

Conference Issue Paper

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Pro-Poor Sector Reform

1. In urban Africa, a large part, if not the majority, of the population lives in low income peri-urban areas, which are growing at disproportional high rates. Therefore, WSS service provision must in future concentrate much more on the urban poor in order to make substantial headway on objectives like the MDGs or access for all to basic services.
2. In the low-income urban areas infrastructure development and management is often left to small-scale providers (SSPs) operating in a framework where no benefits of economies of scale are offered and social and economic interests are hardly balanced. The poor dearly pay the price for such insufficiencies.
3. Segmented approaches like improving performance of existing systems through large PSP contracts have not achieved the expected outcomes. Consequently, Water Sector Reforms increasingly shift to much wider and more comprehensive approaches, which include the introduction of sector wide rule setting, regulation and local private sector (LPS) participation in a transparent environment. This shift opens a great potential to improve service provision in general and additionally offers, on a much larger scale, the resulting benefits to the urban poor.
4. The settlements of the urban poor are increasingly unplanned. The unplanned nature, inadequate financial resources for investments and the limits of the consumer ability to pay for a high service level (affordability) makes it often difficult or even impossible to significantly extend networks for WSS in the short term to every single household. Nevertheless, in the medium term, it is in many areas feasible to offer, on a large scale, reliable and affordable service provision of water to the poor by small-scale extension of the main network and operated water distribution points, which can satisfy the principles of sustainable access. Progress on sewer network coverage is usually more challenging and might not be a realistic option for most low-income areas for decades. For sanitation, onsite installations are a solution as long as sewer networks cannot be built and the monthly bills for household connections cannot be afforded by the poor.

No significant headway in WSS without a stronger focus on the urban poor.

Differentiated service levels which satisfy the principles of sustainable access can address the urgent needs of WSS service in underserved areas.

The poor pay much higher prices for low standard services. However, their ability and willingness to pay would allow service provision by much more professional services.

5. Wherever networks do not reach into the settlements of the urban poor, water sector reforms will have to cope with temporary solutions which include service provision by SSPs such as water trucking or mobile water vendors. In general, these solutions are not only expensive (the poor usually pay a much higher price for these services than the connected consumer) but presently hardly fulfil the necessary criteria on access to safe water. Significant improvement will take place when the poor have a real choice between accessing water of controlled quality at a controlled outlet or buying water at their door step from a mobile vendor.
6. If water sector reforms create legal and institutional frameworks in which policies, strategies and actions are streamlined to the goal of “sustainable access to WSS for all”, such reforms contribute to implementing sustainable and affordable systems for the poor on a large scale.
7. **Sustainability** implies that prices for services are affordable and cost recovery is ensured. Successful reforms achieve this through establishing systems large enough to generate economies of scale (e.g. clustering of towns), introducing management systems with rising performance levels (commercialization and performance management) and increasingly implementing cost covering tariffs (tariff models and tariff adjustment procedures). In order to enable providers to extend their services in a sustainable manner to the urban poor, the tariff levels need to be increased to a level that allows efficiently managed utilities to cover at least their O&M costs. Otherwise only the better-off parts of the population will benefit. Costs covering average tariffs combined with cross subsidies are not only in the interest of the poor, they are crucial to reach the MDGs – **low average tariffs are not pro-poor.**
8. **Equitable access** provides consumers physical access to an outlet either by household connections, yard or public taps. It allows customers to enjoy a minimum service level enforced by the regulatory regime. Such **minimum requirements** include: approved water prices, which does not fluctuate because of individual decisions, safe water quality which is regularly controlled, continuity of service provision / minimum service hours, acceptable waiting time and tolerable walking distances. Therefore, shallow wells or springs (if protected or not) can hardly be seen as offering sustainable access to safe water in densely populated areas as the above mentioned requirements cannot be ensured.
9. When service provision is economically viable and transparent and operation is stable, these minimum requirements can also be sustainably guaranteed in the settlements of the urban poor. Such minimum requirements standards should include clearly defined measurements on access. Without such clear definitions “access” is open to interpretation and arbitrary judgment which today, often provides a distorted and a much too optimistic picture of the number of people served.
10. As WSS service provision is a natural monopoly, water sector reforms introduce rule setting and/or regulatory systems to protect the consumers. This particularly applies to the provision of basic services to which the population has a right to access, such as WSS. Successful regulation does not only limit the monopoly power exercised by large utilities but also by the SSPs, which often operate without respecting minimum requirements and reinforce their position by forming syndicates to the disadvantage of the consumer. Therefore, **pro-poor regulation** not only aims at offering a minimum consumption at an affordable price to the connected poor but also has the objective of extending a mechanism of control to the un-connected settlements. This is a prerequisite for the transparency of service provision in the settlements of the poor and for the protection of non-connected consumers.
11. Rule setting and regulation separated from functions of policy making and service provision offers an opportunity to develop pro-poor approaches, making the relevant institution an advocate for the cause of the non- or under-served. Additionally, pro-poor regulators serve the political decision makers as an advisor for balanced decisions on commercial and social interests. This and the setting-up of an information and reporting system which includes the settlements of the non-served poor enables the rule setter or regulator to feed information more effectively into

national policies and strategies. It consequently helps policy makers to set more realistic coverage targets.

12. Broadly disseminated development reports, comparing performance of providers on targets, also for the non-served areas, assist in orienting providers much stronger on the challenges to serve the poor. Combined with incentives to extend services into the low income urban areas, these are real contributions to large scale implementation of pro-poor infrastructure and management systems and consequently to the achievement of the MDGs.
13. The regulatory regime can play a key role in obtaining sufficient information on service provision in the settlements of the urban poor and to extend services in accordance with minimum requirements into such areas on a large scale by, among others, legalizing providers and fostering partnerships between utilities, community controlled providers and the LPS/SSPs.
14. Commercialization of service provision and the outsourcing of certain functions offer opportunities to the LPS and for performance increases. Additionally, the participation of the local private sector in small-scale extensions of networks and operation of water outlets, can improve access to services which fulfills minimum requirements. It is important, however, that the provider remains responsible for the quality of service provision. Where the utility and the SSPs are held accountable, the market becomes transparent to the benefit of the poor. Regulatory regimes can provide rules and incentives to forge such partnerships in order to lift constraints for the utilities to serve the poor and to make use of the potential of the LPS.
15. Water sector reforms can prevent WSS service provision being used as a cash cow. Regulation through ring fencing can avert excessive profit making and the appropriate control by the ministries can ensure suitable use of funds. This will strengthen the self-financing capacity of the sector to the benefit of all consumers.
16. Significant progress towards the MDG for sanitation can only be achieved if onsite sanitation is implemented on a large scale. This is more complex to achieve for sanitation as usually more ministries and stakeholders are involved. Consequently, water sector reforms must concentrate stronger on linking up with the sanitation players and use the potential of the new framework including the comparative advantages of professional service providers for the large-scale implementation of sanitation projects.

Successful pro-poor water sector reforms establish legal and institutional frameworks through which the principles of equitable and sustainable access to WSS can be streamlined and maintained.

The poor pay much higher prices for low standard services. However, their ability and willingness to pay would allow service provision by much more professional services.

Pro-poor rule setting / regulation does not only protect the connected but also the unconnected poor by extending a mechanism of control into the low-income urban areas and by making service provision transparent in such areas.

Legalizing providers and promoting partnership between utilities, LPS and SSPs within the regulatory framework benefits the underserved poor.

While some progress towards the MDGs concerning access to drinking water is under way no significant advance for sanitation has been made so far.

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