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Understanding the Potential for Pro-Poor Utility Reform in the Water Sector

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Note: Photos to illustrate this lecture are appended at the end

The Puzzle of Slums

If the world's slums dwellers are willing to pay for improved W&S services...

why aren't utilities willing to supply such services to them?

Why do Utilities Fail Poor People?

Some common arguments:

- Government inefficiency
- Political expediency
- Low affordability
- Competition for scarce resources
- Inherent nature of slums

1. Government Inefficiency

- Most water utilities are public SOEs
- Public supply has resulted in gross under provision and inefficient performance
- Civil service in need of reform, currently with bad incentives and weak capacity
- Financial bail-outs create a dependency and low-level equilibrium trap
- Solution seen as private sector participation in one form or another

But...

Reflections on Argument 1

- Water is essential to life, a human right, a commodity with public goods aspects... so government must supply
- Piped water as a service lends itself to monopoly provision which precludes market competition... so government must supply
- Any monopoly will be plagued by similar problems regardless of asset ownership... so solution has nothing to do with private versus public

2. Political Expediency

- Politicians are unwilling to serve poor
- They focus on that which is expedient to their political careers—new, visible, short-term, ribbon-cutting projects
- Result is a "build-neglect-rebuild" cycle
- Vote bank politics exacerbates this—the poor vote in greater numbers than the rich, so a perverse incentive to keep them poor
- The record is clear that political commitment to raising water tariffs has been slim

But...

Reflections on Argument 2

- Stereotypical view of politicians
- Too much blame apportioned to them
- Elected leaders trapped by their environments (e.g. few in India who campaign on public services platform ever win)
- Utility staff are rent-seeking and may even be more to blame for exclusion of the poor
- Venal behavior is far-reaching anyway, not just in politics

3. Low Affordability

- Given low wages, the poor simply cannot afford to pay for piped water
- Connection fees are impossibly steep
- Tariffs are generally affordable but minimum consumption requirements push up the unit costs for the poor
- Standards are high and no possibility for cost recovery of investments

But...

Reflections on Argument 3

- Poor pay more per unit (liter/cubic meter) of water from vendors than utility customers pay the water company
- In addition, poor incur high coping costs for low levels of service (storage, health, time, etc...)
- Connection fees can be spread over time
- Low-cost technologies more appropriate for the poor are an option (e.g. condominial sewers, shared taps, etc...)
- Historically, middle class rarely ever paid full cost recovery so why should the poor?

4. Competition for Scarce Resources

- Resources like water and money are scarce, especially in developing countries
- Increasing incidence of water conflicts is a good indicator of the scale of problem
- In India, water demand expected to exceed all supplies by 2050
- Network infrastructure expensive and poor cannot finance own construction
- Utilities and local governments are cash-starved, and poor have no influence on budget expenditure

Reflections on Argument 4

- Water scarcity never invoked as a reason to halt connections for middle class
- Poor consume far less water anyway
- Absolute value of subsidies going into the water sector is huge and badly targeted. For example, 95% of water subsidy resources in South Asian cities go to existing utility customers
- Elite capture is real problem since middle classes now feel entitled to cheap water

5. The Nature of Slums

- Legal, economic, political and physical conditions which define slum areas make them difficult to serve
- Slums are often: illegal, informal, dense, badly planned, narrow, deeply political etc...
- Land tenure is absent or ambiguous preventing utilities from connecting people at all
- Slums reverse the common order of urban development from "planning, servicing, construction, occupation" to opposite pattern

Reflections on Argument 5

- Despite tenuous claims to land titles, slums have been there for decades anyway
- Reverse development cycle just means utility must be ready to step in post facto
- Utility "just" needs to change its delivery style, organizational structure, fee structure, and technical products on offer so that it is capable of serving slums....

Snapshot of the BWSSB

- Parastatal created in 1964 to supply W&S to Bangalore
- Serves city corporation area of 4.3 million people;
- Circa 100 lpcd available in theory
- Primary source Cauvery River 100 km away
- One of leanest utilities in India, circa 2,000 staff
- o Large segments of city area and population not connected
- High connection fees but highly subsidized tariff
- Public taps for the poor

Pro-Poor Reform

- AusAID pilot project in 3 slums
- Establishment of Social Development Unit
- o 46 slums targeted, circa 10% of slums
- Half of these slums successful, circa 5% of slums
- On average, 66% of households per slum connect
- 15 NGOs/CBOs brought in to mobilize communities
- Bold policy changes at the utility

Slum Program Beneficiaries

Beneficiaries of BWSSB Slum Program 2000-2005

	Individual Connections	Shared Connections	Households	People
3 Pilots	600	9	690	4,000
26 Post-Pilots	4,330	12	4,378	25,500
Total	4,930	21	5,068	29,500

Reform Pressures

• "INDIA SHINING":

- o S.M. Krishna Government
- New Global IT City
- o Infrastructure Problem

• PRECEDENTS:

- AusAID Master Plan Pilot Projects
- o Experiments with changes in policy

• THIRD FORCE:

- New breed of NGOs
- New captains of industry

• NEW PROBLEMS:

- No more funding for public taps
- Network expansion program

Policy Reform

- Executive Board adopts a resolution to consider documents other than land title as proof of occupation and amends Act (election cards, ration cards, ID card)
- Board agrees to experiment with service levels and offer shared connections for groups of poor households
- Board approves a new connection fee structure for poor households (from \$40 to \$12) based on plot size > income/means testing
- Board introduces new tariff structure which lowers monthly bill (lowers minimum consumption)

Organizational Reform

- Creation of an in-house slum unit in 2002 charged with "scaling up" the pilot project
- Had civil service rank which gave her seniority, had mastered the engineering vernacular and utility specifics, was a social development specialist
- But... one woman show, no engineering staff, no social development staff, no resources
- And... limited powers to enforce change and enforce program roll-out across the city

Rolling Out a Slum Program

- Geographic targeting of slums
- Community mobilization
- o Community meetings
- Application forms in bulk
- Piped infrastructure provision
- Meters distributed
- o Plumbers hired
- o Trial runs of water
- Service (supply, billing, collection, complaints)

See Slide Show

What motivates frontline staff?

Professional Environment

- High share of domestic customers in service station
- Worker discretion and freedom to experiment

Area Resources & Slum Traits

- Sufficient water in local service station
- Few illegal connections or bad public taps

Personal Dispositions & Preferences

- Public service motivation
- Belief in technical solution

Non-Preference Characteristics

Long tenure in service station

Getting Engineer Buy-In

Role of the SDU in addition to mobilizing communities is to channel information to engineers:

- 1. Communicating
- 2. Marketing
- 3. Simplifying

Without this, engineers will not "spontaneously" supply slums on their own.

Innovative ideas need to be funneled down through organizations from management to frontline.

A Private Sector Comparison: The Buenos Aires Concession

- Aguas Argentinas SA concession in the capital; 40% owned by Suez, which has a global "Water for All" program
- In 1993, expansion target of 3.5 million people, of which 2.3 in poor neighborhoods
- Redistributive tax to finance network expansion
- Social tariff based on income and living conditions criteria on bi-monthly basis, supported by the Regulator
- Community development program started in 1999 (*Desarrollo de la Comunidad*) tasked with forging community alliances, studying new technical/financial solutions, training utility staff

Output-Based Aid (OBA)

- OBA is a strategy for using explicit performance-based subsidies to support the delivery of basic services
- Payment of funds is tied to the delivery of actual services (outputs) rather than cost of materials or labor (inputs)
- Outputs in water sector are usually measured as working connections
- Significant pre-financing required and timeconsuming project preparation

For more information: http://www.gpoba.org

Sample OBA Payment System

1. In-Fill Connections

- Simple house connections to existing tertiary network
- Utility reimbursed a fixed payment per connection
- 2. Expansion Connections
 - Extension of tertiary network to new areas
 - Utility reimbursed fixed payment per connection plus an "expansion payment" per connection
- 3. <u>Master Meter Connections</u>
 - Provision of bulk meter for community supply
 - Utility reimbursed for meter and community materials supplied by utility

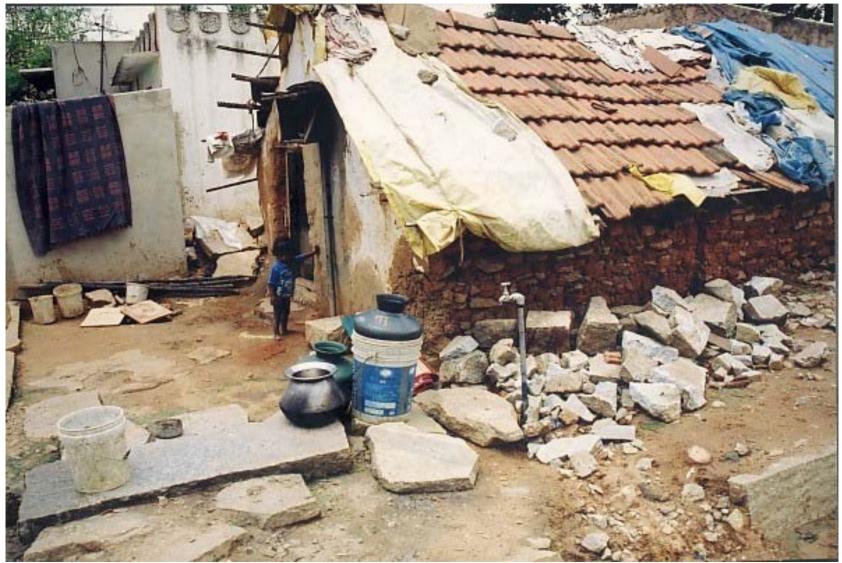
Discussion Topics

- What are the main financial, institutional, legal, and political constraints associated with service delivery to slums?
- How can utilities overcome these barriers?
- What are the implications for a public *versus* private water utility?
- What about sanitation? Different issues?

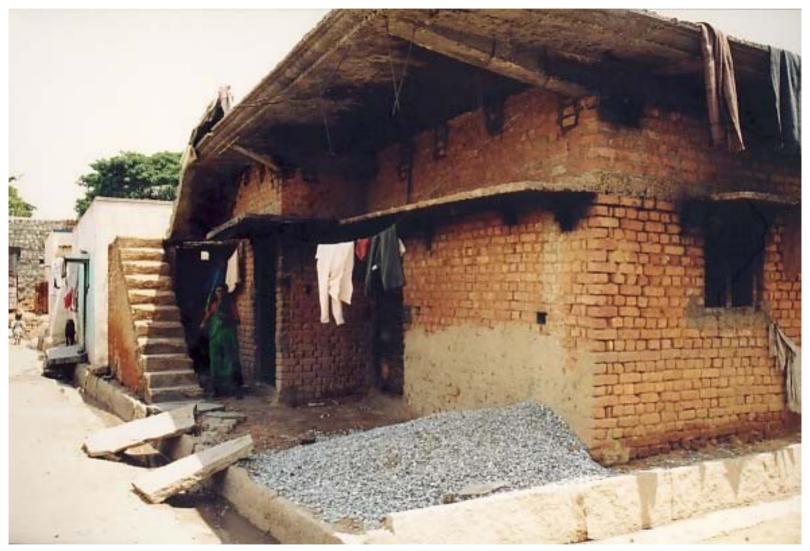
Slum House - Tent



Slum House - Basic Brick



Slum House – Formal Brick



Narrow Lane



Narrow Lane in Momimpura



Narrow Lane in G. Byapan



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Hard Rock in Slum Ground



Handpump in Anekal



Bike Vendor in P.J. Halli



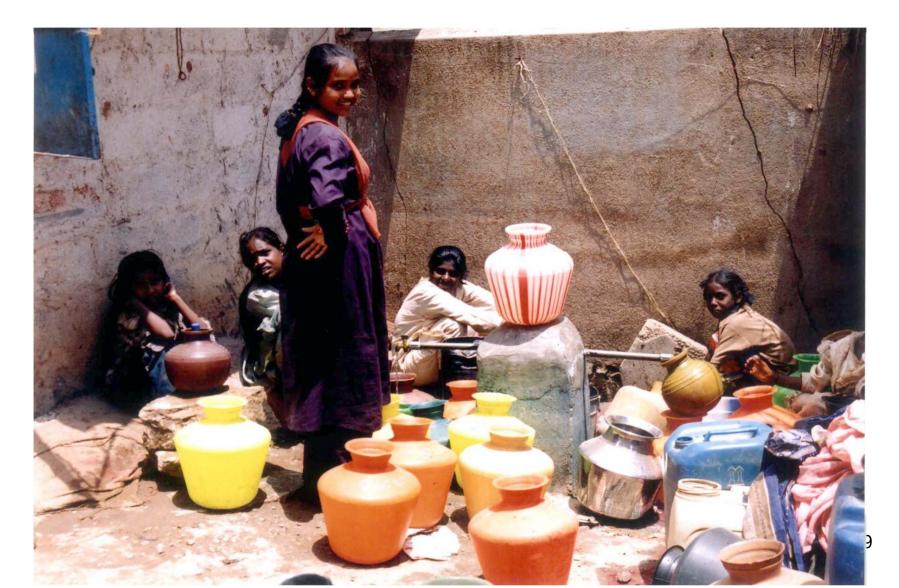
Public Tap in P.J.Halli



Puddle Collection in P.J. Halli



Waiting for Public Tap to Flow



Slum Development Unit (SDU) Knocking on Door, K.R. Temple



Meeting with Plumber, K. R. Temple



Contractor with SDU, D.J. Halli



Men Discuss in Ganjendranagar



Engineer Contractor & SDU Discusses in Chetiappa Garden



SDU and BWSSB staff discuss in Mominpura



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Valve Man in Discussions, Mominpura



Women's Group 1, Anandapuram



Application Collection in G. Byapanhalli



AEE talks with his staff at Meter Mela Machalibetta



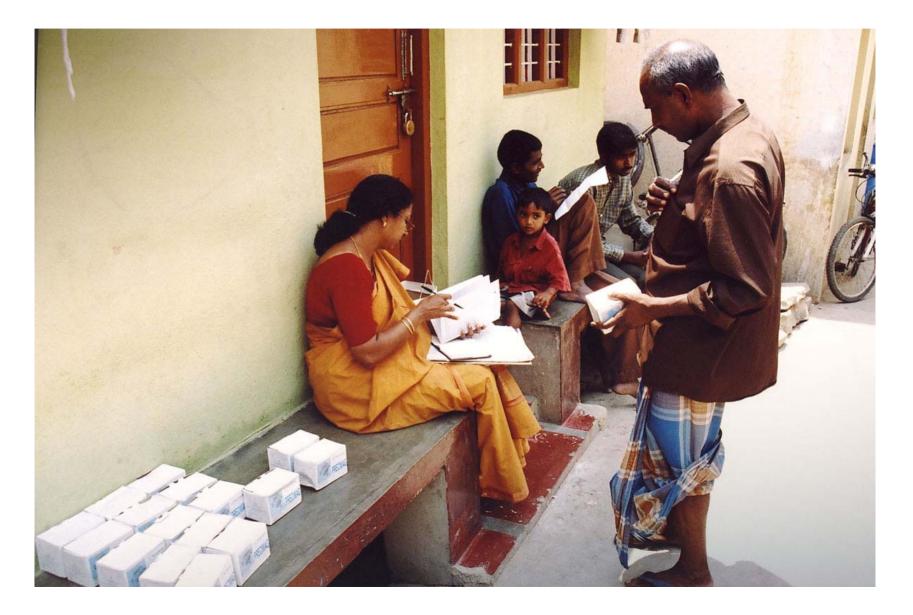
SS Staff Applications at Meter Mela Machalibetta



Slumdwellers outside of AEE office at Meter Mela Machalibetta



Meter Distribution



Installed Meter



Locked Tap



WatSan Committee, Chandranagar

