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# **BUILDING PARTNERSHIPS TO SERVE THE URBAN POOR**

**26610**

## **Summary Proceedings – Final Workshop of WUP Project No. 5**

Abidjan, Cote d'Ivoire 19–21 November, 2001



**WATER UTILITY PARTNERSHIP  
FOR CAPACITY BUILDING - AFRICA**



**Water and  
Sanitation**

# CONCLUSIONS OF THE ROUND TABLE MEETING OF CHIEF EXECUTIVES AND POLICY MAKERS

Utility managers, policy makers and advisors, that were participating in the Abidjan workshop held a special Round Table meeting to discuss the issues and challenges that confront them in the provision of WSS services to the poor. The Round Table was co-chaired by Mr. Kessy Zadi of SODECI, Cote d'Ivoire and Mr. Neil Macleod of Durban Metro Water Services, South Africa.

The Round Table conclusions are summarized below beginning with the broad enabling issues followed by recommendations on services to low-income households.

## **Ensuring adequate urban planning**

Part of the problem in serving low-income areas is the haphazard manner in which developments in some African cities have taken place. Governments should, therefore, place greater emphasis on planning, and define appropriate and specific standards for low income settlements that will permit the provision of basic affordable services. Legal status, whether permanent or temporary, should be given to informal and peri-urban settlements to enable utilities to extend services to them.

## **Improving the efficiency of utilities**

Utilities should strive towards greater efficiency in their operations, particularly in the area of reducing unaccounted-for-water. Improved efficiency will allow utilities the opportunity to provide services to all customers including those in low-income areas.

## **Speeding-up reform processes**

A number of African governments are undertaking various reforms in the WSS sector. In most cases these have moved slowly and expected benefits are being delayed. It is imperative that governments speed-up these reforms and ensure that they include new policy, legal and institutional arrangements as well as incentives to enable utilities carry out their mandate to serve the urban poor.

## **Training and capacity building**

Manpower training should be a continuing feature of the management of utilities. African utilities should take advantage of available opportunities for training and capacity building through both internal and external resources. Major financing partners are ready to assist in this direction. Training and capacity-building should however not be limited to utilities alone but also to customers and other stakeholders so that they understand the business of water and sanitation.

## **The problem of sanitation**

Discussions on service to the poor always dwell on water supply, leaving out sanitation. However the promotion of good health requires that serious attention is paid to sanitation. In order to create demand for sanitation services, it may therefore be appropriate to extend subsidies for both off-site and on-site sanitation to low-income urban households. On their part utilities should define strategic plans for providing sanitation services to the poor.

## **Services to low-income urban areas**

### *The need for innovation*

The technical problems associated with providing water and sanitation services to the poor are known and can be solved. They are, therefore, not a good reason for denying water and sanitation services to low-income areas. The issue therefore is how utilities can develop standards and streamline their technologies so as to respond to the requirements of low-income urban consumers. This will also require appropriate legislative and institutional support, as well as incentives

### *Cost recovery and subsidies*

Utilities can provide sustainable services only if they can achieve some measure of cost recovery. There is convincing evidence that the un-served poor pay relatively more per unit for the same water produced by the utility than those who are connected. There is also clear evidence that the poor have been able and are willing to pay for WSS services provided the necessary education and sensitization are carried out and standards are developed to suit their needs. Serving low-income areas is therefore unlikely to compromise cost recovery. Subsidies, when available, should be targeted at providing access to service connections for the urban poor.

### *Creating greater awareness for provision of WSS services to low-income urban areas*

- African WSS utilities should consider the establishment of dedicated units within their organizations to deal specifically with services to low income urban communities.
- Country level consultations among utilities and sanitation providers, policymakers and politicians should be organized in order to create greater awareness on the provision of WSS services to the poor.
- The provision of water and sanitation services for low income areas should receive adequate treatment in country poverty reduction strategies (PRSP) and in negotiations with development partners.

# SUMMARY PROCEEDINGS

## The Challenge

The concluding workshop of WUP Project No. 5 on water and sanitation services to the urban poor brought together 120 sector specialists in Abidjan from November 19-21, 2001. The workshop drew participants from across French and English-speaking Africa, including chief executives and senior staff from a number of utilities, NGOs, small scale providers, and staff from various development agencies including the EC, the AfDB and the World Bank. The workshop was opened by Mr. Patrick Achi, the Minister for Economic Infrastructure of Cote d'Ivoire and a key note speech was delivered by Mr. Kessy Zadi, the Chief Executive of SODECI. Before the day was over, small scale water vendors were on the podium explaining the ins and outs of their relationships with large water utilities.

### WUP Project No. 5 sets the focus on WSS services for urban poor.

WUP Project No. 5 has unfolded through three phases over the last two and a half years.

- Phase 1 piloted the methodology for case studies;
- Phase 2 researched and documented practices from nine countries leading to the June, 2000 workshop in Nairobi; and, finally
- Phase 3 prepared the Good Practice Document and the Toolkit. Which will be disseminated after this workshop

The central objective of the WUP Project No. 5 workshop in Abidjan is to raise awareness and obtain the commitment of African water and sanitation utilities to act on the challenge of extending safe water and hygienic sanitation services to the growing number of the poor in African cities.

In addition to its dissemination and validation function, the Abidjan workshop, which drew the participation of 40 utility managers and senior policy makers, mapped the way forward and encouraged utilities to adapt and scale up the good practices documented and disseminated under WUP Project No. 5. The workshop also identified follow-up actions by WUP and its partners (see conclusions of the Executive Roundtable) for implementation under a fourth phase of the project.

### Learning to move to scale

WUP No. 5 has focused on practices that have demonstrated the potential to go to scale in improving services to the urban poor either at city or country level. While each "good practice"

is the product of a specific institutional and policy context, they exhibit a number of common characteristics:

- political goodwill translated into a coherent policy – "governments holds the key"
- support from a reasonably well managed utility with some degree of financial autonomy;
- partnerships involving communities, small scale providers and municipal actors;
- adaptation and innovation concerning service standards and the choice of options;
- strong communication, promotion and capacity building functions – outreach to customers;
- reliable and sustainable financial support relying to a large extent on internal cross-subsidies.

### The strategic challenge for utilities

By 2025, urbanization in Africa will have progressed from about 32% today to about 50%. The urban population will have grown from the current level of about 300 million to 700 million. If current trends prevail, the large majority will be living in poverty in unplanned or informal settlements without access to safe water and hygienic sanitation.

Utilities will be hard pressed to prevent widening of the gap between the decreasing percentage of urban households which are connected to their networks and the growing number of unserved left to depend on more costly and often less safe and convenient alternatives. The objective of increasing the overall percentage of urban dwellers served by a connection from the current 50% to 80% in 2025 would require on average about 5 to 4 million new connections every year; i.e. about 6,000 to 10,000 every day.

Extending basic services to the urban poor, long considered a peripheral objective, has to be recognized as a strategic goal by planners and policy makers, and a matter of long term survival for utilities confronted with the prospect of playing an increasingly marginal role in sprawling and dysfunctional cities (see Box 6).

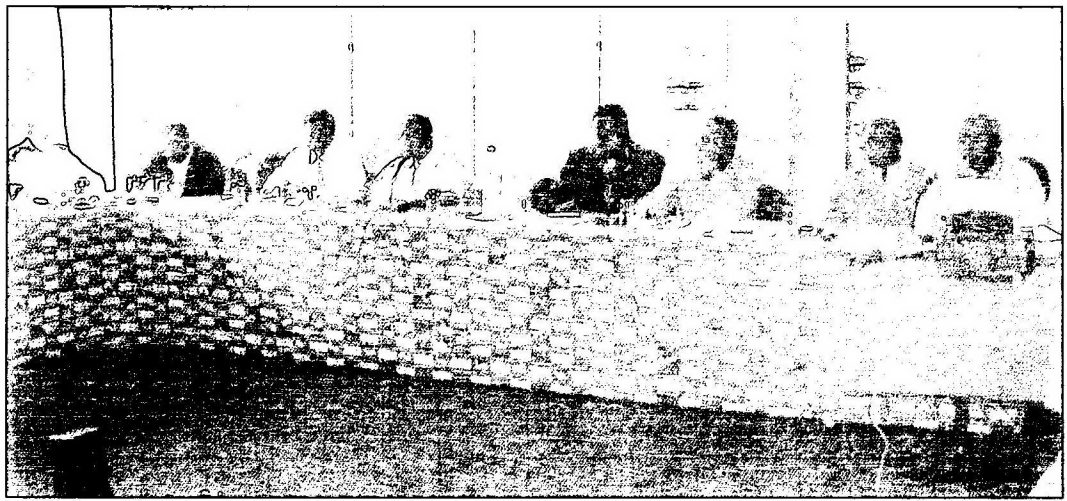
### Building Partnerships

A well performing and financially sound utility is a necessary, but insufficient condition for serving the urban poor. While the role of utilities is central, they cannot, as shown by the practices documented by WUP No. 5, succeed on their own.

First, the population they are meant to serve and the governments that represent them need to assert their **commitment** to the objective of

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**A section of participants at the Round Table meeting**

extending basic services to the urban poor who should be seen as full-fledged customers and stakeholders.

**Box 1. Participants' views on services to the urban poor.**

Responses from 68 participants (70% of total) indicate a high level of awareness and consensus on the issues in the sector. Some interesting results include:

- 50% of respondents did not think it necessary for utilities to be provided with exclusive mandate within their service areas.
- 55% believe that small-scale providers are better placed than utilities to offer water supply services to the urban poor.
- 75% believe that if provision of WSS service providers other than utilities were legal and supported, some micro-enterprises would offer sustainable low cost alternatives to formal network supply.
- 80% believe that WSS utilities should be allowed to deliver water to the poor through a variety of suitable arrangements whether they have secure land tenure or not.
- 90% believe that most African Governments only pay lip service to the provision of services to the urban poor and that in most cases, there are no clear policies or requirements for utilities to follow to meet the needs of the urban poor.

Second, they need a **policy and legal framework** that (i) recognizes the broad range of local actors from communities, NGO's and the private sector, that are engaged in water and sanitation services, and, (ii) opens the way for partnerships and innovation aimed at adapting the services to the capacity and preferences of the poor.

Good policies will have to be complemented by **implementation strategies** defining roles and responsibilities, setting frameworks and processes for giving the poor a voice and bringing in all stakeholders engaged in service provision. At the heart of such strategies will be **tariff systems** that make basic services accessible and affordable to the poor while at the same time safeguard the financial autonomy of the utility.

Eventually, good policies and sound strategies should lead to **stepped up levels of investment**. The requirements even for a country like Cote d'Ivoire which stands at the high end of regional performance in water and sanitation services, are staggering; halving the proportion of urban households not yet connected to the network by 2015, would require annual outlays in the order of magnitude of 1.5 % of the current GDP. Most countries will depend on external aid for a large percentage of these requirements.

The conclusions from this workshop and the practices documented by WUP Project No. 5, and validated by the utilities, should inform the programs of donors and be used, in particular to develop the water and sanitation components of **poverty reduction strategy papers (PRSP)**.

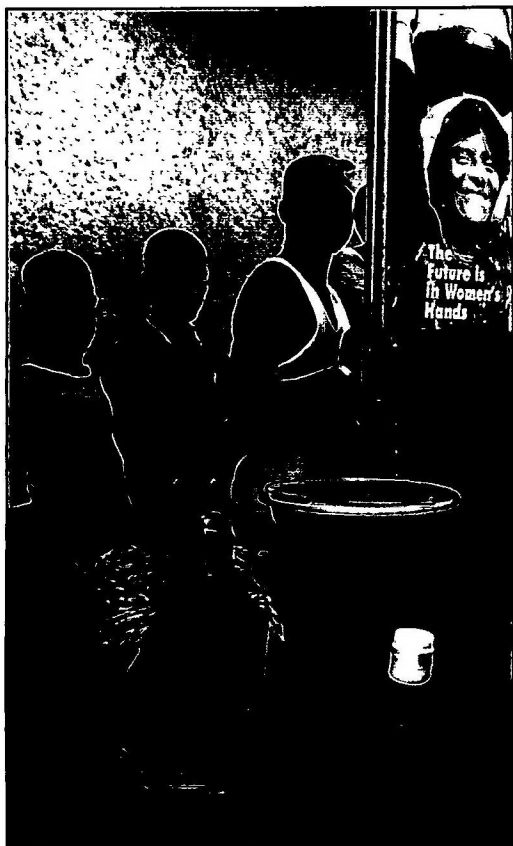
**Focus on Improved On-site Sanitation**

Access to improved sanitation in many African cities is limited and declining. Currently, an estimated 80% of households in most major

African urban centers rely on on-site sanitation, primarily pit latrines, the majority of which are unimproved. In densely populated informal settlements there is not enough space set aside for latrines. The few latrines that exist are over-used and rarely emptied. Many residents have no alternatives except “flying toilets” and open defecation. Poor sanitation is a growing public health problem. Diarrhea and other sanitation-related illnesses are among the top five causes of morbidity and mortality. In some cities cholera has become endemic.

The role of utilities in the delivery of sanitation services varies from country to country. When involved, their role is typically limited to managing traditional sewer networks serving central business districts and high income/high density areas covering about 10 to 15 per cent of the households and businesses. Public financing for sanitation remains targeted to sewerage networks despite the low level of access.

High investment requirements and high costs of operation for conventional sewerage systems have brought about recognition of the limitations of traditional sewer networks and have led to initiatives to promote **improved forms of on-site sanitation**. The few cases where utilities play a lead role in on-site sanitation initiatives suggest that their involvement is critical for moving to scale.



**Coin vending water point “yacoli” in Abidjan**

### **Utilities as institutional anchor for pro-poor urban sanitation program**

The scarcity of good examples within the region where on-site sanitation has been replicated and scaled up points to the importance of piloting and strategic planning to test options, match household demand to service delivery and define roles and responsibilities as well as resource flows. Successful programs to promote improved on-site sanitation and household hygiene have typically unfolded over several years of trials and adaptations before gaining momentum and building a market for their products.

In the context of weak municipal institutions, the utilities often emerge as **institutional anchors** for household and community-based sanitation programs. Their relative institutional strength, legal standing, city-wide perspective, and ability to mobilize financing, put them in unique position to organize and oversee the multi-layered partnerships required for such programs, involving communities, NGO’s, artisans, training institutions and municipal actors, among others.

The case of Burkina, where the national utility ONEA (Office National de l’Eau et de l’Assainissement) initiated and brought to scale a program for the promotion of on-site sanitation to low income households, illustrates the critical role that utilities can play in institutionalizing the program and ensuring stable financing through a surcharge applicable to the higher blocks of the water tariff.

The surcharge provides for communication, training and capacity building directed at communities, households and artisans. Although these functions absorb a large part of the cost of such programs, typically more than 50 per cent, they are essential in ensuring that the household voice is heard and that their choice is articulated with full understanding of their obligations and responsibilities for subsequent O&M. Direct subsidies to households need not cover more than the critical components, like latrine cover plates and vent pipes, amounting to a small proportion of the cost borne by the households.

### **Way forward**

- Efforts to tackle the mounting sanitation problem of African cities and towns should prioritize the promotion of improved on-site sanitation.
- As their mission is centered on basic services and public health, utilities should be pro-active in advocating for sound sanitation policies and piloting innovative approaches to on-site sanitation.

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***In the context of weak municipal institutions, the utilities often emerge as institutional anchor for household and community-based sanitation.***

**As their mission is centered on services and public health, utilities should be pro-active in advocating for sound sanitation policies and pilot innovative approaches to on-site sanitation.**

- Utilities have a critical role to play as the institutional anchor for water supply and sanitation services and can provide the continuity needed to bring such program to scale, provided:
  - first, that they are reasonably efficient and financially sound, and
  - second, that their involvement is supported by a clear policy expressing broad commitment from all stakeholders at central and municipal levels
- Utilities that are called to take up a lead role in sanitation, should work with partners to define their role in relation to the whole range of options to improve sanitation services for low income households including on-site solutions and low-cost off-site options.

#### **Priorities for further learning:**

- Study tours to Burkina Faso and other documented good practices.
- Enabling frameworks and models for partnership between utilities and municipal bodies on the one hand, and small scale operators and community-based organizations on the other.
- Funding mechanisms to ensure the stable support needed to build up capacity and confidence, and take programs through the initial trial and error phase.
- Adaptation to African contexts of the condominal approach (simplified sewerage) to serve the denser settlements.

#### **Delivery Options and Standards**

Opening up standards for review and revision is essential to improving services to low income communities. Infrastructure and service standards designed for formal (often middle and high-income) areas, are in fact inappropriate for the majority of urban dwellers who fall below the poverty line and do not reside in planned settlements. Inflexible standards also contribute to the high cost of laying infrastructure in rocky, hilly or waterlogged areas where many informal settlements are located.

In many countries, statutory constraints restrict utility services to formal settlements. The extension of utility networks into informal and peri-urban settlements is often perceived as a considerable risk due to uncertain land tenure, low and often inconsistent incomes, difficulties in revenue collec-

tion and the fact that, often, the majority of the habitants are tenants. Flexibility and innovations are required to enable service delivery in complex socio-economic and physical environments. The lifting of administrative requirements related to land titles and frontage access have allowed utilities to extend services to low income groups, often without additional risks, thereby gaining customers and revenues.

High risks of service delivery to unplanned settlements can be overcome by partnering with communities for safekeeping, maintenance and even collection. Practices from Durban and Manila West Zone (Maynilad Water) show that it is possible to reduce the cost of delivering water while preserving its quality. The two practices were developed in order to meet household preference for in-house connections. In Manila investment costs were brought down by laying pipes (including flexible rubber hosing) above the ground along alleys and regrouping meters in batteries. In Durban the daily quantity of water made available was matched with ability to pay by offering graduated service options; with the lower cost option offering a fixed minimum quantity of water by filling a 200-liter tank in the household on a daily basis.

The targeted programs launched in Manila West Zone, and in Durban provide enhanced services at no, or minimum, additional cost to the utility. Manila households participating in the so-called "Bayan Tubig" programs have on average trebled their daily consumption to about 30 l/c/d for less than half of what they were paying before to vendors and resellers, thereby reducing their outlays for water from 4.5% of their income to less than 2 per cent. In both cases, tariffs have been set so that the revenues accruing to the utility covers only direct O&M costs.

Both the Durban and the Manila West practices rely on community-based user committees to ensure safekeeping, discourage unauthorized connections and collect payments. The community organization typically retains a percentage of revenues collected to cover its O&M responsibilities, to set aside a provision for repairs as well as a profit margin provided as incentive for use by the community. This is also the case in Port-au-Prince (Haiti) where water committees manage tertiary reticulation systems distributing water from bulk meters. The organizational capacity and savings mobilized by the water users committees have typically supported community initiatives in related areas like sanitation, hygiene and drainage.

The full realization of the health benefit from improved water services requires a sharper focus on quality of water at the time of consumption. This, as well as user preference, led to increased coverage through piped household connections in Manila West Zone and Durban. In the latter case, public taps were in fact discontinued as the system was extended. Concern for water quality is a strong reason for recognizing and licensing resellers and tanker services, i.e. to foster the acceptance of procedures to ensure proper quality in their operations.

#### Way forward

- Utilities, in collaboration with governments, should initiate a review of the legal and regulatory framework under which they operate and identify constraints to their ability to deliver services to low income communities.
- Utilities should recognize low income communities and informal settlements as legitimate customers and should develop innovative approaches to delivering services adapted to their demand.
- Utilities should work with low income communities to lower the cost of services and overcome security and operating constraints.
- As more flexibility is accepted, utilities should keep the focus on water quality. They should give preference to delivery systems that maintain the quality of water at the time of consumption and should work together with water resellers, vendors and tanker services to foster procedures that preserve water quality.

#### Priorities for further learning:

- Increase the level of understanding on the need for, and implications of, increasing flexibility in standards and preserving service quality.
- Audits of water standards to identify constraints to serving the poor and to enhance quality at the time of consumption.
- Licensing arrangements for resellers and tanker services with related monitoring and enforcement systems to ensure preservation of water quality.

#### Strengthening Outreach Functions

"Knowing your customer" should be the starting point of strategies to improve service delivery to low income communities. When utilities have attempted to reach unplanned settlements, they have typically prescribed standard public taps or water kiosks aimed at serving a specified number of users within a given distance. The proliferation of alternative services including vendors, illegal connections, etc., indicates that "one-size-fits-all" approaches cannot respond to what is in fact a differentiated demand.

Utilities that have extended services to informal settlements have acknowledged the importance of understanding their customers' needs and have adopted innovative strategies to do so. One of these strategies is to establish a 'low income users unit' (a dedicated internal unit). The other one is to work in partnership with NGOs which assist the utility with the outreach and community mobilization work.

**The full realization of the health benefits from improved water services would require a sharper focus on quality of water at the time of consumption.**

**Utilities should revise regulatory frameworks under which they operate which restrict their ability to deliver services to low income communities.**



Open drain in low income area of Abidjan

The Peri-Urban Section of the Lusaka Water and Sewerage Corporation chose the first route, building capacity internally and establishing a specialized unit dedicated to reaching poor customers. An early realization was that in order to succeed, such a unit had to get acceptance from the whole organization. Peri-urban dwellers who account for 70 % of the population of Lusaka, had to be recognized as full-fledged customers throughout the organization.

In the case of Port-au-Prince the intermediation function was assumed initially by GRET, an international

**Utilities should recognize low income communities and informal settlements as legitimate customers and adapt their services to meet their demand.**

NGO, under an externally supported project. This NGO worked in partnership with CAMEP, the local utility. This partnership arrangement served to leverage outside funding and make good use of the strong links that the NGO had with the community and harness the specialist community skills that the NGO could contribute. CAMEP provided the necessary institutional backing and gradually internalized the activities of the NGO as capacity was built up within the utility. For this purpose, CAMEP also found it useful to create a dedicated unit within the utility to which GRET's activities were transferred. This fulfilled GRET's own mandate, allowing it to move into new areas, and is a good example of the evolution and flexibility that characterizes good partnerships.

The long-term goal, whichever interim strategy is chosen, should be to institutionalize the capacity for serving low income groups throughout the utility. This is necessary to sustain its commitment and fully integrate peri-urban customers in planning and policy development.

**Way forward:**

- Working in partnership with NGOs or establishing dedicated community outreach units within the utility are complementary elements of strategies to extend services to low income communities.
- The commitment to extending services to low income customers should be internalized by the entire organization and inform its mission and its culture.

**Priorities for further learning:**

- Cross fertilization across utilities (study tour, cases) to study success stories of cross-sectoral partnerships and dedicated units for low income customers.
- Models for community management: partnership arrangements with utility, linkages with municipal structures, sharing of responsibilities for O&M, mobilization of financial resources, contractual and incentive frameworks, by-laws and other legal framework, recourse and grievance mechanisms.

**Making tariffs and subsidies work for the poor**

Most utilities have pricing policies based on increasing block tariffs (IBTs) which are geared to the objectives of: (i) ensuring cost recovery for the utility; and, (ii) allowing poor households to afford piped water through a subsidized "social block" tariff applicable to a monthly consump-

tion corresponding to basic services. However, in most cases these subsidies do not reach the poor who typically do not have access to the network because of their location, or because of high up-front connection costs. Furthermore, many poor households rely on a daily wage and can neither save up for a connection nor accumulate the sums needed for monthly payments.

Tariff and subsidy policies are central to any effort to extend services to the poor. They are driven by diverse and sometimes conflicting objectives (see Box 2).

**Box 2: Objectives of WSS tariff policy**

- **Social:** to ensure the right of all people to be able to access basic services.
- **Financial:** to allow the operator to keep his business running, maintain assets and serve debt.
- **Economic:** to take into account costs and benefits to the society as a whole including the user of water resources, the impact on the public and on the environment.
- **Political:** to achieve a redistribution of benefits and costs that can be accepted and sustained through the political process.

The consensus among workshop participants was that:

- Social objectives are important because the poor constitute such a large proportion of the customer base.
- Financial objectives are critical because without a working utility, the poor would not get services.
- Politics is the least "reliable" element in the equation. If the policy depends too heavily on political control, short term considerations will prevail.

The challenge is to ensure that the institutional framework under which tariffs are set and revised, ensures a balance between long-term financial imperatives and shorter term political considerations. Hence the trend toward independent regulatory bodies.

Subsidies needed to support pro-poor policies can be obtained either externally from the State and municipal budgets, or can be generated internally by charging higher rates to customers

**Working in partnership with NGOs and establishing dedicated community outreach units within the utility are complementary elements of strategies to extend services to low income communities.**

**The commitment to extending services to low-income customers should be internalized by the entire organization and inform its mission and its culture.**



### **Box 3. Pro-poor Tariffs: Guiding Principles**

- Getting the tariff level and the tariff structure right helps all consumers, including the poor.
- Subsidize access not consumption.
- Subsidy delivery mechanisms should be targeted, transparent, and triggered by household indication of demand.
- New information is often required to evaluate whether a proposed tariff or subsidy will hurt or help the poor.

in upper consumption brackets. Theoretical considerations favor external subsidies applied to outputs, i.e. linked to services actually supplied to the target groups. However, given the dire state of public finance across Africa, the practical option is to support pro-poor policies with resources from within through increasing block tariffs (IBTs) or consumption cross-subsidies recognizing that they should be applied carefully to protect the revenue bases, and, in the case of industrial and institutional customers, very sparingly.

The application of IBTs to resellers and vendors that rely on a household connection, result in higher charges for their customers, predominantly poor unconnected households. The problem is real. Several utilities e.g. Ghana and Kenya, have approached the problem by recognising resellers and granting them a single block tariff with service obligations and requirements related to water quality.

Several of the WUP No. 5 practices (e.g. Burkina, Cote d'Ivoire) illustrate examples where programs that have had a significant impact on services to the poor have been sustained through surcharges and cross-subsidies with a large degree of public acceptance and minimal impact on the financial soundness of the utility. In several cases, the funds mobilized by utilities have been used as counterpart funding for external grants and credits.

The "social connection" programs initiated by a number of the best performing utilities, including SODECI (Cote d'Ivoire) and SONES/SDE (Senegal), show the value of prioritizing access to a household connection. The programs use the proceeds of a surcharge on higher consumption brackets to subsidize low-cost connections (through smaller diameter pipes) with simplified requirements. In the case of SODECI, the newly

connected customer has to pay a deposit corresponding to three month of basic services. This contrasts with many cases where very low tariffs are combined with prohibitive and cumbersome connection procedures.

When pricing services for the poor due consideration should be given to aspects beyond the cost per cubic meter and include all the components of the relationship between the customers and the utility, in particular: the connection costs, the deposit requirements, the re-connection fees etc. In one instance, the length of pipes charged to new customers was reduced to a maximum of ten meters, instead of the full length of additional reticulation needed to reach their house.

### **Way forward**

- Tariff and subsidy policy needs to evolve. The establishment of appropriate regulatory frameworks to balance long-term requirements for financial sustainability with social and political considerations is a central element of sector reform.
- Local authorities have a key role in the process. All stakeholders need to be involved in the process of setting and revising tariff policy including:
  - the poor whose demand and constraints need to be understood; as well as
  - the customers who will actually finance the subsidies (i.e. commerce, industry and the relatively prosperous) so that they accept the social objectives justifying the need for cross-subsidy.
- Capacity building of all stakeholders is needed to enable an informed debate and special attention must be paid to gathering information as a key input to this process.
- A transparent process needs to be set in place to ensure accountability of the utility and on the use and impact of subsidies, the latter usually through a special financing mechanism with its own oversight.
- Sanitation: In some situations, the tariff can be used as an instrument to generate resources to support investments in appropriate sanitation services.

### **Priorities for further learning**

- Gain a better understanding of the outcome of tariff policies on services to the poor.
- Good practice on information and consultation processes for tariff design.
- Options and scope of institutional arrangements for tariff regulation.

**Given proper incentives, the private sector holds the potential to improve services to the poor.**

**Subsidies do not reach the poor who typically do not have access to the network because of their location, or because of high up-front connection costs.**

**Social objectives are important because the poor constitute a large proportion of the customer base.**

**Programs that have had a significant impact on services to the poor have been sustained through surcharges and cross-subsidies with a large degree of public acceptance and minimal impact on the financial soundness of the utility.**

**When pricing services for the poor, due consideration should be given to aspects beyond the cost per cubic meter.**

- Models of effective use of cross-subsidies for extension of services to low income households including water supply and, also improved sanitation.

### **WSS reforms that benefit the poor**

Private sector participation (PSP) is increasingly viewed as a means of improving efficiency and effectiveness of utility operations. However, proposals to involve the private sector in water supply and sanitation services often meet resistance as it is feared that the poor will be priced out through higher tariffs and costly connection fees, or overlooked because they live in hard-to-reach locations.

As a rule, the prospects of private deprivation is politically and socially much less acceptable than long-standing public neglect. Once the responsibility for service delivery no longer rests with State or municipal bodies, politicians and unions become much more vocal in pressing for improvements.

The reality is that PSP holds the potential to improve services to the poor. Private operators have the skills to innovate in developing suitable options and different levels of service. Much depends on how contracts, policies and regulations are structured, how targets for extending services are specified and financed, and on Government's ability to regulate activities of private operators.

Designing a transaction which brings in the private sector provides an opportunity for changes: technical, social and political. Bringing in the private sector without due attention to low income consumers can be counterproductive in terms of access to services for low income households as the private sector operators unlike the public operator, have to be able to disconnect delinquent accounts.

Given proper incentives, the private sector can achieve much of what WUP No. 5 advocates: reducing the cost of services in particular connections costs; simplified billings and collection; customer retention schemes, partnerships etc. In fact, as shown by the Manila West concession case, and demonstrated by the social connection policies in Cote d'Ivoire and Senegal PSP operators have willingly taken initiatives to upgrade or extend services to low income groups.

Experience gained through ongoing PSP points to the need to find ways of translating pro-poor objectives into monitorable undertakings embedded in PSP contracts. Contracts can be

structured to foster attention to the poor through:

- area-specific coverage targets
- built-in incentives to attend to low income customers
- licensing or franchising of SSIPs (e.g. by including their services in the monitored targets)
- removing monopoly from legislation and limiting exclusivity clauses from contracts
- allowing flexible technical standards while preserving quality.

The preparation of a sound PSP contract is a lengthy and complex process requiring a well thought through consultation framework, judicious timing and systematic information gathering.

The selection of contract type should align with pro-poor objectives and incentives (see Box 4).

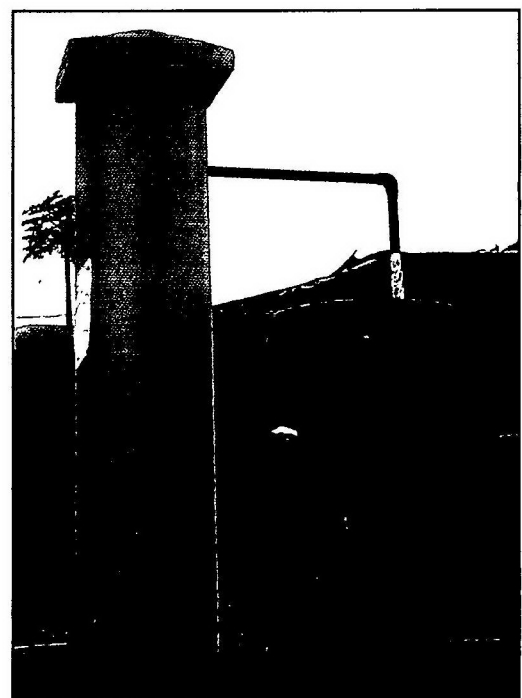
The majority of utilities in Africa are still publicly managed and although the move towards PSP is gaining momentum, public utilities will continue to play an important role. Where the private sector is not an option, policy and institutional reforms are as important in ensuring improvements in service delivery to low income communities. Much can be learned from the experience in PSP regarding good practice in serving the poor.

### **Way Forward**

- The extension of services to the urban poor should be recognized as a central objective of sector reform for cases involving PSP as well as for those involving public sector agencies.

**The establishment of appropriate regulatory frameworks to balance the requirements for long-term financial sustainability with social and political considerations is a central element of sector reform.**

**Where the private sector is not an option, policy and institutional reforms are as important in ensuring improvements in service delivery to low income communities.**



**Woman at the well... Abidjan, Cote d'Ivoire**

**Box 4. Incentives by Contract Type**

<b>Contract</b>	<b>Expansion</b>	<b>Tariff and level of service</b>
Management	– No incentives to develop services	– Low, apart from efficiency savings
Affermage/ lease	– No obligation to fund the expansion – Incentive to increase sales – Incentive to adopt connection fees to increase number of subscribers	– Operational subsidy may be needed – Some responsibility for determining tariff structure may be given
Concession	– Responsible for funding expansion, incentives to add customers. – Connection subsidies will foster expansion, cross subsidies discourage it	– Affordability will increase customers and revenues – Universal service obligation would encourage innovation

**As a rule, the prospects of private deprivation is politically and socially much less acceptable than long-standing public neglect.**

- Pro-poor objectives should be embedded in PSP contracts with specific targets and monitoring systems that allow for inclusion of services provided through franchises and partnerships.
- The financing of operating subsidies during initial period of reform should be facilitated to allow gradual transition to cost-recovery tariffs.
- Development of model clauses to include pro-poor objectives in PSP transactions.
- Model of partnership and franchise agreements with community-based organizations and independent operators under PSP with the participation of PSP operators.

Box 5 is a ten point summary of WUP No. 5 findings.

**Priorities for further learning**

- Systematic analysis and documentation of country cases and dissemination of lessons learned and good practices.

**Box 5. Ten Steps Towards Serving the Poor**

1. Policy Matters! The WUP urges governments, municipalities, utilities and their partners to develop specific policies, strategies and plans for improving access to services in low-income communities.
2. Support the policies with legislation and regulations that enable utilities to deliver services to informal settlements.
3. Provide incentives to extend services to informal settlements in utility contracts and performance plans.
4. Train utility staff, allocate finances, and develop specific plans to improve services for the poor either directly or in partnership with small scale providers.
5. Offer a wide range of service delivery options to meet the needs of all consumers, including the poor.
6. Develop appropriate operational and service standards to meet the needs of low-income consumers.
7. Recognize and support small scale service providers in order to reduce the high cost associated with the risks of carrying out informal or "illegal" activities.
8. Encompass all types of service providers in regulations that are simple, user friendly, fair and appropriate.
9. Reform block tariffs to help - not hurt - the poor.
10. Don't forget sanitation! Support on-site sanitation improvements and carry out hygiene/environmental health education programs.

**Through experience, ways of translating pro-poor objectives into monitorable undertakings embedded in PSP contracts have emerged.**

## Box 6. WUP Vision for African WSS Utilities

Efficient, well-managed, accountable and responsive utilities which provide equitable, sustainable and quality water and sanitation in their areas of operation

Sector policies and institutions providing the right incentives for utilities to:

- Extend services to the poor through partnerships with key stakeholders
- Foster a culture of capacity building, knowledge sharing and networking
- Ensure a sound environment and sustainability of the water resource

### The Challenge...

- 400 million urban poor by 2025 means
- roughly 5 to 4 million new connections per year (5 to 8 inhabitants per connection)
- 6,000 to 10,000 connections per day on average.

### Guiding Policy Principles

- Water – focus on urban poor as customers with unique needs and demands
- Sanitation – use water as an entry point and as a financing strategy
- Urban – recognise unplanned or informal settlements
- Utility – develop internal strategy and outreach capacity
- Pricing – design around the poor, provide the necessary supports and incentives
- Regulate – quality not price, focus on outputs not inputs

### The Way Forward

- Recognize the role of **utilities as leader and institutional anchor**
- Carry out institutional reforms to meet the necessary condition: i.e. an **efficient and financially sound utility**
- Draw in all stakeholders as partners under a **coherent strategy**
- Set **clear targets**, publicize **commitment** and build **accountability**
- Foster a **culture of continuous learning and exchanges** within utilities, within countries and among utilities and countries

These proceedings are also available on the web at [www.wupafrica.org](http://www.wupafrica.org) or [www.wsp.org](http://www.wsp.org). For a copy, kindly contact:

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