

Water Supply and Sanitation: Getting Services to the Poor

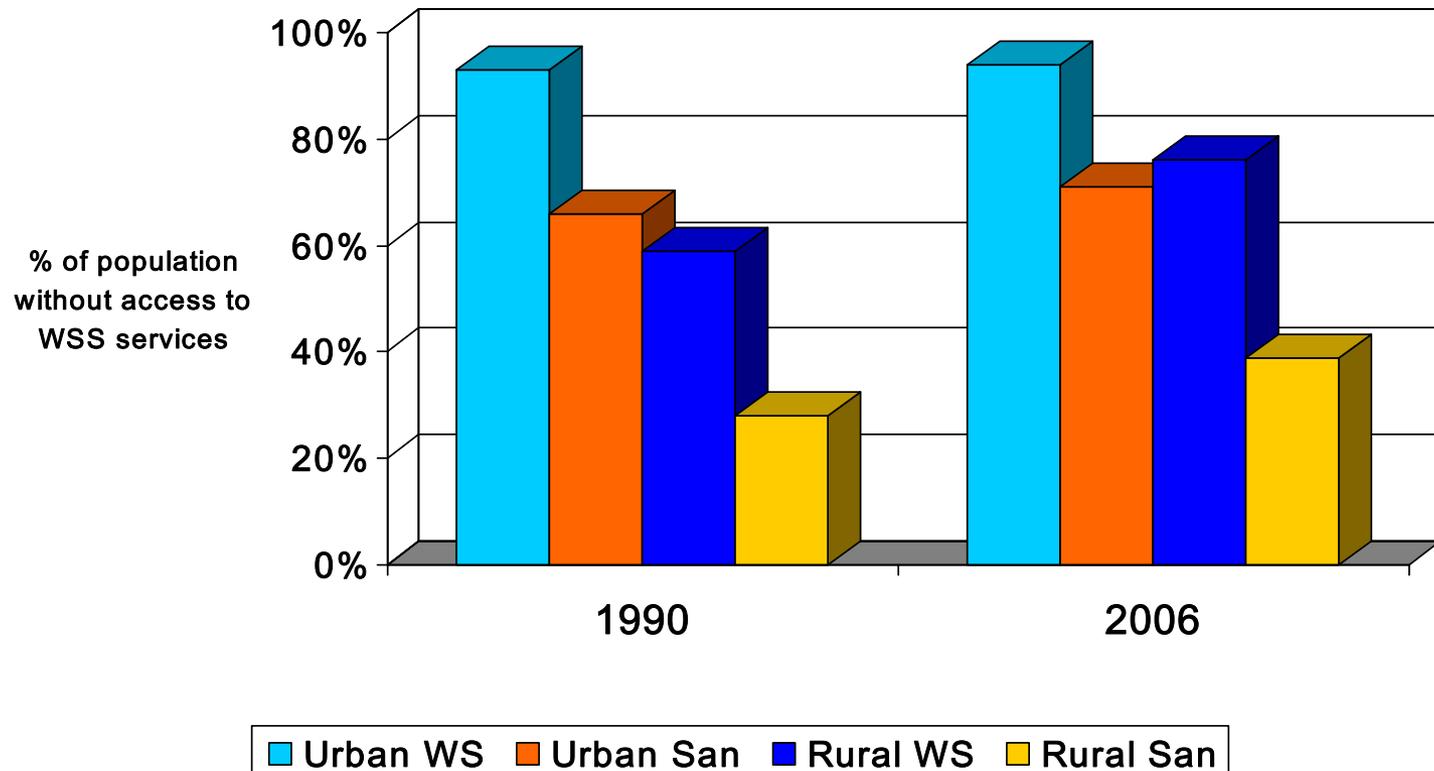
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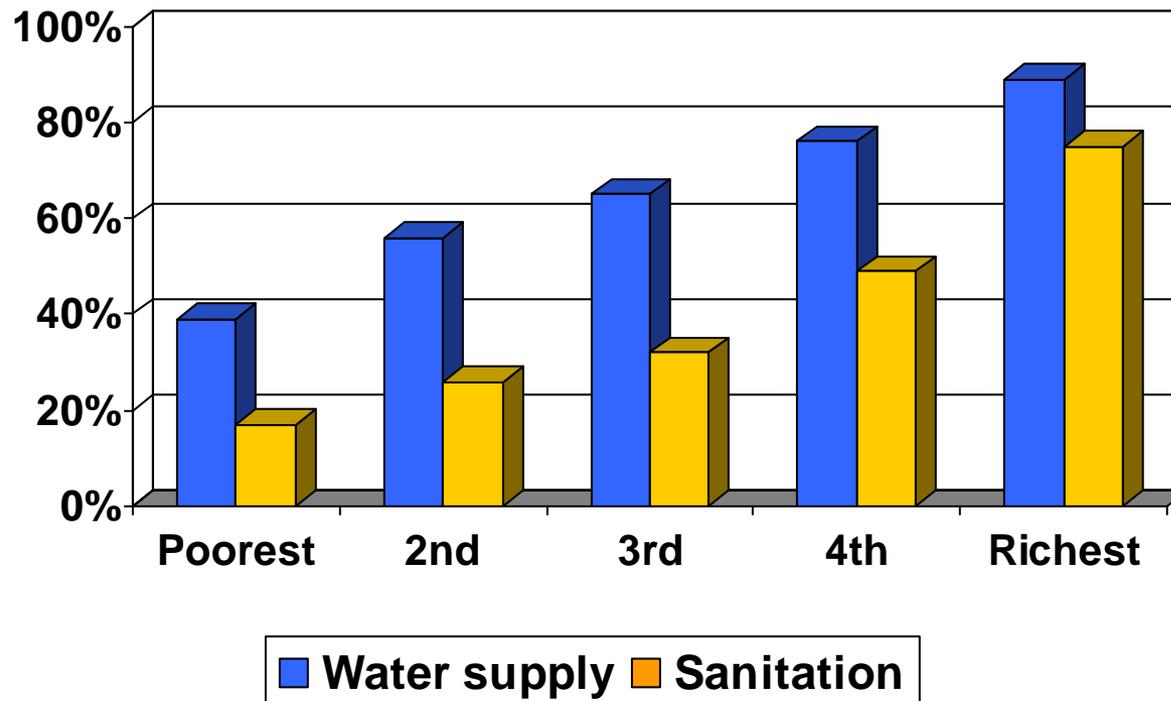


Scaling up access far from easy



Getting services to the poor

Access to WSS by income quintile



What have we learned so far?



- Understanding the demand of poor households for water and sanitation services
- The importance of improving overall WSS sector performance
- Specific pro-poor policies in the WSS sector

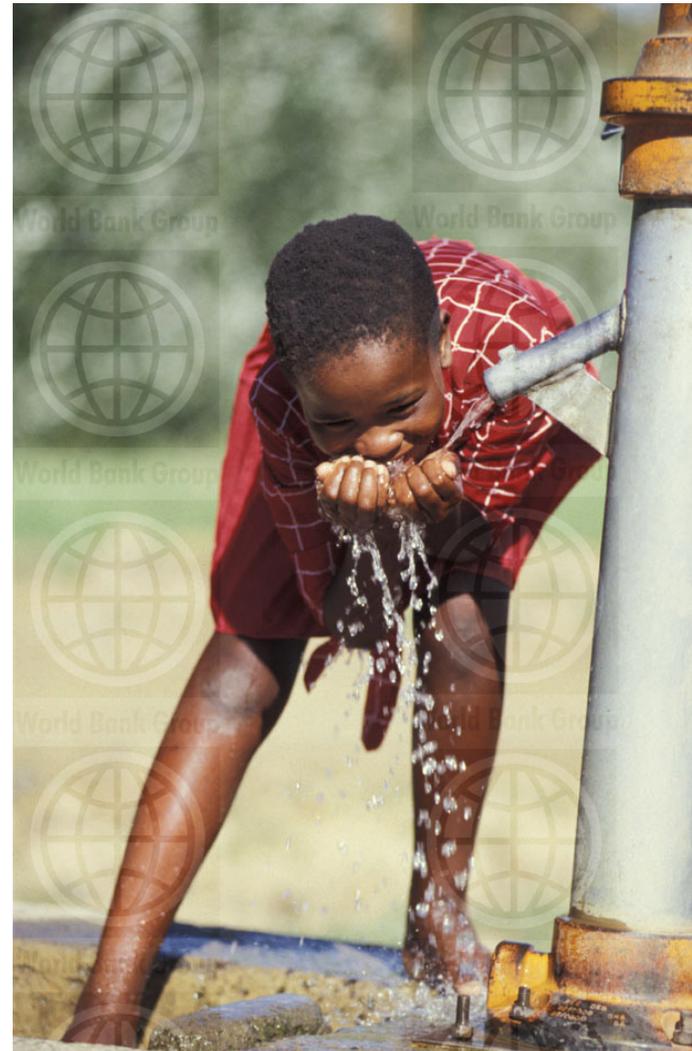
I. Understanding the demand of the poor



- Are the poor different?
 - ~ Price matters in the presence of budget constraints
 - ~ Research shows differences between demand of poor and non-poor
 - ~ Impact of perceptions on household's demand for WSS services
- Testing assumptions of demand and knowledge on household behavior is important

II. Improving WSS sector performance

- Financial sustainability is crucial
- Public utilities remain prominent
- PSP adapting to local conditions
- Good governance must not be neglected



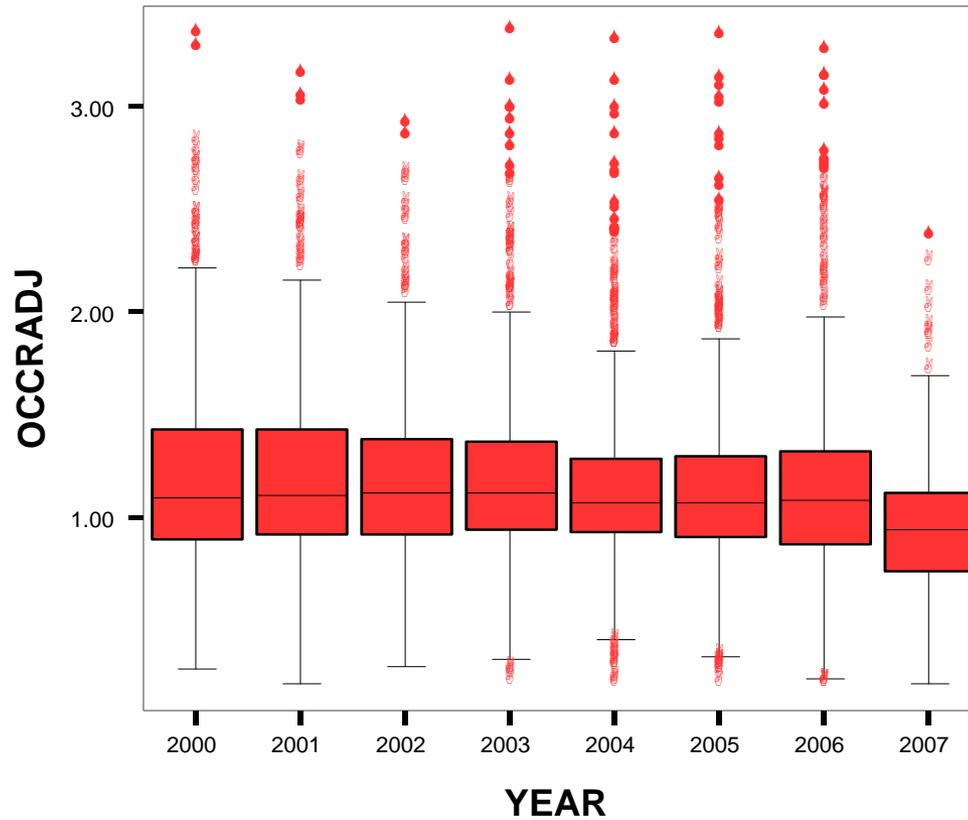
Financial sustainability is crucial

Few utilities can cover the cost of services

Percent of utilities in sample where average residential tariff appears to be

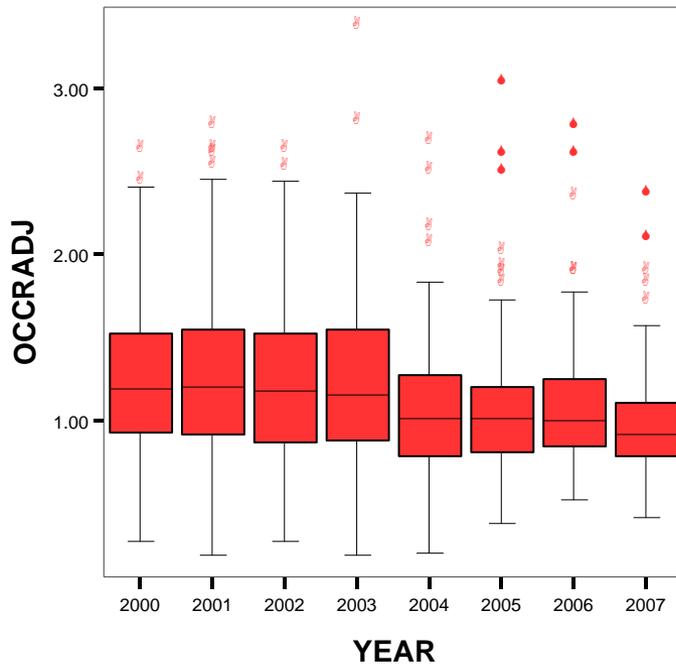
| Country income level | Too low to cover basic O&M | Covers O&M and partial capital |
|-------------------------------|----------------------------|--------------------------------|
| High income countries | 8% | 50% |
| Upper middle income countries | 39% | 39% |
| Low middle income countries | 37% | 22% |
| Low income countries | 89% | 3% |

O&M cost recovery data

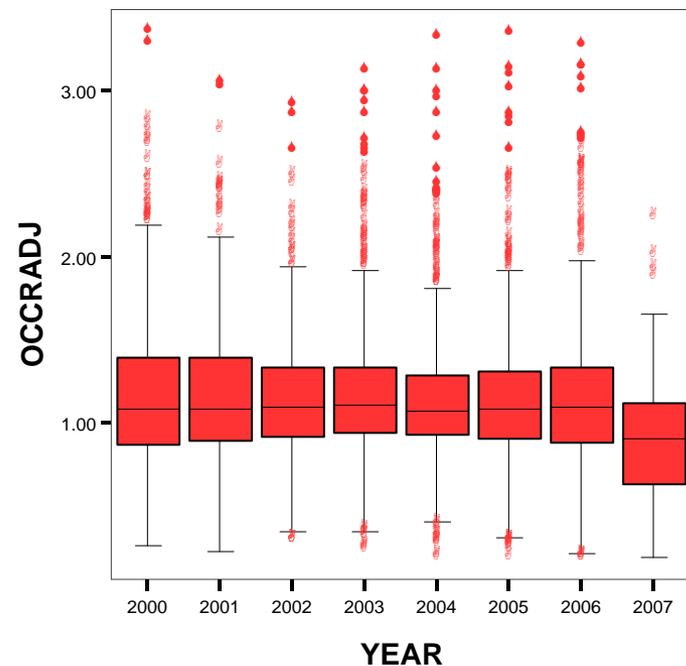


O&M cost recovery by country groups

Low Income Countries



Middle Income Countries

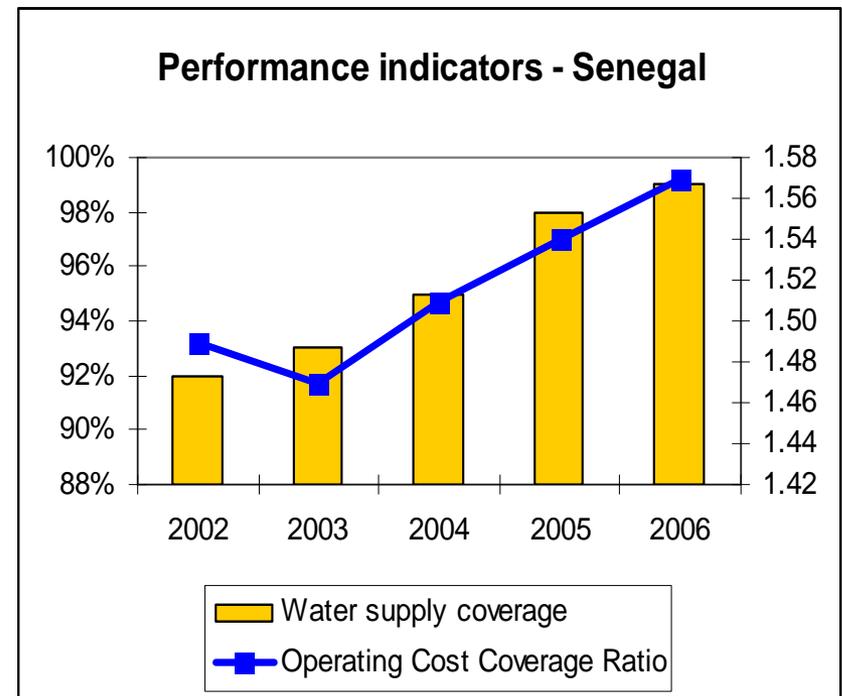


Private Sector Participation: adapting to local conditions

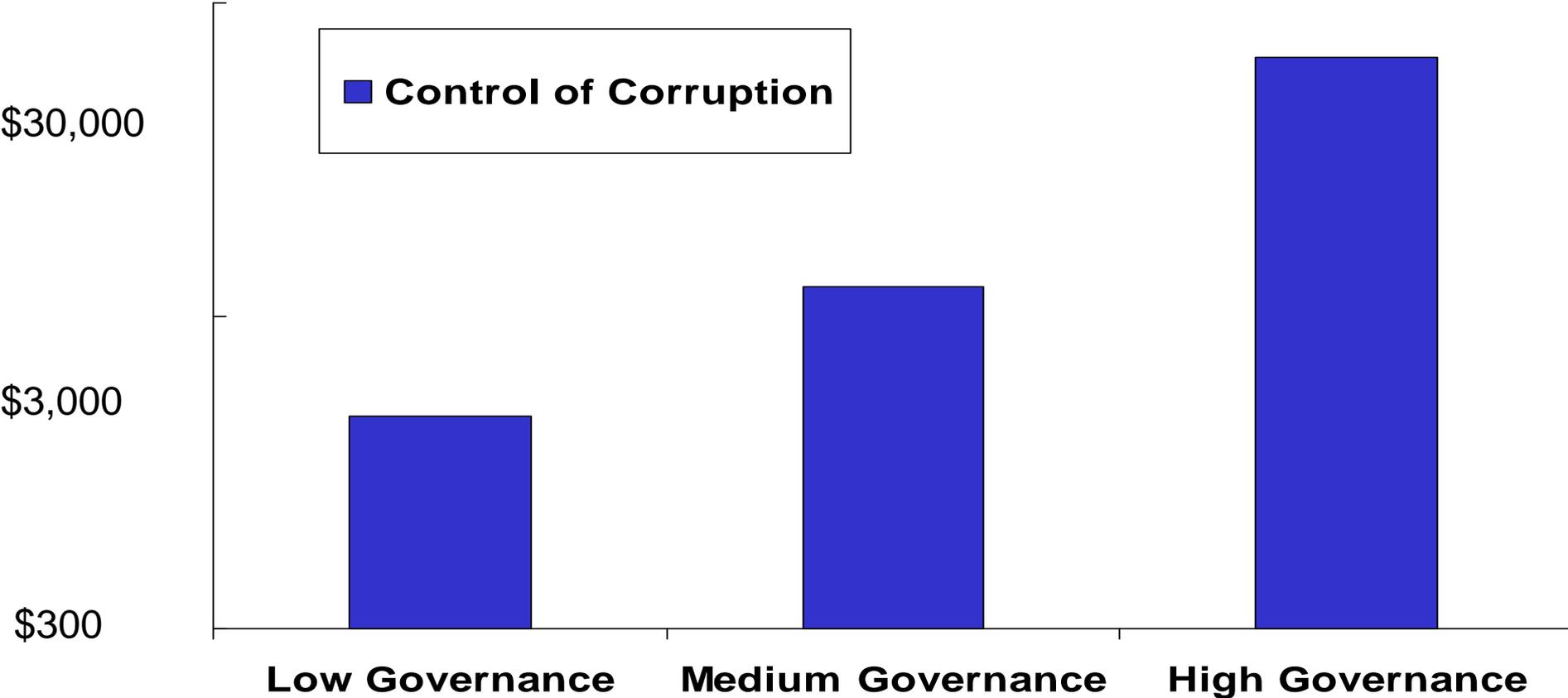
- A new “supply side” is developing
- Transfer of know-how from international to local private operators



Public utilities will dominate the sector



Good governance must not be neglected



Data Sources. Estimations based on various authors' studies, including Kaufmann and Kraay.

III. Sector-specific pro-poor policies



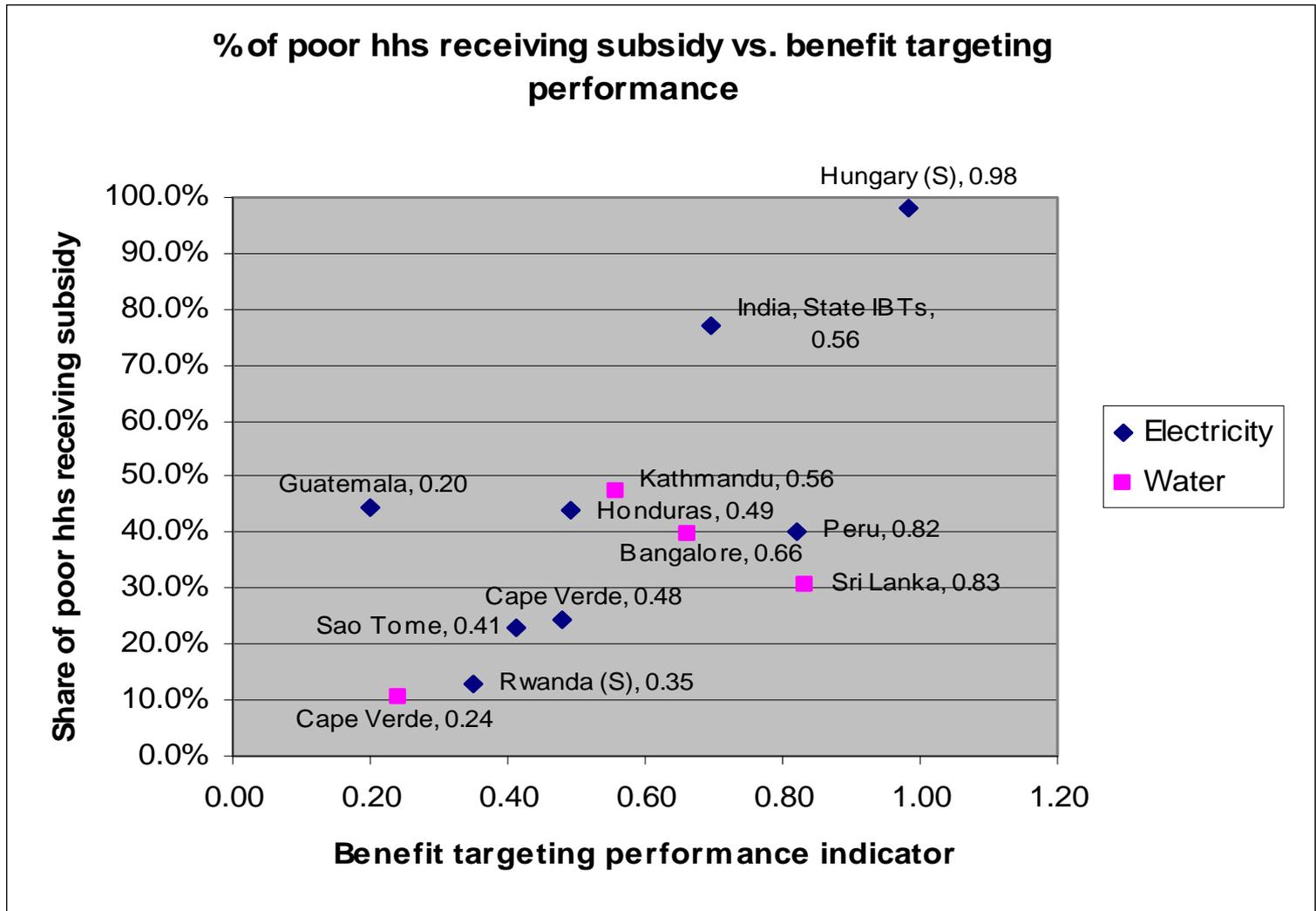
- Tariff and subsidy policies
- Billing and collection procedures
- Non-price obstacles (including standards and service levels)
- Better understanding of how money flows into the sector?

A. Tariff and Subsidy Policies



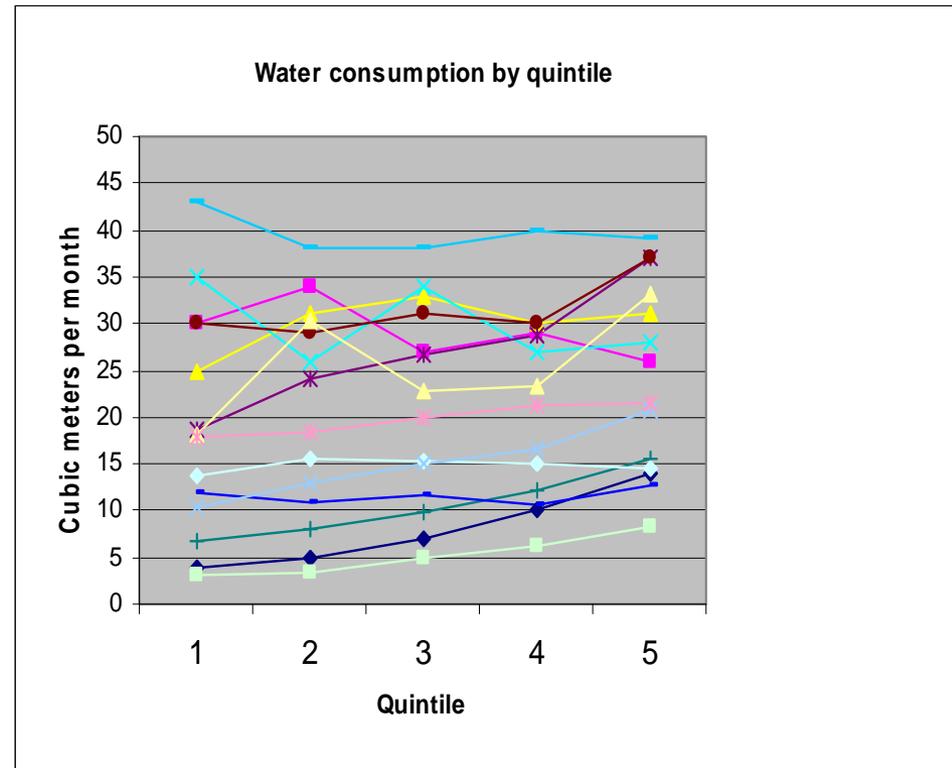
- Most residential customers are not charged the full cost of the water and sanitation services they receive
- Subsidies can be justified, but
 - ~ Impact of “unfunded” subsidies on customers
 - ~ Effect of subsidies on incentives
 - Inefficient water consumption
 - Disincentives on utilities to reduce costs, expand service
 - ~ Do subsidies really reach the poor?

Existing quantity-based subsidies are regressive



Can the targeting of quantity-based subsidies be improved?

- Tinkering with the tariff will not help households without access/connections or meters
- Two changes could help marginally improve targeting performance:
 - ~ Very small first block of IBT
 - ~ Moving from an IBT to a “volume-differentiated tariff”
- But only if
 - ~ poor consume significantly less than the non-poor and
 - ~ average residential tariffs are at or near average cost



Other types of subsidies (1)



Median targeting performance, by type of subsidy and targeting method for existing consumers

| Type of targeting | Targeting performance |
|--------------------------------|-----------------------|
| Consumption | 0.60 |
| Geographical targeting | 1.05 |
| Means testing | 1.35 |
| Self-selection (service level) | 1.81 |

Other Types of Subsidies (2)



- Are connection subsidies doing better?
 - ~ Simulations results are all progressive
 - But will the poor be offered connections? And will they connect?
 - How large is the group of consumers that are poor and not connected?
 - ~ The effect of complementary investments that households need to make

B. Billing and Collection Procedures



- Increasing flexibility in payments to match income flows of the poor
 - ~ Higher billing frequency
 - ~ Access to micro-finance facilities esp. for connection fee payments
 - ~ Pre-payment systems
 - ~ Use of devices to limit consumption

C. Removing other obstacles



- Tools to reduce the cost of WSS services
 - ~ Alternative service levels
 - ~ Flexible standards
 - ~ Low-cost technologies
- Relieving legal restrictions that prevent expansion of service to the poor
 - ~ Technical norms and standards
 - ~ Alternative service providers
 - ~ Legal tenure

Low-cost technologies: condominial systems



- Condominial water and sewerage systems in Brazil
 - ~ Reduction in capital cost and O&M costs
 - ~ Extensive use of technology and community participation in slums (unplanned settlements, spatial constraints)
- Distribution networks in South Africa

D. How effective is funding used?



- Much public money goes around in the sector, but is it efficiently and equitably used
- Public Expenditure Reviews as a tool to gain insight:
 - ~ Avoiding waste in current public investment programs by focusing on increasing investment efficiency;
 - ~ Understanding how the poor benefit from these public investments;
 - ~ Rationalizing current public investment processes to minimize delays by improving budget execution, and removing institutional bottlenecks.

Parting thoughts



- ~ Our assumptions on the poor and their demand for WSS services are not always very accurate
- ~ There is no easy way around the need to increase levels of cost recovery if service is to be improved and expanded
- ~ Subsidies are likely to be around but the choice of instrument is important
- ~ Dealing with non-price obstacles should be an integral part of any pro-poor WSS service delivery policy
- ~ Understanding how the poor benefit from public expenditure is important