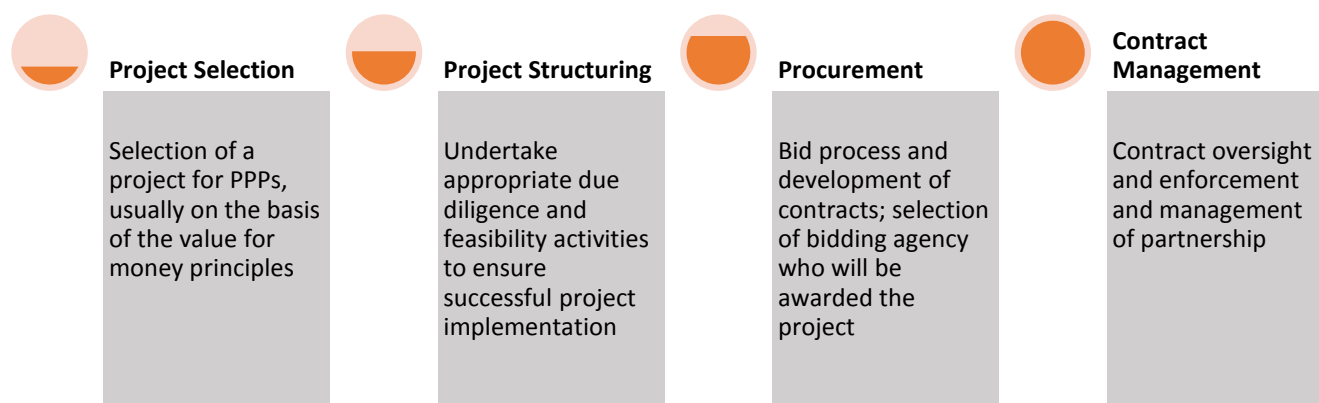
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Key Lessons from Partnership Portfolio

The review captured lessons along the PPP/SLA development stages outlined in Figure 1 below.

Figure 1 Development Stages on Public-Private Partnerships



City experiences suggest that private sector can be attracted to deliver onsite sanitation services at scale under PPPs. But the conditions under which private sector can yield better value for money in comparison to public provision or can complement public funding remains to be proven. Considering the innovative nature of onsite sanitation service models, enabling factors for private sector engagement will include – a clear rationale for PPP; early engagement with potential service providers; improved public sector capacities to structure and execute balanced PPPs and undertake the necessary due diligence for this purpose; concessions relative to the economic viability of projects and guaranteed revenue streams; flexible procurement processes to allow for emerging private sector capacities; optimum risk allocation and flexible contract design that allows for fair and balanced renegotiations if necessary; improved regulations that are critical for project viability.

Table 1 Procurement of Private Operators: Challenges and Mitigation Mechanisms

Issues in Procurement	Mitigation approaches in project cities
Inexperience of public sector in service area	<ul style="list-style-type: none"> Capacity building activities to improve knowledge and skills for managing services and for development of PPPs Technical assistance during project structuring (e.g. support to feasibility studies, other due diligence activities) Technical assistance in bid preparation, contract negotiations, development and management
Lack of private actors in onsite sanitation services (fewer bids)	<ul style="list-style-type: none"> Outreach to potential private actors, including actors from related sectors such as SWM, building maintenance Incentives to participate (e.g. potential for leasing public assets) Relaxation of qualifying criteria for service engagement
Limited experience of private sector	<ul style="list-style-type: none"> Formalisation of existing informal or SME providers Third-party technical assistance during contract negotiations Capacity building activities focused on skills needed for service delivery and business management
Low risk appetite in private sector for participation in onsite sanitation projects	<ul style="list-style-type: none"> Open and transparent contract negotiations process to enable fair, appropriate risk allocation between contracting parties Use of incentives <ul style="list-style-type: none"> potential to lease public assets favourable lease terms to support innovation and strengthening of business model potential for bundling of services to improve project viability scheduled services (emptying) against guaranteed payments

City experiences also suggest that **grant funding and public sector investments in capital infrastructure** will continue to play an important role to attract private sector engagement in unproven onsite sanitation markets.

The role of public sector in advancing sector progress is important even after engaging private sector for service provision. Active engagement of public sector is needed in – contract management, monitoring and enforcement of service obligations, addressing service inequities, assuming ownership of environmental monitoring, extending support in service components that impact business viability.

Table 2 PPP Risks in Onsite Sanitation Services

Risk category	Positive design features in SLAs developed in BMGF/DFID project cities
Demand & Tariff risk	<ul style="list-style-type: none"> • Phased enforcement around containment • Guaranteed demand through scheduled emptying services • Public awareness strategies to be pursued by contracting parties
Performance risk	<ul style="list-style-type: none"> • Defining service levels and targets • Linking payments to performance • Use of incentives and penalties tied to performance
Environmental risk	<ul style="list-style-type: none"> • Imposing provider obligations around prescribed environmental guidelines and regulations • Technology-based monitoring mechanisms • Use of incentives and penalties linked to environmental impacts
Payment risk	<ul style="list-style-type: none"> • Guaranteed revenue streams to provider • Use of escrow accounts that provider can draw in case of payment delays by service authority
Regulatory risk	<ul style="list-style-type: none"> • Partnership support in securing regulatory approvals
Asset condition risk	<ul style="list-style-type: none"> • Imposing provider obligations around prescribed asset O&M guidelines • Willingness of service authority to meet high value asset repairs/maintenance costs on lease contracts

Figure 2: Rationale for PPPs/SLAs in Onsite Sanitation Services

The conditions under which private sector participation brings direct benefits to the poor remains to be proven. Experiences from current portfolio of projects underscore the need for PPP design to explicitly identify and target the poor and marginalised. Marginalized citizen groups can otherwise be left behind in the process. More efforts must be taken to understand this market segment and to identify sustainable service solutions for these groups. To this end, **public sector needs to play a more active role, both to understand the service needs of the poor and to evolve alternative public policy solutions where private engagement does not seem feasible.**

To what extent private sector participation under PPPs can lead to sustainable services at scale remains to be seen. There are some positive institutional actions on this front as well as some threats to sustainability. Sustainability is a complex issue. Periodic review of institutional change and PPP contract management is needed to draw out full lessons relating to the provision of onsite sanitation services and longer-term sustainability of positive outcomes.

Given that most of the city partnerships are in their early stages of engaging private sector in onsite sanitation service delivery, more time is needed to draw out full lessons from these approaches and their effectiveness in improving sanitation outcomes. An overarching lesson from the BMGF/DfID partnership portfolio is that facilitating candid dialogues between the public and private sector at all stages of contract design and implementation is necessary to build partnerships that are based on mutual trust and shared risk, and are therefore sustainable, and can potentially generate value for money over the longer-term.

Public sector constraints

- Inadequate public finances for developing onsite sanitation service infrastructure (desludging trucks, treatment plants, testing equipment)
- Lack of technical expertise, particularly in construction and maintenance of treatment facilities
- Limited manpower and related capacities to deliver services at desirable scale/quality

Potential benefits from Private Sector Participation

- Potential to supplement limited public sector capacities
- Technical expertise, specifically in the construction/maintenance of treatment facilities
- Business expertise, particularly in the marketing and sale of end-use products and scale-up of emptying services
- Potential for improved service benefits (access and quality; improved customer response times in emptying services; reduction of illegal dumping of sludge)
- Potential for efficiency gains and longer-term value for money
- Access to private capital (for construction of treatment facilities, purchase of desludging trucks)

Potential Risks from Private Sector Participation

- High project structuring costs, given nascent stages of onsite sanitation service models
- Challenges in accessing external finance owing to innovative, unproven nature of sanitation business models
- (Un)willingness of the private sector to accept major risks as project viability is yet to be established, particularly in treatment operations without reuse potential or uncertain market for end-use products
- Unsatisfactory performance of private sector
- Continuous role of public sector even after entering into a PPP

Risk mitigation opportunities through SLAs

- Potential to link payments to performance
- Potential to build in incentives and penalties to uphold performance obligations
- Potential to embed clear monitoring/reporting/enforcement mechanisms to ensure private sector accountability to contractual terms and conditions
- Favorable contractual terms to mitigate business risks and incentivize private sector to engage and innovate in onsite sanitation services

IFMR LEAD is an India-based research organization which conducts high-quality, scalable research and evidence-based outreach to promote inclusive and sustainable development in India and other Low and Middle Income Countries.

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