



Pandora's water closet: competition, finance and water supplies for the poor

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Increasingly, finance for water supplies is being disbursed by inviting private businesses and NGOs to tender a bid for the contract. This new situation raises all kinds of questions, including: will the competition between NGOs and private businesses be fair? Do NGOs and local businesses know what is involved in bidding for a contract? What expertise does local government need to supervise this process?

Recently, in Zambia, adverts appeared in the local press for tenders to develop the software side of a water-supply project. This project was funded by a partnership of donors and administered jointly by the private sector and local government. As government decentralization gathers pace in Africa, such invitations made at local level are increasingly likely to become the way in which development finance is disbursed.

Competition between NGOs and the private sector?

The most competent organizations to support water project software development are usually international or local NGOs. Does this mean that NGOs are going to be drawn into direct competition against each other and the private sector for aid intended to benefit the poor?

Over the past few years it has not been unusual to establish private sector-NGO partnerships in which the private sector leads and the NGOs feature as subcontractors; this is especially the case when bidding is at the international rather than national level.

But if indeed an increasing amount of finance is to be gained by competition at the national and local levels, then we may well see NGOs pushed towards open competition with the private sector for these funds. It's fair to say that, should significant numbers of NGOs begin to take the lead in bidding for local contracts, then we may have to question how suitable the rules and

conditions for awarding contracts are under these new circumstances.

The idea that charitable foundations have to compete for funds to assist the poor is awkward. It may be that not-for-profit organizations would not want to utilize funds that lead to debt in HIPCs (heavily indebted poor countries), particularly when internationally they are probably arguing for debt relief. So a division might emerge whereby the private sector bid for loan money while the NGOs bid for grant money, but as yet there appears to be nothing to prevent either organization bidding for either source of finance.

Unfair competition

The idea is also awkward because, whilst there are rules which are supposed to keep bidding fair, there are a range of tactics from clever to corrupt which often create a minefield for organizations simply aiming to put in the best bid at their lowest price.

The private sector would almost certainly argue that competing against NGOs is unfair, because NGOs enjoy special tax and duty status and do not have a financial responsibility to the shareholders whose money established the company. In other words, NGOs ought to be able to win bids on the basis of a much lower cost. But if an NGO that won a contract failed to perform satisfactorily it would very likely argue that the penalties this incurred were unfair. A typical example of such

a penalty would be where it is agreed that the client withholds payment of a small percentage of the contact value if they are not satisfied with the work of the contractor. Therefore failing to work to a budget or a time deadline could mean the client reduces their payment to the NGO.

Such penalty mechanisms are intended to improve the behaviour of the contractor, by reducing its profit margin. This measure is not intended to kill off contractors. But in the case of an NGO contractor, operating at a near-to-zero profit margin, such financial penalties would push the NGO itself into debt.

So, if we have open competition between NGOs and the private sector under the present rules of contracting it is very unlikely to be seen as fair by any of the parties. Does this mean that we need a new set of rules for bidding for contracts?

The answer probably depends upon the specific context, how frequently NGO versus private sector bids occur and how much foresight we care to apply to the situation before it arises.

Imagine, for example, that international NGOs felt that competing against each other was just simply inappropriate, and so they chose always to bid jointly, as a consortium, for such jobs. In other words they combine their efforts and so reduce their costs in bidding. This practice certainly occurs amongst private-sector companies, but is seen in some situations as underhand



Will arguments over competitive procedures risk stranding the money for water projects?

and disreputable. It is odd then that it could appear to make good sense when NGOs bid.

New ground rules needed

Other problems are likely to arise regarding decentralized financing of water through competitive procedures – Box 1 lists some of them. To end up in an argument or legal dispute and risk stranding the money for water projects would be a wholly pointless situation to find ourselves in. Should

Box 1. Competitive bidding for water supply contracts

There is increasing knowledge, experience and concern emerging in this field and a number of key questions are apparent:

- What is the cost, level of expertise and degree of accountability necessary for competitive bidding to be fair at the local level?
- NGOs and the private sector need to overcome their inexperience in bidding and get to know the full cost of competing and working under the new system.
- What is the acceptable level of competence: what can we afford and what can't we tolerate?
- Is the rural water supply work the private sector will be invited to bid for profitable? If not, then can it be subsidized in the interests of the greater good? The argument is that the benefit of having everyone with a water supply is far greater than the cost of supplying that water.
- Are NGOs and private sector organizations experienced at accurately calculating project costs, their overhead costs and profit margins?
- What kind of people will make the process work? What will government officials really need to be able to do and what characteristics are we looking for in the local private sector?
- What mechanisms will be needed to troubleshoot problems with contracts? If our goal is simply water supply provision, how much effort and money can we afford to put into contract management?
- How can political interference and corruption in the tendering process be avoided?
- Will the involvement of the local private sector change the role of the community – and make the community less willing to participate for free?
- What are the options if the local private sector does not bid?
- If we need to tolerate and learn this new approach, what sort of transitional strategies and policies should we be developing?
- Given the recent growing realism about communities' capacity to maintain their supplies, who will provide the necessary on-going support to communities if sustainability is to be more than a dream?



This private water tanker is collecting water to sell in the town

amounts of finance indeed increasingly be emerging at national and sub-national level and should NGOs find themselves 'pushed' into competing against (rather than with) the private sector for these funds then it would be very important to think constructively about what sort of ground rules we would want to have for such forms of competition. Existing development bank and aid agency rules may prove counterproductive and risk weakening the quality and cost of bids, with obvious implications for both the client and the final beneficiaries.

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