

## Messages

### 1. To policy makers and at the political level:

The private sector is already engaged in providing services to poor people who have no access to conventional (and often cheaper) services.

Private sector operation can be pro-poor. Legislation change may be needed to include the small-scale private sector. All parties should be consulted about any proposed changes.

Subsidies may be necessary, but they should be used for the benefit of all consumers, and should not exclude the private sector from operation.

Sufficient incentives for any private intermediary to carry out distribution must be made available. Distribution and marketing costs money and this needs to be respected in the final price of the delivered service.

### 2. For those involved in institutional / organisational change:

Change is often initiated by groups or individuals within an organisation whose activities are then incorporated into the overall system by the authorities.

The private sector is risk averse, and needs support and a more enabling environment. The private sector needs formalised inclusion in the role of infrastructure service delivery.

Technology plays little part in the restructuring of service delivery. What is needed is the vision to recognise that things need not always be done as they have been done in the past.

### 3. For sector organisations:

The public provider still has a role to play in the supply chain, including responsibility for regulating and monitoring the activities, providing technical inputs or monitoring the private enterprise's use of public assets.

### 4. Role of infrastructure advisors:

Co-ordination with all stakeholders and funders is necessary to avoid market distortion and enable private sector entry into service provision.

The question of how subsidies can be used to grow the market and improve service delivery in a sustainable way has to be answered. Capital subsidies rather than subsidised operations will be more sustainable and also interfere less with private sector delivery mechanisms.

## Web Links

The ILO has developed an inter-agency information exchange website to develop markets for business development services in developing countries.

<http://www.ilo.org/dyn/bds/bdssearch.home>

# The role of small enterprises in infrastructure service delivery

## Key ideas

Public sector failure is unfortunately a universal phenomenon, particularly in developing countries.

Small enterprises have shown that they have a role in delivering infrastructure services. They have the ability to work profitably with lower overheads and manage service delivery at a micro level.

Currently they operate both with and against local authorities and large utilities. They prefer working in closer co-operation with larger suppliers and on a more formalised basis.

Civil servants often regard enterprises as exploitative and believe that serving the poor and profit are incompatible. The private sector often works in spite of government, and does not see how it can work together with public offices. Finally, consumers are sometimes reluctant to pay for services that they believe should be freely available.

Examples of services provided by small enterprises include: Uganda city markets stalls, Indian telephone services, street cleaning, ambulances, electricity bill collection, roadside and railway car parks, Kenyan veterinary services, Peruvian park maintenance services and Tanzanian rural water supplies.

A proposed model, based on the Market Development Approach used in Small Enterprise Development, shows how small enterprises can become involved in the delivery supply chain

## Lessons to be learnt from BDS methodology

Recently, a new model of Business Development Services (BDS) has been developed. This aims to replace subsidised delivery systems with flexible, private sector operators providing direct services on a full-cost recovery basis. There are several parallels that can be drawn from this thinking for infrastructure service delivery.

a) Subsidised service delivery is not a sustainable option. Using unsustainable sources to provide the service will not achieve sustainability, but actively destroy the markets for the private sector.

b) Private service providers can be much more responsive, demand-driven, flexible and efficient in providing services that customers want.

c) Centrally operated service delivery, especially with external advisors, does little to build the capacities of those offering the service.

The key principles behind providing services to business are:

- i. high impact;
- ii. sustainable services;
- iii. demand-driven;
- iv. focused and specific services;
- v. development of a competitive market for the services.

These principles should equally be applied to infrastructure service delivery.

The conventional BDS diagram could provide the basis for the location of small enterprise infrastructure providers in the delivery supply chain. Several terms need to be replaced, as shown below

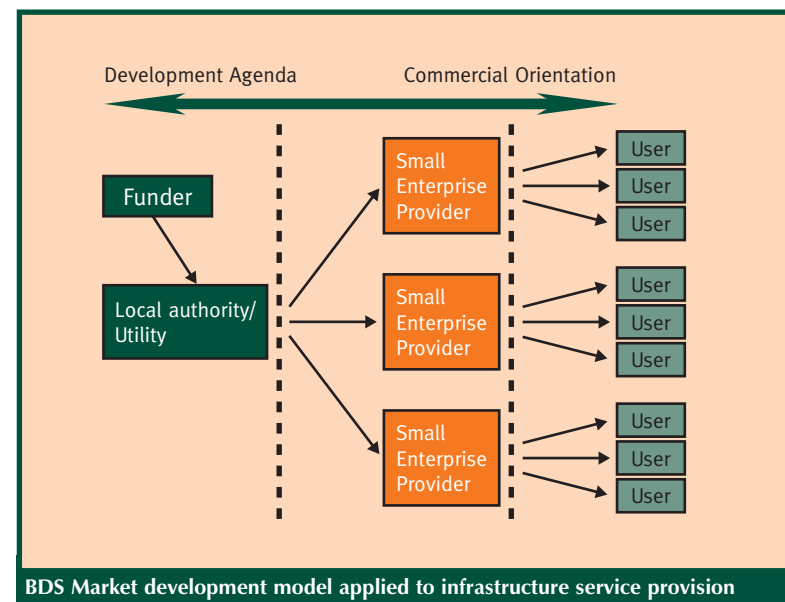
- » Donor with funder
- » BDS facilitator with local authority / utility company
- » BDS provider with Small Enterprise provider
- » Small Enterprise with User

This forms a diagram that has the potential to alter conventional wisdom in how best to provide quality services to a wider audience.

The roles in this new approach to infrastructure services diagram are not fixed and there may be a blurred boundary between funder and utility, and in how far subsidies should pass from the left to the right.

Examples of typical roles of each area could be:

- **Funder** – donor, national government, local government;
- **Authority** – nationalised or private utility or major service provider, regional, district or local authority, government ministries;
- **Small enterprise provider** – small or medium enterprise, community groups, membership association;
- **User** – urban consumers, rural consumers.



Typical benefits of involving SMEs in infrastructure delivery for the various stakeholders include:

- **Local authority** – reduced management burden, increased cost effectiveness, government 'get off the hook', better service outreach, improved image;
- **Small enterprises** – new jobs / increased income, improved image, increased skills;
- **Consumers** – better service, availability of service from nil, increased awareness.

A lot of these benefits have already been achieved without input from foreign donors and as such are likely to prove sustainable.

### Summary of key discussion points

- a) The inclusion of small enterprises is more likely to happen when the activity is too complex or too small scale for the public sector.
- b) Profit is compatible with pro-poor services. Although the profits are not huge, <\$200 a month is enough to support a small enterprise. Windfall profits are not conducive to sustainable services.
- c) Most services are divisible and do not have to be delivered by the same organisation. Divisibility is well recognised in the private sector where toothpaste manufacturers do not own small kiosks selling toothpaste. Public sector services would do well to concentrate on their core services and tender out peripheral activities to others, including small enterprises.
- d) Competition is essential to the delivery of quality services. If contracts and tenders for services are transparent, short-term (up to three years) and do not deliver windfall profits, then the services will improve.
- e) Not all services will be able to have full-cost recovery. Using small-scale enterprises can still enable savings, better service provision and better value for money for municipalities.
- f) Using small enterprises to deliver services not only creates jobs, saves money and improves services, but it can also enhance the sense of community and people's appreciation of the dignity of labour.