

Model Terms of Reference

Mainstreaming Small Scale

Private Water Piped Network

Providers



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Mainstreaming Small Scale Private Water Piped Network Providers

Abstract

Rationale

Many water utilities fail to provide adequate water services to the poor. As a consequence, many of the poor are forced to rely on alternative service providers, paying up to as much as 15% of their household income for water. They buy water from their neighbours at inflated cost, or get water from standpipes or stand-posts where access to water may only be for a very short time each day.

Small scale private water providers (SSPWPs) serve a significant proportion of the poor in many urban areas, even up to 40% of poor households in some cities. More often than not, they are small family businesses that are well integrated in the community and provide service at competitive prices. The poor families who consume their water also know what quality of water they're getting, and pay for it accordingly.

Unfortunately, SSPWPs are not formally recognized and receive little or no financial support. Urban water supply and sanitation (WSS) projects invariably ignore the role and contribution they can make in the planning and delivery of municipal services.

In 2004, the Asian Development Bank published the results of regional studies on SSPWPs. The studies concluded that city officials, water utilities, and local banks should work with small network entrepreneurs to bring water supplies to the poor and disadvantaged immediately on an agreed interim basis until the water utility was able to do so. The study also recommended that small networks should be included in city development strategies and formalized with licensing and exit strategies and takeout agreements, with minimum standards set to recognise risk and payback requirements.

Objectives

Small scale piped water providers should be mainstreamed or integrated into the design of public and private sector loans to

- legitimize their contribution in providing water services and focus financial support on delivery of piped water supplies to the poorest members of society
- undertake a rapid diagnostic survey and stakeholder consultation to assess the potential market and capacity of existing SSPWPs
- develop appropriate registration procedures, licenses and agreements with municipalities and formal utilities under which the SSPWP can operate
- identify suitable financing mechanisms
- identify and agree on the appropriate materials and construction standards
- draft suitable bidding documents and templates to encourage transparent competition and awarding of contract licenses
- develop an appropriate technical/financial performance monitoring system

Scope

There are five steps leading up to the appointment of the SSPWP piped network operator, followed by a sixth step to cover regular technical performance and financial monitoring:

- Undertake rapid diagnostic surveys of consumers, the water utility, and SSPWPs. Analyze the results to assess the size and location of the target market and the capacity of existing SSPWPs to meet the unfulfilled demand.
- Hold stakeholder consultation with the target communities, the utility, SSPWPs, local government representatives, NGOs, etc., and develop appropriate registration procedures, including time-bound licenses and Memoranda of Agreement with the Municipalities and formal utilities leading up to ultimate transfer of responsibility for service provision to them.
- Develop a financing structure and mechanism appropriate to the local situation.
- Identify materials and standards appropriate to the community and the lifetime of the project, and obtain approval from the relevant authorities.
- Prepare bidding documents including evaluation criteria and procedures, SSPWP appointment process and award contract license. Develop monitoring system covering appropriate technical/financial performance criteria.

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A. Background

1. In 2004 the Asian Development Bank (ADB) published the results of regional studies on small-scale private water providers (SSPWP). The studies concluded that city officials, water utilities, and local banks should work with small network entrepreneurs to bring water supplies to the poor and disadvantaged immediately on an agreed interim basis until the water utility was able to do so. The study also recommended that small networks should be included in city development strategies and formalized with licensing and exit strategies and takeout agreements, with minimum standards set to recognise risk and payback requirements.

2. In the Asia and Pacific region, some 570 million people still need to receive improved water supply and about 1,820 million people still need to receive access to improved sanitation to reach the Millennium Development Goals (MDGs). People who are not connected often pay water vendors about 15% of their household income for delivery of water, buying water from their neighbours at inflated cost, or getting water from standpipes or stand-posts where access to water may only be for a very short time each day and there is difficulty transporting it home. The core issue is getting connected to piped water promptly and on terms affordable to those living in urban and peri-urban areas, especially the poor. Once connected, people are likely to pay only 1–2% of their household income for piped water.

3. In order to address the immediate needs of connecting the poor to piped systems in areas where the formal utility is unable to do so, it is proposed that provision of small piped water networks by SSPWPs be mainstreamed and integrated into both public and private sector loan projects.

B. Objectives

4. The objectives of mainstreaming/integrating SSPWPs into the design of public and private sector loans are to: (i) legitimize the contribution and role of SSPWPs in the provision of water sector services, even though on a temporary period-limited basis, and focus financial support on delivery of affordable piped water supplies to the

poorest members of society; (ii) undertake a rapid diagnostic survey and stakeholder consultation to assess the potential size of the market and the capacity of existing SSPWPs to meet that unfulfilled demand for services, (iii) develop appropriate registration procedures, licenses and Memoranda of Agreement with the Municipalities and formal utilities, under which the SSPWP will operate, (iv) identify a suitable financing mechanism, (v) identify and agree with the relevant authorities appropriate materials and construction standards, (vi) draft suitable bidding documents and templates, including evaluation criteria, in order to encourage transparent competition and to award contract licenses, and (vii) develop an appropriate technical/financial performance monitoring system.

C. Scope

5. Many water utilities fail to provide adequate water service provision to the poor, with many forced to rely on alternative service providers who typically provide a lower quality service at far greater cost than the formal utility. SSPWPs service a significant proportion of the poor in many urban areas, but are not formally recognized and receive little or no formal planning recognition or financial support. Urban water supply and sanitation (WSS) projects invariably ignore the role and contribution that these SSPWPs can make in the planning and delivery of municipal services. By mainstreaming SSPWPs and including them in sector loans and rolling programs, their contribution can be optimized, enabling more people to be connected quicker, and the formal utility to prepare for the ultimate controlled handover to it of SSPWP small piped water networks (SPWNs). Urban water sector loans should include a component that supports SSPWPs, with part of the loan proceeds used to finance some or all of the capital investment requirements.

6. There are five steps leading up to the appointment of the SSPWP piped network operator, followed by a sixth step to cover regular technical performance and financial monitoring:

- (i) **Undertake rapid diagnostic surveys** of consumers, the water utility, SSPWPs, and **analyze the results** to assess the size and location of the target market and the capacity of existing SSPWPs to meet the unfulfilled demand.

- (ii) **Hold stakeholder consultation** with the target communities, the utility, SSPWPs, local government representatives, NGOs, etc., and **develop appropriate registration procedures**, including time-bound licenses and Memoranda of Agreement with the Municipalities and formal utilities leading up to ultimate transfer of responsibility for service provision to them.
- (iii) **Develop a financing structure and mechanism** appropriate to the local situation.
- (iv) **Identify materials and standards** appropriate to the community and the lifetime of the project, and obtain approval from the relevant authorities.
- (v) **Prepare bidding documents** including evaluation criteria and procedures, **SSPWP appointment process** and **award contract license**.
- (vi) **Develop monitoring system** covering appropriate technical/financial performance criteria.

D. Methodology

7. **Rapid diagnostic surveys** will be undertaken after obtaining formal permission from the local government. *Enumerators* will undertake 5% sample surveys of water consumers in the target areas within the city, and will also survey all bottled water suppliers and water vendors operating in their zone. *Domestic consultants* will supervise the enumerator surveys, and themselves survey all the small piped water operators throughout the city. They will then summarize the results of all the surveys and organize a stakeholder consultation. An *international consultant* will survey the water utility, and analyze and summarize the results of the surveys, including the size of the market and the capacity of SSPWPs to meet the unsatisfied demand. A *domestic facilitator* will convene a one-day **stakeholder consultation** to discuss the findings of the water assessment, identify the preferred option for the way forward to provide piped water supplies to the community and, if considered appropriate, formulate a civil society task force to monitor scheme implementation. Sample questionnaires for all the surveys will be pre-tested by the domestic consultants before use.

8. **Licensing** will provide formal recognition of the SSPWP by the municipal authorities and also the formal utility to ensure that the area will not be re-developed or the water services network extended into it for a specified number of years. This will provide security of tenure to the SSPWP and enable him to plan with confidence and price his services to obtain an appropriate return on capital during the period of tenure. At the end of the license term the assets will be transferred to the formal utility. The license will detail the area of license jurisdiction, the obligations of each party, reporting requirements and their frequency, periodic audits, remedies for failure to conform to the license, an appeals process and appointment of an independent ombudsman, the license duration, periodic license reviews (if appropriate), exit strategies including ultimately the transfer of responsibility for service provision to the formal utility or extension options at the conclusion of the license period. A reasonable license fee could be charged to cover administration costs. The terms of the license would also have to be approved by the formal utility, as certain sole service rights would be devolved to the SSPWP through the license, prohibiting expansion of the formal utility network into the license area within the term of the license. A separate **Memorandum of Agreement** should be drawn up between the SSPWP and the formal utility to cover such issues as: appropriate technical standards and materials (typically less onerous than those imposed on the formal utility and reflecting local conditions), provision of a bulk water supply if appropriate (if licensed by the Municipality, the SSPWP would have legal status and could become a legitimate bulk consumer of the formal utility) and covering maximum/minimum daily volumes, tariff, metering details, remedial actions in the event of supply deficiencies, periodic reviews (if appropriate), etc. The license would be a relatively simple document, with bureaucracy kept to a minimum.

9. Development of an appropriate **financing structure and mechanisms** is the key activity to be undertaken by the consultant, as financing of the SSPWP is critical to ensure tariffs can be kept as low as possible so everyone can be connected to the piped system. Because of their currently informal nature, SSPWP access to local capital markets and bank loans is virtually non-existent, with reliance placed on borrowing money from local money-lenders at extortionate rates. To

provide increased financial security to the SSPWP, the consultant will investigate various options for an appropriate **financing structure and mechanisms** for the disbursement, repayment and monitoring of funds under the loan. Two options to be considered are to use part of the loan to lend directly to SSPWPs, or to establish a revolving fund. A revolving fund would provide broader opportunities for SSPWP support and potentially could cover a larger proportion of the city and the unserved population than direct loans to individual SSPWPs as funds repaid to the revolving fund could be re-disbursed to other SSPWPs. Special attention will be given to risk analysis, appropriate service and interest rates (in comparison with local informal lending rates, financing costs and service affordability, etc.), disbursement and repayment mechanisms (including any staging), term of the loan, and loan monitoring/reporting procedures. Existing loan models will be evaluated during this process to identify key features that will promote the objectives of the PPTA. As part of the risk analysis the consultant will make recommendations on the proportion that the loan funds should represent in comparison with the total capital borrowing requirements of the SSPWPs in order to encourage bidders to develop alternative or matching funding mechanisms, minimise exposure of the loan funds to potential losses on specific schemes, and also to enable more SSPWP schemes to be supported financially. A *domestic financial consultant* will develop the loan fund structure and modalities.

10. The consultant will develop an appropriate **SSPWP appointment process**. It is envisaged that each SSPWP bidder would propose a business plan and a financing plan as part of his bid. Evaluation of the plans using evaluation criteria such as cost / household supplied, tariff affordability, proposed repayment period, etc., will identify the most attractive and costeffective bid. Prior to signing the loan, agreement would be reached on the disbursement schedule, the repayment schedule and the specific conditions that would trigger each repayment. Loan funds would be provided in tranches to the bidder as physical construction targets in his bid program are achieved and matching funds are demonstrated to be in place.

11. **Bidding documents** and templates will be developed that standardize the details required and the bid presentation format so that bidders

can clearly understand what needs to be included in their bids. Bidding documents should be short, simple and clear, be in both English and the local language, and must clearly state what is expected of the successful bidder, how his bid will be evaluated (the evaluation criteria, the weight given to each, etc.), and provide details of the contract license award process. The municipality would then **award the license**, modified if necessary to reflect bid details, to the successful bidder who would then sign the loan fund agreement. The municipality would not sign a contract with the successful bidder. Bid bonds and performance bonds, etc., are not considered to be appropriate. Prior to the issue of bid documents contract adverts would be placed in the local press and distributed within the communities to be served.

12. Independent **monitoring** of the technical and financial performance of the SSPWP during the term of the license is absolutely essential. It is suggested that an independent consultant should be appointed to undertake this monitoring and periodic reporting function, with fees and costs met either through the license fee or from a separate budget within the loan fund. The independent consultant would also report directly to ADB and other loan fund donors on utilisation and administration of the fund. The monitoring system should be capable of distilling SSPWP performance as well as improvements to service provision in the community through the derivation of key performance indicators (KPIs) without the need for the collection, recording and analysis of extensive datasets which would only serve to increase bureaucracy and costs. Regular reports should be prepared as part of the monitoring system process.

E. Implementation Schedule (total 6 months)

Surveys of utility, consumers and SSWPs	1.0 months
Clarifications and preparation of results summary	0.5 months
Analysis of results and prepare water assessment report	0.5 months
Stakeholder consultation and report of findings	1.0 months
Development of registration/license procedures	1.0 months
Develop a financing structure and mechanism (during license	1.0 months

development period)	
Prepare bidding documents	0.5 months
Bidding period, bid evaluations and contract license award	1.5 months
Develop monitoring system (during bidding period)	(0.5 months)

F. Inputs

Enumerators (or students)	1 person month/community
Domestic water supply survey consultants	2 person months/community
Domestic financial consultant	1 person month
Domestic water supply consultant	2 person months
International consultant	4 person months
Stakeholder consultation facilitator (inc. preparation)	1 person week/community

G. Outputs

1. Water Assessment Report

Part A: Summary of Results of Surveys
Part B: Analysis of Results

2. Stakeholder Consultation Report

- (i) Discussion of Water Assessment Findings
- (ii) Preferred Small Piped Water Network Option
- (iii) Civil Society Task Force
- (iv) Participants

3. SSPWP License and Memorandum of Understanding

4. Report on Loan Fund Structure, Modalities, Operational and Reporting Procedures for SSPWP Water Supply / Sanitation Schemes

Part A: Fund Structure and Modalities
Part B: Fund Operation
Part C: Monitoring and Reporting

5. Bidding Documents for SSPWP Water Supply / Sanitation Schemes

6. Evaluation Report on SSPWP Bids

Part A: Summary of Bids Received
Part B: Bid Evaluations and Ranking
Part C: Contract Award Recommendations

7. Monitoring System for SSPWP Contracts