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THE ROLE OF CONSUMERS IN PROMOTING PRO-COMPETITIVE REFORMS

Contribution by Mr. Samuel Ochieng

-- Session III --

This contribution is submitted by Mr. Samuel Ochieng (President, Consumers International) under session III of the Global Forum on Competition to be held on 21 and 22 February 2008.

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THE POLITICS OF REFORM: CONSUMERS AND COMPETITION

-- by Mr. Samuel Ochieng --^(*)

1. Introduction

1. Consumers International (CI) is the global federation of consumer organisations, with over 220 member organisations in 115 countries. We were set up in 1960 by national consumer groups, and have focused on building a consumer movement and consumer protection around the world as well as campaigning for consumer interests. Together our organisations have a substantial membership, with over 12 million individual subscribers worldwide.

2. On competition issues, CI's activities have taken place at several levels. Our members have often intervened at national level in particular product sectors, ranging from recent successes with music downloads and sportswear in the UK to telephony worldwide. In the same vein, last year CI completed a two-year project to build the capacity of 14 consumer organisations in Europe. The detailed conclusions and findings from this study are available from CI and I will also refer to some of them later today.

2. Competition, reform and the experience of consumer organisations

3. It is encouraging to see that, gradually, consumer organisations are being recognised as having standing in competition policy. For example, in many EU Member States (for example, Cyprus, Czech Republic, Denmark, France, Italy, Lithuania, The Netherlands, Spain and the UK) the relationship between consumer organisations and the competition authority is institutionalised.

4. They are not all institutionalised in the same way. For example, in the Czech Republic a memorandum of understanding between the competition authority and the consumer organisation is used, in Denmark and France the consumer organisations participate in the council/advisory board of the competition authority, the Dutch consumer organisation participates in regular meetings with their competition authority, and in Spain formal consultations occur between the competition authority and a recognised consumer organisation. Other approaches are the appointment of a national consumer liaison officer (Netherlands, Italy); and the right to submit expert testimonies (France) and reports (Italy and Malta). So approaches vary, the trend is becoming evident, but CI believes that this needs to develop more widely and faster, globally.

5. In relation to developing countries the pre-occupation of our members regarding competition and reform is often closely related to the infrastructure sectors. For this reason I will briefly outline the main issues our members have identified in this area.

^(*) President, Consumers International

3. Competition policy and reform in developing countries with reference to infrastructure services

6. From our extensive work the following two main trends has emerged (further details are provided in Annex 1 to this paper):

- Public monopolies have had perverse effects where they suppress local initiatives, or alternative informal providers, or even technological improvements. They have frequently been characterised by excessive connection charges which have excluded the poor (e.g. electricity in India and Uganda, telecoms in the Former Soviet Union). Where public services infrastructure, i.e. pipes and wires, do not reach the poor, but alternative services are illegal, then black markets are created. Illegal unregulated services are usually more expensive, often of poor quality and unsafe, and yet millions of consumers rely upon them. For example, about half a million people in Kibera (Nairobi) alone rely on unofficial water vendors. Price surveys by my own organisation, Consumers Information Network (CIN) in Karagocho, Nairobi have demonstrated how the poor pay more.

But:

- Badly regulated private monopolies are not an acceptable alternative. Our experience is that many attempts to introduce private monopolies have worked badly (eg water in Manila, Dar-es-Salaam and Buenos Aires) or the private sector has shown very limited interest in investing (eg electricity in Sub-Saharan Africa).

Natural monopolies need regulation; that is widely accepted. But in much of Africa and other developing regions, infrastructure services may not be natural monopolies in the sense that observers from developed countries understand. This is because networks of pipes and wires are incomplete and consumers are served by large numbers of small providers. For example, in Kenya, 21 per cent of total electrification is provided by small scale providers (SSPs). Meanwhile, it has been argued [Antonio Eustache for the World Bank conference on private participation in infrastructure in Sub-Saharan Africa (Cape Town June 2005)] that the poorest 40 per cent of the population has been completely ignored and thus gained nothing from recent liberalisations in electricity and water services.

So:

- Developing countries need a very different set of competition policies (and different reforms) from those adopted by richer countries.

Why?

- Rich country policies emphasise price and choice. In contrast, developing countries with incomplete networks require access for all as the main priority. Price limitation or reductions for those consumers who already have service should not be the dominant motive, as long as poor consumers have to use inferior and costly alternatives or no service at all.
- Tenders based on price competition (eg water in Manila, BA) do not attack the major issues for consumers, and can have perverse effects by reducing revenue available to services to invest in network extension.

A very different political approach is needed; one based much more on recognising the daily reality of life for ordinary consumers, and recognising the limitations of a centralised direction. What is needed is not just a decentralised service but also a decentralised set of political constraints.

4. Conclusions – why enabling consumer participation in competition matters

7. There is, at first sight, a huge gap between the contexts of much of today's discussion relating to competition authority formal investigations of abuses by monopolies, cartels, etc and the daily reality faced by huge numbers of poor consumers across the world. But competition policy and hence policy reform should adapt to all circumstances, be they sophisticated market economies or the daily struggle of poor people to gain access to the most basic of services.

8. Is it possible to reconcile the different approaches? I have expressed words of caution in that some applications of competition theory (such as priced based tenders) can have negative effects. But rigid maintenance of monopolies has all too often failed as well.

9. The policies that have resulted in improvements vary from municipal to national, from openness to technological innovation, to simple recognition of existing basic low technology services which are the experience of many poor consumers. The recurrent theme is that suppressing alternatives in the absence of a good public service is a recipe for failure. It is clear that even if the millennium development goals are met there will still be millions of consumers without access to networks for 20 or more years. We must address the needs of those people in the meantime and that requires recognition of the alternatives that are already in existence, and the need to develop newer flexible systems. That requires a new and more open political approach. This involves openness to groups articulating consumer needs.

10. Some of the welcome innovations in developing countries have been developed in conjunction with consumer consultation, notably, Senegal, Kenya, and the Philippines (Manila). Of course this is not always the case as some developments, such as off-grid generation or mobile phone technology, may have involved a degree of technical expertise which might initially be beyond the comprehension of many consumers.

11. And there is still a long way to go even in the 'successful' cases, but the fact that they exist and are proving viable must tell us something. Furthermore, good practices in researching consumer needs are being established on an ongoing basis. This has been shown recently in the many countries where CI members are now conducting and publishing comparative tests of services in addition to products. In Africa and India we have seen the development of 'report cards', whereby consumers are asked for their feedback on public services. This approach has recently been fully endorsed by governments in Africa, including my own during the course of last year. *Although these exercises are not usually labelled 'competition policy initiatives', the reality is that they are involved in exactly that, in as much as they conclude that monopolies are failing to deliver and that innovation should be encouraged.*

12. In developed economies, the experience of CI's recent EU competition project showed that consumer bodies are able to contribute usefully to competition policy, when the handicaps and challenges faced by consumer organisations are overcome. In particular there is a lack of resources for our members working in this area, which is especially problematic with multiple and simultaneous demands as several sectors require attention at once.

13. It is unrealistic to expect consumer organisations to react to all competition issues and the reality is that particular issues will loom large at particular times. And even when consumers can get their cases together, competition authorities have their own problems, as you know very well. The hindrances to

effective competition reforms, including the capacity to regulate and lobbying from competing producer interests, compounds the lack of consumer empowerment which in turn handicaps competition authorities who need a countervailing pressure to engage with dysfunctional monopolies.

14. Consumer organisation involvement is not a magic bullet, of course, and simply identifying consumer needs is only a partial solution. A more active approach is needed. Different competition policy frameworks need to be developed taking in all consumers, not simply those in formal commercial markets, which are the most likely to generate investigations. For this to happen, consumer organisations need to operate within the boardrooms of competition authorities. At the same time, with or without this involvement, consumers need to fight anti-competitive regimes from *without*, and to do that they need resources to develop independent dossiers based on evidence such as the report cards mentioned above or street-level studies such as those which some African consumer bodies have carried out.

15. The evidence, [supported by our case studies (presented in Annex 1)] is that the following approaches are needed by governments and consumer organisations together in all countries:

- Establishing formal rights for consumer organisations to participate in developing and applying competition policy (in its various forms)
- Enabling them to be effective in this role through training and practical support
- Improving the mechanisms by which individual consumers and consumer organisations can seek redress for loss resulting from anti-competitive behavior.

16. This third bullet may seem like a feature of highly developed market economies but it could also take effect through, for example, accelerated collective provision of basic services. This would in turn necessitate:

- Supporting programmes to improve individual consumers' awareness and understanding of competition issues and their avenues for redress where rules are broken. This links to our proposal for ISO standards to be applied in water and energy services.

17. And finally and most importantly in the 'politics of reform':

- Ensuring that legislation and regulation refer appropriately to achieving consumer benefits.

18. For we need always to bear in mind that competition is a means to consumer welfare rather than an end in itself. The sometimes abstract competition policy debates need always to translate into practical gains for consumers in the real world. I hope to have demonstrated that this should and can include the poorest.

ANNEX 1

SECTORAL DEVELOPMENTS AND COMPETITION POLICIES

Selected case studies in Telecoms, Energy and Water and Sanitation

1. Telecoms

It is worth recording the remarkable success in the development of ICT/telecoms services, in particular the development of the mobile telephone sector, which has proved a very effective competitor to fixed line services to the extent that mobile phones now exceed fixed line phones globally. There is plenty of documentation to this effect from recent OECD seminars notably the Services seminar of February 2005 and the Special Group on Regulatory Policy of December 2005.

There is no doubting the huge potential of telecoms to benefit the poor both directly and indirectly. In health care, for example, the availability and quality of ICTs can contribute to training, disease prevention, diagnosis, treatment and monitoring -- the whole spectrum of health care services. So we should not look at telecoms as a semi-luxury item -- it is part of the battery of anti-poverty tools

In poor regions such as sub-Saharan Africa, the extension of service has been spectacular, even though the overall level of connectivity remains low. In Africa the numbers of mobile users tripled between 1997 and 2003 and our member organisation in Chad reports that although overall coverage is but six per cent, the number of fixed and mobile lines together has risen from 8,500 in 1998 to 250,000 in 2005. Our colleagues in Chad attribute declining tariff rates to competition between three cellular companies.

Among the 49 least developed countries in the world, there was a three-fold increase in telephone usage in 1960-95, but a six-fold increase in five years after that. But this still left more than one billion people without access to basic telephone services, and 800,000 villages completely unconnected. (And further, the number of actual users is substantially smaller than the number with access).

For consumers the disadvantages of the incumbent services were often found not so much through call tariffs as through charges for initial connections. Our members in Russia have recounted how initial connection charges came to thousands of dollars to avoid the alternative of waiting lists as long as a decade or more. Following the introduction of mobile services, **fixed** connections in the Moscow region can now be obtained for less than 100\$. This did not come about as a result of self-motivated reform inside the fixed sector but as a result of the prospect of loss of custom to the mobile sector.

The growth of cellular telephony has produced new opportunities for developing countries and transitional economies to get around the obstacle of huge investments in fixed networks and focus instead on cellular communications. The marginal cost of adding a new subscriber to a mobile network is very low compared with fixed networks where each new connection requires a dedicated installation.

In Latin America, network coverage has expanded nearly twice as quickly in countries that allowed competition than in those that have simply privatised monopolies. Moreover, ITU (International

Telecommunications Union) statistics show strong correlation between the introduction of competition and rapid network expansion, as well as the converse correlation.

This is not to say that the 'magic bullet' has been found in telecoms, nor that competitive liberalisation is the only route. Firstly, it remains the case that interconnection charges give scope for abusive exclusionary practices. ITU also insists that liberalisation alone could not solve the most fundamental problem facing the poorest countries, which is that they cannot offer a sufficiently large market. According to ITU: *'There are those who argue that the gap is caused by a lack of market liberalisation. This does not take account of the fact that many countries have opened their ICT sector but that competitive markets have failed to meet the needs of the marginalised.'* In particular, rural access continues to be a major challenge despite this growth. Competition has not been able to provide universal access due to poor infrastructure, there is still the need to facilitate further market liberalisation and new innovation (licensing incomers using new technology), and government support for public and private partnership to reduce costs and increase access as in the case of Uganda, where the sector is supported by the Rural Communications Development Fund to cover the more isolated areas and to support entrepreneurs with small grants and micro-credit loans to set up public payphones in areas with weak signals.

The fastest rates of growth in the 1990s were achieved by China and Viet Nam, which improved 64 and 48 places respectively in world teledensity rankings over the decade. They did not privatise their utilities, they instead introduced competition mainly between government-owned providers and made various kinds of strategic partnerships with foreign companies. The ITU comments: *'Although it is unlikely that this form of competition between state-owned enterprises would feature in many economics textbooks, it has proved remarkably effective. The key underlying factor is the will of the state to invest in, and prioritise, telecommunication development.'* By the same token there have been spectacular failures in telecoms liberalisation, such as in Georgia during the '90s, characterised by complex monopolies and failure to regulate.

Of particular note is the recent development of the sector in Kenya, where fixed lines are actually declining. In 2002 there were 328,000 fixed lines in use in Kenya, but there has since been a gradual decline by 2006 to 293,000 subscribers. This trend is clearly related to the multiple providers in the mobile cellular segment of the market that is fostering a boom in mobile usage. In 2002 there were 1,325,000 cellular users compared to the record of 6,485,000 subscribers in 2006.

There is still a long way to go. But the ground is shifting. Small scale vendors of mobile phones and phone cards are proliferating in Africa, such as the famous 'umbrella ladies' of Nigeria. And an intriguing recent development is that new service providers are so eager to enter markets and to provide universal service that governmental Universal Service funds are going unspent in large markets like Brazil and India. In other words, potential providers are increasingly bidding for zero subsidy to obtain licences for such services.

Overall, it seems clear that even where services are not fully privatised, an element of competition brings improvements in connectivity. However the path is not always smooth, and incumbents and governments often remain too slow to move. Noting the competitive potential of mobile telephony, a recent four-country survey carried out by CI's Asia Pacific office recommended that competition rules in telecoms be overseen by general competition authorities rather than sectoral offices. Our Polish members have also noted slow progress in Polish telecoms under sectoral regulation and improvements taking place at the behest of the competition authority. Our members in Lebanon argue for competition from whatever source! The consumer view in telecoms is pretty clear.

2. Energy

As in telecoms, the incumbent networks in energy are only a part of the picture and frequently a minor part. For example, two thirds of Africans use wood-fuel and no other source for energy. In Sub-Saharan Africa (SSA), 38% of urban dwellers have access to electricity, but only eight per cent of rural dwellers. In the electricity sector, Africa accounts for only three per cent of world consumption with only half of the world average of per capita modern energy consumption. Conversely it has the highest share of biomass in total energy consumption (59% of total energy consumed). Electricity accounts for only eight per cent of African energy consumption by type (only three per cent in SSA outside of South Africa) with only 22.6% of SSA population having access to electricity compared to 41% in Asia. What is the scope for competition where there is as yet so little ground on which to compete?

Unbundling: The current fashion is for EU style unbundling of electricity systems. But this is predicated on the assumption of competitive networks developing and this has only happened to a limited extent even in Europe. In Africa, there are very few investors coming in and so competition is even less likely. ‘Spontaneous’ private investment is very hard to come by, and tends to appear only when there are powerful commercial customers such as aluminium smelting in Cameroon, where AES is the dominant investor. Even then, AES has withdrawn from South Africa, Uganda and Tanzania.

In South Africa unbundling has not happened and yet that country has a relatively high level of coverage. In Kenya it is happening but not autonomously, it has been carried out under pressure from the donor governments. In Nigeria the unbundling process is under way but it remains to be seen whether it will attract private investors, Ghana likewise, albeit with a less comprehensive ‘unbundle’. The logic of unbundling in the African context is less clear than elsewhere. If unbundling is considered to be necessary for competition but there is no likelihood of competition then why unbundle? Even where unbundling has been done as in the EU there are enormous pressures leading to vertical re-integration which is happening in Britain and Germany.

This is not to say that existing monopolies should remain intact. There is scope for off-grid development, especially as fuel prices rise, and that may require wider access to the transmission system or it may operate autonomously. Such access would require non-discriminatory terms which would therefore require a common carrier status for the grid, rather different from the total integration which still often prevails. But it is still uncertain whether full unbundling of systems into generation, high voltage transmission, local distribution and supply will constitute a long-term improvement in developing countries. The benefits of such a policy are uncertain, for three reasons:

- An electricity market needs to have a certain scale to be successful. The reason is that there are economies of scale in electricity generation: in smaller markets, there may not be enough ‘room’ for sufficient large-scale power companies to create a competitive market.
- A second condition for competition is a strong transmission network, so that all power generators can reach all consumers. Otherwise local generation monopolies develop. Especially in thinly populated countries this requirement is not always met.
- A third requirement for competition in electricity is the presence of a competent and independent competition authority and/or an equally well-equipped electricity regulator (depending on how the mandates of these agencies are defined).

If those requirements are not met, the benefits of liberalisation are elusive. However, that does not rule out all forms of liberalisation entirely for, as noted above, legally enforced monopoly may be incompatible with the development of off-grid systems which may bring with them considerable

environmental and social benefits, in particular bringing service to the two billion unserved. So just as we should not insist that all systems be unbundled as is now the case in the European Union, equally, existing monopolies should not be used to suppress the emergence of new generators and suppliers. For that reason therefore there needs to be both open access to transmission networks, and encouragement of small scale generation and supply often on a locally integrated basis.

The above involves some long term thinking, and the consumer view is less clear than in telecoms. But, in the meantime, it is clear that the standards of customer care in many services when they do exist leave much to be desired and must be improved. They are frequently characterised by arbitrary and irregular interruptions of supply, while many of the large numbers of unserved have no indication of when they can expect a service at all. There is little public information about service development, contractual rights are completely mysterious and payment methods are frequently highly inconvenient, often necessitating time-wasting queues. It is not surprising that the poor have to resort to unregulated vendors or to gathering fuel themselves in undesirable and unsustainable ways such as theft or foraging. While it will take time for networks to be developed on a sustainable basis, there is much that can be done in the meantime to make the existing networks work better and to improve the process of network development in a fairer manner than hitherto taking account of the needs of all consumers, and not only the better off.

To this end, CI are engaged with our European colleagues and Energywatch UK in developing a global energy charter to raise standards world-wide. We also hope to propose an ISO standard on services to users of energy. The following bullet points are central features of the charter and we put them forward in the context of the proposed standard:

- The standard should be applied to non-integrated systems,
- The standard should put forward the principle of equitable distribution of service
- The standard should incorporate contractual rights to service. (The contracts should be ‘implicit’, that is not necessarily in the form of individualised paper contracts for individual households).
- The standard should incorporate public participation in the regulation of the service,
- The standard should envisage payment methods to help those on low incomes.
- The standard should envisage that prices be set in function of a range of factors including capacity to pay of the population, costs of production, historic prices and rate of return on capital (regardless of public or private).
- The standard should envisage that tariffs and subsidies be constructed and administered to take account of the needs of the poor.

3. Water/Sanitation

The potential for application of competition policy to the most basic services of water and sanitation has been somewhat neglected. On the face of it these are unpromising areas for competition as these ‘reticulated’ (that is physically integrated) networks have the characteristics of natural monopolies. In such cases the theory is that governments can introduce competition *for* the market instead of *in* the market. That would seem likely to involve a measure of private sector participation or at least, liberalisation.

But the record of large-scale private contracts has been patchy at best. Contract failures are continuing for whatever reasons. There have been pre-term terminations of contracts in Buenos Aires, La

Paz/El Alto (Bolivia), Tucuman (Argentina), Manila, Dar es Salaam, for example, (three of those in 2005) and other contracts, such as Jakarta have been divested to new buyers. Perhaps the most serious comment on the viability of private sector contracts in water and sanitation is that 45% (by volume of transaction) were considered to be 'distressed' worldwide in 2005, and that between 1985 and 2000 in Latin America, 74% were renegotiated.

But relying on present traditional public sector models is not working either. The trend for sanitation is far off the MDG target (analogous to that for water) while, at present rates, according to the UK Dept for International Development, sub-Saharan Africa will not meet its sanitation target until 2090, and will not meet its water target for 2015 either. The Regional Document for Africa submitted to the March 2006 World Water Forum in Mexico reported that: *"most African countries are slipping back or lagging behind in their attempts to reach the MDGs."*

3.1 The exclusion of the poor

The conventional justification for the monopoly status of water and sewerage services is found in their 'natural monopoly' characteristics. In those cases consumer protection is thought to come from public regulators limiting prices and/or profits rather than from the play of competitive markets. But when it comes to such services in the developing countries there is a huge difference between North and South. And that is that large proportions, often a majority, of the populations, do not have connections to reticulated networks. This hugely weakens the natural monopoly justification.

Furthermore, this has huge implications for the definition of the consumer interest that needs defending. For the consumer interest is not monolithic. Connected consumers, usually the better off, have an interest in network prices being kept low, often through subsidies. But this may well be to the detriment of the non-networked poor because it diverts finance that could be used to help them. Indeed the poor and unserved are often disadvantaged in three ways. Firstly, they suffer the massive inconvenience of not being connected. Secondly they pay vastly greater unit prices for alternative supplies, and thirdly they either subsidise the connected through any taxes that they pay or at least they compete with them for subsidies. Furthermore, in order to become connected they will usually have to pay a significant connection fee which may take the form of a bribe.

The Consumers Information Network in Kenya, observed an example of this 'poor pay more' syndrome in that the cost per litre of drinking water in Nairobi is 10 times more for customers of vendors than it is for those who are connected to a network. The ratios are similar in Latin America, as has been confirmed by a wide range of studies by academics, World Bank experts and by local surveys carried out by consumer associations in the region. In the Caribbean region the contrasts are higher still with the differential reaching 100 in some extreme cases.

A World Bank study of 47 countries and 93 locations highlights the significant differentials between networked and non-networked sources. The point is rendered even more dramatic on the ground by the fact that the informal sources will often be in close proximity to the reticulated networks. The differentials between network and non-network services would be even greater if 'coping costs' such as time spent queuing for, or fetching water were included. These of course are difficult to express in cash terms.

The contrast between the served and the unserved is quite often perversely reinforced by legal contracts conferring exclusivity on service providers. Sometimes concessions are granted on a monopoly basis and small scale operators are actively forbidden from meeting consumer demand, as has been reported from Kenya, and from Latin America. Contractual rigidity inhibited development of the water service in Manila, especially in the poorer districts. In due course, recognition of this led to an easing of the exclusivity provisions of the contract and the explicit recognition of the role of third parties. There are

widely reported problems associated with exclusivity in both the public sector and the private sector where exclusivity is seen as a way of protecting concessionaires from ‘cherry picking’, that is, competition for customers from low cost producers. While this may be a customary reaction in commercial terms, it contradicts the aim of improving access. It is particularly perverse given that local low cost producers generally serve the unserved, rather than the rich ‘cherries’. This is a classic example of where a different political approach is needed, less based on control, more on service provision.

3.2 *Does competition provide a way forward?*

To the extent that competition results in network price reductions, this could well be the wrong target for the poor who are not connected, and thus who have little to gain from price reductions. For in many incumbent utility services, not just water and sanitation, (as we have seen in the case of telecoms), the problems are found not so much through tariffs (which are often below cost) as through charges for initial connections. So the real losers are those excluded from service by the cost of connection. In this respect, the tendering that has taken place *for* the market in some celebrated (or notorious) cases has had very destabilising consequences. The two well-known cases of water in Buenos Aires and Manila both featured major price *decreases* at the start of the contract periods, contrary to widespread belief about privatisation. But the contracts proved to be short lived.

3.3 *The micro-approach*

So there is currently a move away from the heavy emphasis on ‘big bang’ solutions, large single city contracts, whether public or private. There is increasing interest in developing micro-services, nested within larger scale operations. An example comes from the private sector contract in West Manila which relaxed its monopoly to allow local subcontractors, sometimes not-for-profit community based organisations, to deliver water to the non-reticulated areas for a lower connection fee than hitherto. Effectively the concessionaire became the wholesaler, and the sub-contractors the retailers. These arrangements have proved more durable than the major city level contract which collapsed not long after its commencement. And Inpart Engineering, a retail operator, has grown into a significant business in its own right.

Another example comes from the sanitation sector. The perverse consequences of exclusivity are shown by a 2000 study carried out by Mukame Kariuki and Bill Wandera of latrine workers of Dar es Salaam, where the City used to have a monopoly of cesspit emptying. As the service was unable to keep up with demand, richer clients operated a system of ‘express’ payments for the pits to be emptied with vacuum equipment while the poor would employ ‘frogmen’ to empty the pits manually and they would then dump the ordure illegally, which led, predictably, to protests from those nearby. At times the frogmen were attacked, and their already unpleasant and dangerous work often had to be done under cover of darkness.

The monopoly thus effectively suppressed the service (at least *de jure*), and condemned informal workers to appalling working conditions and concentrated the public health risk on the poor. The city agreed to operate a licensing system for private operators which has led to charges falling and the numbers served to increase. At Consumer International's regional conference for Africa in 2002, Mukame Kariuki advocated that municipalities relinquish such monopolies and allow alternative provision through a legal framework incorporating Community Based Organisations for example. She pointed to perverse aspects of the legislation such as the inability of public utilities to count alternative providers in coverage targets or business plans, as well as the monopoly provisions which in effect rendered alternative providers illegal.

It is perhaps because sanitation has been such a neglected sector and so much harder to finance than drinking water, that some of the most innovative and small-scale schemes have developed. In Maharashtra,

India's largest state with almost 100 million people, 45% of subsidised latrines were not actually used. A more localised scheme based on local competition bids (the Gadge Baba scheme) has produced a far better rate of use. An Indian NGO Sulabh International has developed low cost, low flush toilets with dual leeching pits to allow one to be in use while the other is emptied.

The common element of the above examples is that of *de-monopolisation*. A monopoly public or private status imposed on a service which is not a natural monopoly (as non-reticulated services are not) will frequently be breached in practice through the development of black markets or expensive alternatives such as the development of informal water vendors whose costs and prices are vastly higher than the piped connected services as shown above. In sanitation services for the poor there is even less commercial competition than in water, so applying a legal monopoly is even more perverse. Providing legal recognition in practice allows the systems to develop to higher standards (for example the latrine emptiers operating by day not by night and not dumping ordure illegally) and by operating openly allows economies of operation to develop such as those developed by Inpart Engineering in Manila. The Water & Sanitation Programme (housed in the World Bank) recommends that: "*Exclusivity provisions that create barriers to alternative providers whose services are orientated toward the poor should be avoided*"

In summary, the 'Northern' experience was based on the existence of comprehensive services already well established. In the rich countries price reductions or limitations can bring some benefit to all. In developing countries price competition does not necessarily have this beneficial effect, and indeed can actually operate to the detriment of the poor who derive little benefit because they are not connected.

4. Examples of ways forward

Looking at the above three sectors, here are some examples of improving services to the poor while preventing monopolistic abuses:

- concession contracts based on water network extension rather than on price (Senegal),
- concession contracts based on electricity network extension rather than price (Chile, Peru)
- demonopolising small scale sanitation services (Kibera, (Nairobi) Dar) and licensing informal providers
- licensing incomers using new technologies, notably in telecoms, where coverage has massively increased as a result of competition from mobile telephony, including in many of the poorest peri-urban and rural areas in much of Africa.
- development of off-grid electricity supply in rural areas currently by-passed by the integrated grid based systems.
- cooperative water points run by NGOs (Kenya, Senegal, Manila)
- local initiatives to support credit facilities for localised investment in water infrastructure