

Market Frameworks for Improved Urban Environmental Performance: Experiments in the Water Sector

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Market Frameworks: Opportunities and Limits

- **Markets:** voluntary exchanges between buyers and sellers
 - Products and services, including investment opportunities
- **Market frameworks:** rules by which markets operate
 - Bottom-up (participants)/top-down (governments)
- **Links to environmental performance:** shift in thinking
 - From markets just as the cause of environmental harm
 - To markets as a source of investment in improvements
- Use market frameworks to **expand pool of investors**
 - Known/short-term/local to strangers/long-term/global
- In **improved environmental performance**
 - Use the water sector to illustrate experiments underway...

Example: Urban Water Services

- **Delivery of urban services**
 - US\$10 to 49bn investment needed per year
 - To halve number without access to water/sanitation (MDGs)
 - By three major providers/sellers of urban water services
 - Local governments
 - Local water companies/individual providers/NGOs
 - Global water companies
- **Protection of water sources**
 - Against pollution by industry, cities, farmers, others
 - Against destruction of ecosystems that protect water
- **How might market frameworks help?**

Delivering Water Services

- **Local actors – public and private**
- **“Dead Capital” problems**
 - Have water revenues and assets
 - But limited ability to use to borrow money
- **Municipalities:** limited borrowing authority, bad credit
 - Expand authority/rules for direct municipal borrowing?
 - Expand use of self-supporting water authorities/public co's?
- **Small providers:** no legal status, bad credit, no links to wider pool of investors
 - Reduce costs of formalizing businesses/assets?
 - Increase access to micro and related forms of credit?
 - Expand links with centralized providers?

Delivering Water Services

- **International actors:** investors and operators
- **Country risk problems:** currency fluctuations
 - Reduced value = increased fees = user protests
 - Expand local capital markets?
 - Expand local currency lending? Risk mitigation products?
- **Monopoly/information asymmetry problems:**
MNCs vs municipalities
 - Limited regulatory capacity/experience
 - Enhance regulatory capacity?
 - Expand information/user oversight?

Delivering Water Services

- **Legitimacy of rules problems: MNC operators**
 - Obscure process for awarding contracts
 - Tripartite partnerships with civil society orgs?
 - Intense questioning of private delivery at all...
 - Performance tracking against responsibilities and rights?
 - For all parties: owners, operators, users, investors?
 - Need to assess public vs private directly?
 - Not decide by choice of donor...

Protecting Water Sources

- **Externalized costs problem:** pollution
 - Not reflected in markets without regulation
 - Expand enforcement of controls? Information? Citizens?
 - Increase discharge fees?
 - Allow trading of discharge rights?
- **Externalized benefits problem:** source protection
 - Value of forest management/reforestation not reflected in markets
 - Clarify land rights so have incentive to invest?
 - Create incentives to pay land managers for better management?

Market Frameworks for Improved Urban Environments

- **Top-down rules are key**
 - Legal/governance frameworks
- Create **space for increased private investment**
 - Clarity, predictability over time
- And opportunities to **leverage public investment**
 - Income support – equity goals
 - Public goods – health goals
- Plus **incentives for improved performance**
 - Effective oversight/enforcement of standards
- **Effectiveness will vary** with context
- Will make **mistakes**
- But need to learn and **keep experimenting**

For More Information

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