

Water utilities that work for poor people

Increasing viability through pro-poor service delivery





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Acronyms

ADB – Asian Development Bank
CRC – Citizens’ report card
CSO – Civil society organisation
CVC – Community voice card
DfID – Department for International Development, UK
GoI – Government of India
GoU – Government of Uganda
MDG – Millennium Development Goal
MWCI – Manila Water Company Incorporated
MWSS-RO – Metropolitan Waterworks and Sewerage System Regulatory Office (Manila, Philippines)
NETWAS – Network for Water and Sanitation (Uganda)
NGO – Non-governmental organisation
NWSC – National Water and Sewerage Corporation (Uganda)
OBA – Output-based aid
OECD – Organisation of Economic Cooperation and Development
PPWSA – Phnom Penh Water Supply Authority (Cambodia)
PRSP – Poverty Reduction Strategy Paper
UNICEF – United Nations Children’s Fund
VSC – Village score card
WB – World Bank
WBI – World Bank Institute
WBWSB – World Bank Water Sector Board
WHO – World Health Organisation
WRM – Water Resources Management
WSP – World Bank Water and Sanitation Programme

1. Introduction

In many developing countries, criticism is routinely directed at water utilities for their failure to provide adequate services to poor people in urban contexts. With few incentives to act otherwise, utilities tend to engage in ‘cherry-picking’¹, extending services to easy-to-reach, wealthy populations, driven not only by cost recovery concerns but also by preconceptions regarding poor urban people, which prevent utilities from recognising poor urban areas as potential markets.

According to WHO and UNICEF, 70% of people in urban areas of developing regions have access to water piped into their dwelling, yard or plot. However, a further 24% are using a source that is improved under the MDG definition but not piped via a network, eg a public standpipe. It is likely that many of this 24% will already be paying for their water, often by the bucket, at far higher per prices per litre than networked users. They therefore represent an untapped market for piped water in urban areas of the developing world, making up some 1.3 billion people in total². The utilities’ aforementioned preconceptions are fuelled by concerns including the perceived lack of willingness and ability of poor people to pay for water services, concerns over the safety of expensive infrastructure, problems of insecure or disputed land ownership, and the perception of slums as a “water engineer’s nightmare”³.

Poor urban populations are thus often left without access to officially provided water services. Even when they are able to access such services, these are often inadequate in terms of service levels and quality. Such problems are more evident in informal peri-urban and urban slum settlements, where residents face the multiple challenges of high costs of water purchased from vendors, high connection fees and bills, ‘hidden’ costs of connections (road digging, materials etc), block tariffs that penalise re-selling, and time constraints due to manual transportation of water⁴.

At the same time, many utilities are challenged by unaccounted-for water (due to illegal connections, leakages, bribes and vandalism), which along with the lack of confidence in financial returns from investing in service extension to low-income areas, adds to internal concerns of financial viability and managerial capacity. The result is “...a lose-lose situation for both end-consumers and for the utility”, including less revenue for utilities, which further challenges service extension”⁵.

Several clarifications should be made at the outset:

- This paper focuses on the provision of water services. An examination of downward accountability in the provision of urban sanitation and sewerage services is beyond the scope of this paper.
- The terms ‘utility’ and ‘service provider’ are often used in this paper interchangeably, to denote “an organisation, whether public or private, that provides water services of a public service nature”⁶, taking into consideration that while in some contexts urban water

¹ Franceys, in Franceys and Gerlach 2008

² Based on UNICEF/WHO JMP, 2008

³ Gerlach, in Franceys and Gerlach 2008 p39

⁴ Castro and Morel 2008

⁵ *ibid* p290

⁶ WB 2008a p1

provision is delivered by water companies, in others such provision is done by local government departments.

→ Service users are referred to in the reviewed literature and interviews in various ways, including *consumers*, *customers* and *citizens*. The term ‘users’ is used throughout this paper, excluding quotes or case studies, to avoid making such distinctions within the general arguments presented.

2. Reconciling efficiency and pro-poor measures in water utilities

a. Efficiency and viability considerations for service delivery

A utility’s financial viability plays a key role not only in its ability to provide quality services in general, but in its ability to extend quality services to poor people, particularly if cross-subsidies or substantial capital costs are deemed to be required to enable service extension. WSP argues that the goal of utility reform “should be financial viability while not excluding the poor section of society”. This requires sustainable revenue strategies which include “appropriate tariff structures that are simple, equitable, affordable, financially sustainable, and transparent for all, taking into account poor and marginalised consumers”⁷, as well as applying “appropriate subsidy mechanisms to ensure affordability for the poor” (see Table 1).

Franceys and Gerlach⁸ argue that “The failure to allow utilities to set viable tariffs, often in the name of ‘ensuring access to the poor’, has contributed significantly to the failure of those utilities”, and that “sector reform is dependent upon tariff reform to ensure adequate revenue flows for financial sustainability”⁹. Such revenue strategies should be viewed within the context of sector financing strategies, which, alongside tariffs, also include revenue from taxes and transfers from multi-lateral and bi-lateral donors, collectively termed by OECD¹⁰ as the ‘3 Ts’, which can provide safety nets such as social tariffs and connection subsidies targeted at vulnerable / low income water users.



Photo: WaterAid / Caroline Irby

⁷ WSP 2008 p12

⁸ Franceys and Gerlach 2008 px

⁹ *ibid* p13

¹⁰ OECD 2008

Table 1: Principles of an optimal tariff¹¹

Principle	Description
Cost efficiency and cost recovery	Revenue stream generated from tariffs should be relatively stable and not cause cash flow or financing difficulties for the utility
Economic efficiency	Signal to users the financial and other costs that the decision to use water imposes on the rest of the system
Resource conservation	Discourage excessive or wasteful uses of water, thus promoting the conservation of depleting sources or the sustainable use of renewable water sources
Affordability	Affordable for poor people
Equity and fairness	Treats similar users equally and users in different situations differently, and may mean some policy measures to subsidise poor people
Simplicity	Easy to understand
Feasibility	Administratively, the tariff should be such that its implementation can be undertaken at minimum cost
Transparency	It should be clear how the tariffs are set and what opportunities exist to influence this process
Flexibility	Adaptable to the varied and changing needs of users – structured to meet diverse user needs and regularly reviewed to ensure efficiency and effectiveness for achieving objectives

A utility or a provider’s ‘quality’, however, should not only be defined by its financial viability. As argued by several authors, it is important to devote attention to reforming the institutional environment within which utilities operate and the decision-making processes that influence relevant incentives while reforming the utilities themselves¹². WSP argues that whilst financial and capacity constraints are important to a utility’s function, attention should be paid to “institutional deficiencies and lack of systematic incentives” to improve, and to the lack of functional autonomy and authority of utilities to undertake key decisions regarding expenditure, operations and staffing¹³. A key aspect is the “lack of clarity of roles and limited separation of policy making, regulatory, and service delivery functions”¹⁴. WBSWB offers a broader definition of the attributes of a well-functioning utility¹⁵:

- 1) **Autonomy**: freedom from political interference¹⁶. The reluctance of government institutions to cede decision-making and financial power to utilities leaves utilities with practically no financial management accountability – leading them to place political interests and their own interests above those of users.
- 2) **Accountability**: the utility must be answerable to all stakeholders, including users, for policy decisions, resource use and performance; and

¹¹ adapted from WSP 2008 p12

¹² WB 2006a

¹³ WSP 2008 p12

¹⁴ *ibid*

¹⁵ WBSWB 2009

¹⁶ Politicians may keep water prices well below cost-recovery levels for political reasons, increasing provider dependency on politically-motivated budget transfers (WB 2003). This could threaten the utility’s effective operation and cause a downward spiral of low prices/investment, leading to low quality services, low coverage, and corruption (Gilbert 2007).

- 3) **Consumer-orientation** [towards *all* people within the designated service area, both current and potential users], including reporting and listening to residents and responding to residents' views in an effort to meet users' needs and improve services.

b. Pro-poor utilities: What does it mean for a utility to be pro-poor?

Financial and organisational efficiency, although a pre-requisite for pro-poor functioning, is insufficient by itself to ensure pro-poor provision. For this purpose, utilities must put in place measures to achieve equitable access to services and accountability to users for ensuring adequate service level and quality. The preceding discussion helped explain why “the challenge of increasing efficiency and improving governance may seem so daunting that the specific interventions required to make reform beneficial to the poor may be overlooked or consciously deferred”¹⁷, but, as mentioned in the introduction, indefinite postponement of service extension to the poor results not only in increased inequality but also in revenue losses for the utility. Franceys and Gerlach argue that “Improving services to the poor requires a good enough utility that has been facilitated not only to move towards sustainability through viable tariffs and better management of water losses but also to be creative in recognising presently indirectly served low-income consumers as potential revenue generating customers.”¹⁸

Evidence from cases of relatively pro-poor utility practice shows that service provision must be designed carefully, to take into consideration the preferences and water-use habits of different, and particularly poor, urban populations. Such an approach, however, is more the exception than the norm. As Evans¹⁹ states, a root cause of the exclusion of poor people from formal water and sanitation systems in urban areas has been “the long-standing inability of utility and city managers and their advisers to plan and implement water and sanitation systems which respond to the reality of the lives of the urban poor”, ie to implement systems that acknowledge the needs, preferences and capacities of poor communities.

In Sri Lanka, for example, a programme for extending networked water services to low-income urban areas was based on the unsubstantiated assumption that poor people would prefer household connections to their current water-use practices, leading to failure and eventual abandonment of the reform²⁰; and in Ethiopia, restricted civil society involvement in policy-making has resulted in a lack of sustainability of sanitation and water programmes²¹. In India, it has been argued that the political and engineering assumption that the poor cannot and should not pay for services has resulted in a continuous propagation of poor-quality stand-post based services, which, since they are provided free of charge, users do not feel they have a right to complain about²². Conversely, in the Philippines, the provider Manila Water (MWC), working with neighbourhood-nominated ‘street leaders’, devised the means to deliver water services to poor neighbourhoods, and has recorded a 100% rate of revenue collection (see Case study 2).

It is therefore evident that while financially ‘healthy’ providers should be more able to extend services to all residents, “the chances of reaching the poorest segments of the population may

¹⁷ WBWSB 2008a

¹⁸ Franceys and Gerlach 2008 px

¹⁹ Evans 2007:1

²⁰ Franceys and Gerlach 2008

²¹ WaterAid 2006

²² Such service provision has been known to cause social tensions due to queuing and service shortages, as well as inefficiencies due to leakages responsible for an estimated 30% water loss, and lack of clear lines of responsibility for maintenance (interview with J Murty, 2009).

be limited if no targeted interventions are specifically designed”²³, as the case studies below reveal.

i. Case studies: providers’ pro-poor initiatives

The brief case studies below examine three water providers, in Uganda, The Philippines and Cambodia, which have undertaken pro-poor measures in their service provision. Naturally, important contextual differences exist between these examples, not only in terms of natural factors such as size (eg Kampala’s 1.2 million inhabitants, 44% of who live in slums, vs the Manila East Zone’s 5.3 million²⁴) and physical factors (terrain, water availability etc), but also in terms of the proportions of poor and unserved populations, historical and economic context, and maturity of reforms. The Cambodian water sector, for example, underwent reform in the context of post-conflict recovery some 16 years ago; Manila’s reform occurred at the height of the Asian financial crisis in 1997; and Uganda’s reform took place in 1998 in order to address serious corruption and capacity constraints in urban water provision, within a context of widespread poverty and aid dependency. Nevertheless, some common themes can be identified – for example, the achievement of financial and managerial efficiency by the utility is an essential but not a sufficient condition for the successful introduction of pro-poor measures, and all three companies have had to ‘open up’ to users’ voices and demands, as well as to implement context specific pro-poor measures.

Interestingly, the timing of implementation of pro-poor measures differs among these utilities: while PPWSA and MWCI have implemented such measures more or less from the outset, NWSC’s pro-poor strategy was developed only once it had achieved a degree of financial efficiency; this may have impacted on the ease with which such measures have been implemented, as well as their effectiveness.

Case study 1: National Water and Sewerage Corporation (NWSC), Uganda

Performance: NWSC, is seen as an example of an urban utility that has sustainable financial strategies and appropriate tariff structures. Having undergone radical reform in 1998, NWSC has achieved comparatively significant commercial improvements which, alongside debt write-offs due to development cooperation grants, have released financial resources with a potential to help extend coverage to low-income and unserved populations. However, the utility’s ability to extend water connection coverage to the poor is constrained by the size of informal settlements and an unfavourable land tenure system.

Measures to improve efficiency and performance:

- Introduction of performance contract system, under which NWSC is contracted to GoU, and service providers are contracted to NWSC.
- Employment of new business-oriented management after previous management was dismissed during the reform process.
- Tariff increases that allow cost recovery and cross-subsidy; and an improved customer record system.

Pro-poor and accountability features:

- Implementation of a ‘customer is king focus’ (expressed through the publication of a customer charter that specifies the commitment to serve the poor, user satisfaction surveys and relationship building between NWSC senior staff and service users).

²³ WB 2009 p16

²⁴ UN-HABITAT and MWCI 2006, respectively

- Development of a pro-poor strategy that includes:
 - **Social connections:** since 2004 there has been a policy of issuing free connections to households living within 50 metres of existing pipes, to reduce prohibitive connection costs.
 - **Tariff adjustment:** existing customers essentially subsidise new connections (since the unconnected are mostly poor). The tariff is partitioned into categories, including differentiation between commercial and domestic customers, and between private and standpipe connections.
 - **Creating partnerships with NGOs** for social marketing, sensitisation and hygiene promotion.
 - **Setting up a pro-poor unit** in the slum areas of Kampala in 2007 to ensure responsiveness.
- Technology: pre-paid meters for public water points to avoid disconnections and corruption, and ensure the poor pay the real tariff by preventing abuse or added profit by middlemen.

It should be noted that initially, limited pro-poor initiatives were undertaken: while reform began in 1998, efforts to develop a pro-poor strategy were not formalised until 2001-2. This was due to concerns that committing to serve the poor could threaten achieving the commercial targets and staff incentive payments specified under performance contracts with GoU. The Social Connections Policy was implemented only once it was felt that financial sustainability has been sufficiently improved.

Sources: Sansom, in Franceys and Gerlach 2008; WaterAid 2006; WDM 2007; Additional information contributed by Silver Mugisha, Chief Manager, Institutional Development and External Services NWSC-Uganda (1 May 2009)

Case study 2: Manila Water Company Incorporated (MWCI), Philippines

Performance: MWCI is one of two concessionaires created after privatisation of the Metropolitan Waterworks and Sewerage System in 1997, and is charged with water provision for Manila's East Zone. It is considered a success story, particularly in comparison with the other concessionaire, Maynilad, that serves the remaining part of the city. MWCI estimates 98% coverage of its service area with a water supply 24 hours a day and its 600 projects targeting low-income neighbourhoods are estimated to have reached over one million people out of 5.3 million users within the service area. However, a lack of data makes it difficult to assess the proportion of the poor population within the service area that is yet to benefit from this success.

Measures to improve efficiency and performance: structural reorganisation/streamlining, tariff reform, fiscal discipline, cost effectiveness measures, employee reorientation and education, reduction of unaccounted-for water.

Pro-poor and accountability features:

- Creation in 1998 of *Tubig Para sa Barangay* ('water for the urban poor') programme.
- Decentralised service management and responsibility to *Barangay* (lowest political unit) level and formation of user-utility partnerships to enhance accountability and programme buy-in, design and implementation through public consultations, pre-implementation meetings and discussions during the planning stages.
- Service differentiation: poor people in urban neighbourhoods are given service options (individual/multi household connection or community 'mother meter'), matching service level to consumers' needs and catalysing service extension.
- From 2005, connection of unauthorised slums using small piped-water networks. 'Mother' meters managed by MWCI (bypassing land tenure restrictions to household water

connections), and connections are managed, maintained and administered by community-nominated 'street leaders'. Connection fees can be paid over one to three years.

- Creation of *Kabuhayan Para sa Barangay*, ('Livelihood Programme'), engaging community-based cooperatives to provide services and products to MWCI (eg workshops to produce parts).

Certain issues of concern have been highlighted in the literature reviewed, such as a lack of consultation during privatisation, a general need for institutional mechanisms for consumer representation, the absence of independent regulation, changes made to the concession contracts after privatisation, and a lack of independent auditing.

Sources: Howell-Alipalo 2007; MWCI 2007; McIntosh 2003; Seneviratne 2007; UNESCAP 2004.

Case study 3: Phnom Penh Water Supply Authority (PPWSA), Cambodia

Performance: Hailed by the ADB as a "model public sector water utility", PPWSA is one of the most successful water utilities in Asia. Having faced the challenge of post-war service reconstruction, it now operates on a full cost recovery basis (no state/donor subsidies). It has an estimated coverage level of 100% in the inner city with a 24 hour water supply, and 85% coverage of its total service area (up from 40% in 1993). Water service is being expanded to surrounding districts with priority given to urban poor areas.

Measures to improve efficiency and performance:

- Revenue increase measures – tariff increases, reduction in unaccounted-for water.
- Policy framework allowing utility autonomy and independent financial status.
- Organisational leadership and management competence: Company Director acts as champion, and provides inspired and disciplined leadership.
- Firm political support given by central and local government (including the Prime Minister), allowing autonomy for reform, donor support and sector harmonisation.
- 'Culture of change' based on educating, motivating and disciplining staff and the public. Investment in staff played a key role, with an emphasis placed on incentives, training and reorganisation of the workforce and management.

Pro-poor and accountability measures:

- *The 'Water for the Poor' programme* represented a commitment from the outset to supply water to poor households, who were given subsidised tariffs and connection fees and offered the ability to pay for connection fees in instalments. These measures helped to persuade users to abandon piped connections provided by private suppliers, which often supplied untreated river water.
- The policy framework includes specific pro-poor measures (and the PRSP refers to improving access for the poor)
- Civil society engagement: utility-customer relationships are based on long-term community building rather than short-term contractual relationships. Effective awareness campaigns enabled PPWSA to attain buy-in, reduce illegal connections and gradually increase tariffs with broad public support. There was a realisation that civil society buy-in was crucial for success in terms of achieving cost recovery and therefore bringing in funds for infrastructure investment.

- Promoting transparency: production of regular progress reports and performance indicators, frequent reviews, annual independent auditing.

Sources: ADB 2007; AFD 2008; Corey-Boulet 2009; McIntosh 2003

ii. The characteristics of pro-poor utilities

To deliver pro-poor services, utilities adhere to the principles of accountability, transparency, responsiveness, sustainability and inclusiveness. In practice, this means certain **key features** (see Figure 1 on page 13) exist among pro-poor utilities, some of which can be identified in the case studies above:

1. **Assessment of user needs, preferences and capabilities:** seeking to obtain accurate baseline data to improve the understanding of the needs, preferences and capabilities of users, including those living in poor neighbourhoods or living in poverty (including current service levels, mapping, wealth ranking etc).
2. **Pro-poor utility policy:** this serves as an indicator of the utility's commitment to serving poor users and extending services to the unserved, acknowledging the mutual benefit of service extension and improvement to both users and providers²⁵.
3. **Targeted implementation strategy and pro-poor unit:** the strategy sets out policy implementation over the medium term and includes specific measures and targets for improving service quality and extending services to unserved areas. This will ideally include the formation of a dedicated department or unit for serving the poor²⁶, or the appointment of officers with social and community relations knowledge.
4. **Flexible service delivery:** this relates to the twin goals of serving existing poor customers and bringing poor unconnected people into the network. The first requires allowing for a variety of technologies to be employed, such as household connections, yard taps and shared taps²⁷. The second relates to the need to make connection fees and billing practices (often prohibitive aspects for accessing networked services) more flexible by using differentiated connection policies (free/subsidised connections or flexible fee payment) and flexible billing/collection mechanisms (eg more frequent billing means smaller sums are paid each time, although the cost remains the same). These measures help remove barriers to connection and facilitate service extension.
5. **Pro-poor tariff structure:** this was discussed in section 2a above. Tariffs should be structured carefully to ensure that they do not penalise 'favourable' practices. For

²⁵ Rosemary Rop, WSP, in interview

²⁶ Decentralising such units into poor neighbourhoods using the utility's own resources serves as a tangible commitment to serving the poor (interview Rosemary Rop, May 2009).

²⁷ J Murty, however, argues that a clear-cut separation between physical service delivery for poor and non-poor neighbourhoods should be avoided, stating that the tendency of Indian authorities to 'solve' the water problem in poor neighbourhoods by providing only public stands with free provision has created a vicious circle – public stands provide an intermittent service, are prone to breakdown and leakages, and the queuing system that accompanies them results in social tensions; further, since the water is provided free of charge, users do not complain in order to have better services. He argues that the ultimate goal should be to offer networked water services for *all* inhabitants, with the only difference between the poor and non-poor being affordability (in interview, May 2009).

example, in the case of Manila, McIntosh argues that the block tariff structure used by MWCI penalises social reselling from connected to unconnected households²⁸.

6. **Formal mechanism for regular feedback on service level and quality:** These mechanisms serve to enhance the accountability of providers to poor users, and will be elaborated on further in the third discussion paper in this series²⁹. Generally speaking, these include practices such as user representation in the utility/provider's governance structure, regular and formalised forum for interaction between users/CSOs and providers, customer perception surveys, and formal complaint procedures, among others.

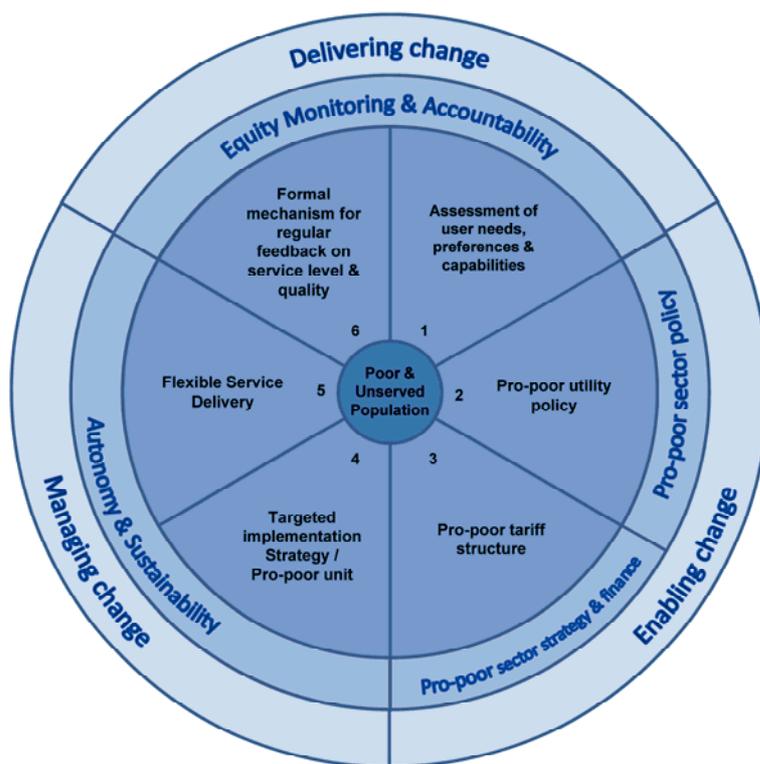
As previously asserted, attention should be paid to the context within which utilities operate. As shown in Figure 1, each feature is subject to broader contextual factors that act as an enabling environment and are beyond the control of the utility. As such, a pro-poor utility policy and strategy are likely to be embedded in the context of appropriate sector policies, which in turn are affected by issues of sector finance (tariffs, taxes and transfers – the three 'T's). Similarly, the utility's ability to deliver services flexibly and employ a pro-poor tariff structure is affected by the extent to which it is autonomous, and by the sustainability of its practices (as noted in the case of PPWSA). Further, measures for monitoring pro-poor performance and increasing downward accountability of government and local authorities, enhance formal feedback mechanisms and enable a productive feedback into policy formation.



²⁸ McIntosh 2003

²⁹ WaterAid 2010 *Social accountability: Tools and mechanisms for improved urban water services*

Figure 1: Key characteristics of pro-poor utilities/providers



The value of using these key features as a framework for evaluation lies in its use for identifying key areas for user and civil society engagement. An absence of one or more features may suggest the need to examine the enabling features as represented by the outer circles in Figure 1. For example, a lack of flexibility in service delivery may be accompanied by a lack of utility autonomy. Thus, service users, civil society organisations (CSOs) or other stakeholders can act directly on this aspect by pressuring the utility, and/or addressing the issue of autonomy as a barrier for flexible service delivery. Characteristics 1 to 6 listed in the framework above can serve as a useful ‘checklist’ for identifying whether a utility has the key features in place to deliver pro-poor services.

However, the mere existence of all key features in a utility *does not* guarantee a pro-poor service. The above framework can be used for identifying key areas of concern, rather than certifying utilities as ‘pro-poor’. It is important that pro-poor measures are implemented consistently and adequately as well as existing on paper.

iii. ‘Building blocks’ of pro-poor practice

How do utilities become pro-poor? Each of the utilities covered in the case studies has made successful efforts to extend services to poor urban areas, but each also faces setbacks and barriers that continue to challenge these efforts. Certain *building blocks* may be identified that form an enabling environment for pro-poor practices.

Building blocks of pro-poor practice:

- **Enabling change:** refers to the broader environment in which utilities operate.
- **Managing change:** refers to processes within the utility itself.

→ **Delivering change:** refers to the role of social accountability in enabling the first, second or both blocks (commonly referred to as the Long and Short routes of accountability).

→ **Enabling change:**

- **Political will and leadership:** The word ‘reform’ indicates a radical and fundamental structural change, a relatively rare event in stable democratic environments. In the case of water, utilities tend to “muddle through” institutional change processes rather than undergo dramatic reforms³⁰, which may be politically difficult to implement, especially if such reforms entail price increases and workforce reduction. As such, reforms require strong political leadership and commitment (as in the case of Cambodia) to ensure their acceptance and implementation. At the same time, political stability supports reform processes by creating confidence in the need for change and facilitating government and donor backing³¹.

- **Regulation:** regulation is often taken to be synonymous with *economic* regulation, by which government or an independent regulatory agency³² intervenes in service provision “as an ‘impartial referee’, balancing, judging, adjudicating and refereeing the various stakeholder interests”³³, in order to address market failure such as monopoly and lack of competition. Admittedly, there is a strong theoretical argument for economic regulation in the water sector, owing to the view that water utilities approximate natural monopolies, since economies of scale and the large infrastructure investment involved facilitate control by a single provider. Monopoly and lack of competition result in captive markets, thus aggravating accountability challenges³⁴, and monopolists have incentives “to overprice and under-provide, thereby realizing “excess” profits (profits greater than the normal rate in competitive markets)”³⁵.

³⁰ Connors 2005. Connors argues that “paths to reform are often slow, messy and resisted at every turn, and quite frequently are the result of initially unintentional or external drivers of change” (2005 p201), referring to the case of Bangalore where service extension to poor neighbourhoods was driven by decisions external to the utility, eg the local authorities’ decision to end public tap funding and to finance network extension. Such an ‘incremental’ route to change may be more sustainable in the long-term, when changes are grounded in existing reality and context. However, whilst lack of opposition to the process may guarantee an easier reform implementation, it will not necessarily lead to the most appropriate reform from the point of view of service users.

³¹ McIntosh 2003

³² Although some argue poverty considerations in developing countries justify political intervention in regulation (Gerlach in Franceys and Gerlach 2008), others emphasise the importance of independent regulation since regulatory capture may cause regulatory failure. Gerlach, (ibid), cites the susceptibility of bureaucratic and legal institutions to political interference and corruption (eg pressure on regulator to endorse government decisions and micro-management) as causes for regulatory failure in Latin America, and argues that regulatory autonomy may be overridden by political or commercial interests, pointing to examples of concessionaire pressure on the regulator in Manila, and political pressure on the regulator during water privatisation in Cochabamba, Bolivia. Capacity constraints also affect regulation, further exacerbated by information asymmetries between providers and regulators.

³³ Franceys and Gerlach 2008 p22

³⁴ WB 2008a

³⁵ Budds and McGranahan 2003 p93

However, such a narrow definition of regulation allows too great a focus on regulatory *institutions*, rather on the *regulatory function*³⁶. Additionally, regulatory frameworks have frequently been designed to address large utilities while disregarding unserved peri-urban and rural populations. The aim of regulation must therefore be approached within the context of sector performance monitoring and accountability, and this may or may not involve an independent regulatory authority. Swain points out the issues that must be considered when discussing regulation as a function, namely the regulator's authority to penalise, to review tariffs, engage with service users and include the marginalised. She emphasises the need to view regulation as an agent of dialogue and participation. However, she warns that a non-transparent process of regulatory reform often results in the application of pre-drafted and often ineffective structures,³⁷ whereby the view of regulation as an institution is at the heart of the process.

These concerns are echoed by NWSC's Silver Mugisha who argued in an interview against the need for specialised regulatory bodies and pointed out that in Uganda various institutions perform regulatory functions within the sector. For example, NWSC's accounts are audited annually, and its performance contract with the GoU is monitored by an external review committee and scrutinised for non-compliance. He claims that the main emphasis should be placed on having a system that promotes accountability and transparency – and feels that many regulatory bodies established as part of reforms in other countries have failed to deliver on these counts, due to lack of independence (as in the case of MWSS-RO, see Box 2).

→ **Managing change:**

- **Clear roles and functions:** a clear definition of the utility's role and its relations with central and local government institutions is required to ensure clear lines of responsibility and communication and a supportive institutional framework. Rosemary Rop argued in interview that such clarity is critical for downward accountability, referring to the example of Kenya, where the water sector reform established a clear role separation in terms of policy making (government), regulation (an independent agency) and provision (*autonomous* water service providers appointed through water boards. The reform also separated the issue of water resource management (WRM) from provision, to avoid intra-institutional competition between provision needs and environmental sustainability. Clarity of roles and responsibilities, however, may be difficult to achieve in some urban contexts; Connors, for example, notes in the case of the slums of Bangalore that “the intersection of the slum and water sectors has created a web of relations among government actors that defies a simple vision of a public utility as sole provider”³⁸.

- **Management competence and leadership:** another issue highlighted by the case studies is the crucial role of management competence in achieving and maintaining financial and functional sustainability. This was demonstrated in the case of PPWSA where the company director personally championed an organisation-wide ‘culture of change’, which improved service and financial performance and engendered trust from employees and users. In Uganda, the reform process involved an overall restructure of the management of NWSC, which improved commercial practices and customer care, and led to the employment of an effective managing director who also maintains a direct

³⁶ A distinction made by Biraj Swain, DfID (India) consultant, in interview

³⁷ Swain points to the case of regulatory reform in California, in which a regulatory selection body comprised of state and non-state actors was formed to select the most suitable regulators – lending them public credibility and faith in their capacity.

³⁸ Connors 2005 p204

connection with users³⁹. Similarly, reform in Kenya brought managers with private sector competence into the water sector for the first time⁴⁰.

→ **Delivering change:** The case studies also show that the utilities have undergone a process in which improvement of their communication with users, and their accountability to those users, went hand-in-hand with the utility's ability to implement 'pro-poor' measures and extend services to previously unserved low-income populations. Such an improvement in downward accountability necessitated that the utility recognise its role as a party to a contract with service users as customers or potential customers. As such, these utilities have emphasised improving their relationship with users in an effort to increase the effectiveness and sustainability of the service. The issues related to downward accountability and the roles of providers and users in enhancing accountability are discussed at length in a forthcoming paper on Social Accountability tools.

3. Conclusions

The failure of utilities to provide adequate water services to poor people in urban neighbourhoods represents a lose-lose situation for both users and utilities (or other providers). While the former are left with unreliable, expensive and time-consuming water provision, the latter are less able to raise essential revenue through increasing the number of connected (and paying) users and are burdened by service inefficiencies and illegal connections. This paper examined how providers can become more pro-poor by enhancing their downward accountability to users, and how users can act to make providers more accountable.

It acknowledged that the financial viability and structural capacity of utilities are likely to be perceived as pre-requisites for utilities to meaningfully undertake pro-poor measures, drawing on evidence from case studies that utilities are unlikely to act, of their own initiative, to include poor people in networked service provision. This reluctance is due to utilities in resource-poor urban contexts viewing poor users as a financial burden, an 'engineering nightmare' or a low-priority item on the agenda, and coming under considerable pressure to put finance and efficiency considerations before those of service quality and equity.

However, it was argued that failure to recognise the needs of *all* users, including poor users, within service reform processes could make the task of water provision to poor people in urban areas harder in the long-run. Utilities, governments and other authorities and agencies involved in the reform process should aspire to include all users in good quality service provision from the outset, while acknowledging the variety of needs and preferences of different users within the service area. Simply adding on pro-poor measures at later stages could mean more challenges and more delays to inclusion, as well as a danger of provision falling into the same old patterns of poor services for poor people (eg poorly functioning public stand-posts).

The key characteristics of pro-poor utilities were discussed, while highlighting the importance of the context within which they operate, represented by the building blocks of pro-poor function.

³⁹ Silver Mugisha, in interview

⁴⁰ Rosemary Rop, in interview

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5. Interviews

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This publication is the second of a set of three WaterAid discussion papers on how to improve water and sanitation services to poor people. The set includes:

Access for the poor and excluded: Tariffs and subsidies for urban water supply

Water utilities that work for poor people: Increasing viability through pro-poor service delivery

Social accountability: Tools and mechanisms for improved urban water services

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WaterAid transforms lives by improving access to safe water, hygiene and sanitation in the world's poorest communities. We work with partners and influence decision makers to maximise our impact.

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