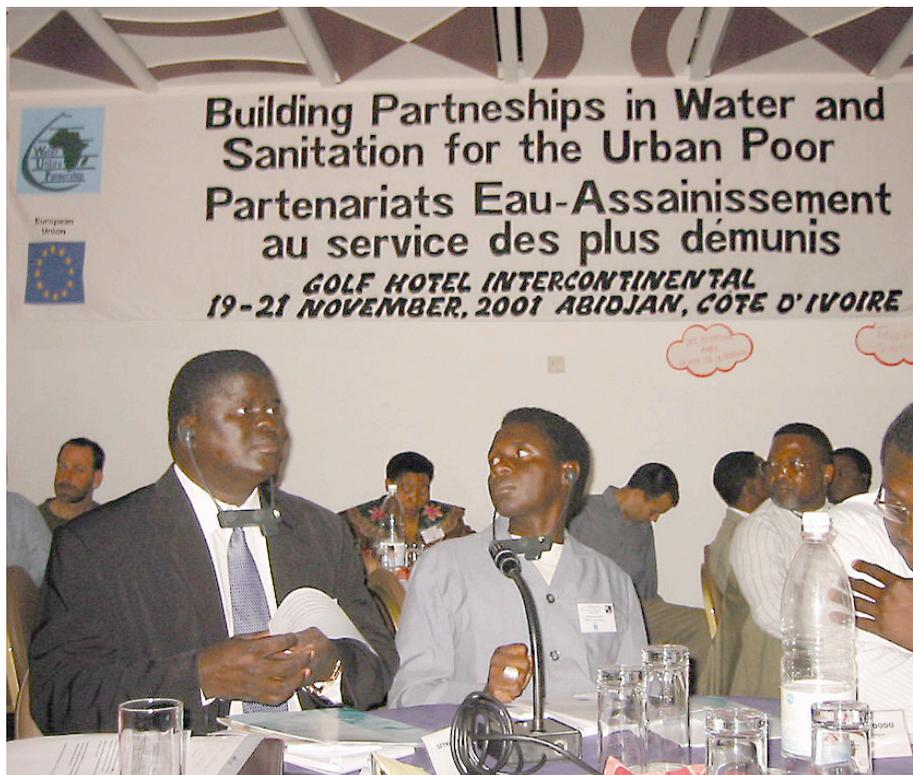


Final Workshop
Water Utilities Partnership Project No. 5
“Building Partnerships to Serve the Urban Poor”
Abidjan, Nov.19-22,2002



The concluding workshop of WUP Project # 5 on water and sanitation services to the urban poor gathered 120 sector specialists in Abidjan from November 19 to 21. The workshop drew participants from across French and English-speaking Africa, including chief executives and senior staff from a number of utilities, NGO's, small scale operators, and staff from 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, but 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 # 5 sets the focus on WSS services for urban poor.

WUP Project # 5 has unfolded through three phases over the last two and one half years. - Phase 1 piloted the methodology;
- Phase 2 uncovered and documented practices from nine countries leading to the Nairobi workshop of June 2001; and, finally
- Phase 3 which, after the Abidjan workshop, will be concluded by the dissemination of the *Good Practice Document* and the *Toolkit*.

The central objectives of the WUP Project # 5 workshop was to bring African water and sanitation utilities to act on the challenge of extending safe water and hygienic sanitation services to the growing number of urban poor in African cities. The role of WUP and its partners through its Project # 5 has been to foster recognition of the problem and to identify scalable approaches drawing on the experience of African utilities themselves.

The conclusions of the action research and synthesis phase of WUP #5 comes at the time when The European Community, which has been its main funding source, is striving to translate its water sector policy into support to effective sector programs at the country level.

In addition to its dissemination and validation function, the Abidjan workshop which drew the participation of a large number of utility managers, has mapped the way forward for utilities to scale up the practices brought forward under WUP Project # 5 and to identify follow-up actions by WUP and its partners (See Conclusions of the Executive Roundtable)

Learning to move to scale

WUP # 5 has focused on practices that have demonstrated the potential to bring progress to scale either at the level of a city or country-wide. While each of these “good practices” is the product of a specific institutional and policy context, they exhibit a number of common characteristics:

- political will translated in 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 of service standards and choice of options;
- strong communication, promotion and capacity building functions – no saving on software –;
- reliable 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 of them will be living in poverty in unplanned or informal settlements without access to safe water and to hygienic sanitation.

Utilities will be hard put to prevent a widening of the gap between the decreasing percentage of urban households which are connected to their networks and the growing mass of the unserved left to depend on more costly and often less safe and less convenient alternatives. The limited objective of increasing the overall percentage of urban dwellers served by a network connection from the current 50% to 80% in 2025 would require on average about 2 to 3 million new connections every year; i.e. about 6,000 to 10,000 every day (re. Box 2. A Vision for Action).

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.

Building Partnerships

"A well performing and financially sound utility is a condition necessary, but not sufficient, for serving the urban poor."

While the role of utilities is central, they cannot, as shown by the practices documented by WUP # 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 extending basic services to the urban poor.

Second, they need a **policy 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 to partnerships and innovations to adapt the services to the capacity and the preferences of the poor seen as full-fledged customers and stakeholders.

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 level 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 1/2 % 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 the WUP # 5 Project, 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 strategies (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 pit latrines are unimproved or traditional and as a result, in densely populated areas of many cities, ill health associated with poor sanitation is a growing problem. In some cities cholera is becoming endemic and diarrhea and other environmental sanitation related illnesses are among the top five causes of morbidity and mortality.

The responsibilities of utilities for sanitation 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 hardly more than 10 to 15 % 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 have brought a 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 have played a lead role in such initiatives suggest that their involvement is critical for moving to scale.

Utilities as institutional anchor for pro-poor urban sanitation program

The rare examples of scalable practices point to the importance of piloting and strategic planning to test options, match household demands and define roles and responsibilities as well as resource flows. Successful programs to promote improved forms of 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 anchor* for community-based sanitation programs. Their relative institutional strength, their legal standing, their city-wide perspective, and their 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 etc.

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 of ONEA in institutionalizing

the program and ensuring stable financing through a surcharge applicable to the higher tranche of the water tariff.

Communication, training and capacity building directed at communities, households and artisans absorb a large part of the cost of such programs; typically more than 50 %. Household participation and choice are critical as is a full understanding of the responsibilities and obligations of households 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 born 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 services and public health, utilities should be pro-active in advocating sanitation policies and pilot innovative approaches to on-site sanitation.
- Utilities have a critical role to play in providing the institutional anchor and the continuity needed to bring such program to scale, provided:
 - first, that the utility at hand is reasonably efficient and financially sound, and
 - second , that its involvement be 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 a role in sanitation, should work with partners to define their role for 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 and other documented good practice.
- Funding mechanisms to ensure the stable support needed to build up capacity and confidence and take programs through the initial trial and error phase;
- Enabling framework for the working relationship between utilities and municipal bodies on the one hand and small scale operators and community-based organizations on the other hand.
- Adaptation to African contexts of the condominial approach to serve the denser settlements.

Delivery options and standards that meet the needs of the poor

Opening up standards for review and revision is essential to improving services to low income communities. Infrastructure and service standards designed for formal and 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 utilities to formal settlements. The extension of utility networks into informal and peri-urban settlements presents considerable risks due to the uncertain land tenure situation, low incomes, difficulties in revenue collection and to 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. Delivery schemes to unplanned settlements can overcome higher risks by partnering with communities to rely on them for safekeeping, maintenance and even collection.

Practices from Durban and Manila West 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 cost were brought down by laying pipes on 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 options offering a fixed minimum quantity of water by filling daily a 200 liters tank on the premise of the household.

The targeted programs launched in Manila West, and in Durban provide enhanced services at no, or minimum, additional costs 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 %. In both cases, tariff 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 for the Port-au-Prince (Haiti) systems in which area water committees manage tertiary reticulation systems distributing water from bulk meters. The organization capacity and the 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 benefits from improved water services would require a sharper focus on quality of water at the time of consumption. This, as well as user preference, lead to privilege piped household connections in Manila West and Durban; in the latter case public taps were in fact discontinued as the systems was extended. The concern for water quality is a strong reason for recognizing and licensing resellers and tankers services, i.e. to foster the acceptance of procedures to ensure proper quality in their operations.

Way forward

- Utilities should initiate a review of the legal and regulatory framework under which they operate and identify constraints that restrict their ability to deliver services to low-income

communities. Together with governments they should seek necessary revisions of such frameworks.

- Utilities should recognize low-income communities and informal settlements as legitimate customers and should develop innovative approaches to delivering services adapted to their demand and their capacities.
- Utilities should work with communities to lower the cost of services to low-income communities 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 facilitate maintenance of water quality all the way to 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:

- 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 Utility Outreach Function to Reach the Poor

As the urban poor constitute the bulk of future utility customers, "Knowing your customer" should be the starting point of strategies to improve service delivery to the low-income communities. When they do attempt to cover unplanned settlements, utilities would typically prescribe standard public taps or water kiosk aimed at serving a specified number of users within a given distance. The proliferation of parallel/self-initiated approaches 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 undertaken to extend services to informal settlements have found it necessary to build their internal capacity by establishing a specialized unit dedicated to this objective. The Peri-Urban Section of the Lusaka Water and Sewerage Corporation soon found out that in order to succeed it had to get a buy-in from the whole organization. Peri-urban dwellers which account for 70 % of the population of Lusaka, had to be recognized as full-fledged customers by all throughout the organization.

In the case of Port-au-Prince the intermediation function assumed initially by GRET, an international NGO, under an externally supported project, was eventually taken up by a dedicated unit within the utility CAMEP. The institutionalization of the capacity for serving low-income groups within the utilities is necessary to sustain its commitment and integrate peri-urban customers in planning and policy development.

Way forward:

- As part of their strategy to extend services to low-income communities, utilities should establish dedicated community outreach units for design, planning, implementation and management of service delivery programs.

- 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 plan the establishment of dedicated units for low-income customers.
- Model for community management : partnership arrangement with utility, link with municipal structures, responsibilities for system management and O&M, financial flows, incentives, governance, by-laws, recourse etc..

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 as a whole; and, (ii) allowing poor households to afford piped water through a subsidized “social block” tariff applicable to a monthly consumption 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 high up-front connection costs. Furthermore, many poor households rely on a daily wage and can neither save up for a connection nor pay for water on a monthly basis.

Tariff and subsidy policies are central to any effort to extend services to the poor. They are driven by diverse and sometimes conflicting objectives:

- 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 its assets and serve its debt.
- Economic : to take into account costs and benefits to the society as a whole including the use of water resources, the impact on public and on the environment.
- Political : to achieve a repartition of benefits and costs that can be accepted and sustained through the political process.

The consensus among workshop participants was that:

- Social objectives are in fact very important because the poor constitute such a large proportion of the customer base.
- Financial objective 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 key 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 in higher 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 resource from within through increasing block tariffs (IBT) or consumption cross-subsidies recognizing that they should be applied carefully to protect the revenue basis, and, in the case of industrial and institutional customers, very sparingly.

The application of IBT to resellers and vendors that rely on the network result in higher charges for their customers, predominantly poor unconnected households. The problem is real. It has been approached by introducing a status that recognizes resellers and grant them a single block tariff with service obligations and requirements related to water quality.

Several of the WUP # 5 practices (Burkina, Cote d'Ivoire) illustrate cases 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 local counterpart to 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. The programs use the proceeds of a surcharge on higher consumption brackets to subsidize low-cost connections (through 15 mm pipes) with simplified requirements. In the case of SODECI, the newly connected customer has to surrender a deposit corresponding to three month of basic service. This stand in contrast with many situations where very low tariffs are combined with prohibitive and cumbersome connection procedures.

Pricing services for the poor should consider aspects beyond the cost per cubic meter and cover all the components of the relationship between the low-income customers and the utility, including 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 metres, 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 framework 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 well ahead.

- A transparent process need to be set in place to provide accountability on the overall management 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 (especially networked sanitation) the tariff can be used as an instrument to generate resources to support investments in appropriate sanitation services.

Priorities for further learning

- Understanding the outcome of tariff policies on services to the poor .
- Good practice on information and consultation process.
- Options and scope of institutional arrangements for tariff regulation
- Models of effective use of cross-subsidies for extension of services to low-income households including water supply and, also improved sanitation. .

Undertaking WSS Reforms to benefit the poor

Private sector participation 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 with 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.

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.

Given the proper incentives, the private sector can achieve much of what WUP # 5 advocates: reducing the cost of services in particular connections costs; simplified billings and collection; customers retention scheme, partnerships etc. In fact, as shown by the Manila West concession case, PSP operators have willingly taken initiatives to upgrade or extend services to low-income groups

Experience is building on ways to translate pro-poor objectives into monitorable undertakings imbedded in PSP contracts. Designing a transaction which brings in the private sector provides an opportunity for changes: technical, social and political. Once the responsibility for service delivery has been taken away from State or municipal bodies, politicians can be much more vocal in pressing for improvements. As a rule, private deprivation seems politically less acceptable than public neglect.

Bringing in the private sector without due care 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, has to be able to disconnect delinquent accounts.

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 SSIP's (e.g. by including their services in the monitored targets)

- limit on exclusivity features
- allowance for flexible technical standards while preserving quality.

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

The selection of contract type has to be aligned with the objectives and the incentives (see Box 1).

Box 1 : Incentives by Contract Type		
Contract	Expansion	Tariff and level of service
Management	No	Low, apart from efficiency savings
Affermage	No obligation to fund Incentive to increase sales May lobby for connection fee	No disincentive to serve the poor Operational subsidy may be needed Service levels secondary
Lease	No obligation to fund fee Incentive to increase sales May lobby for connection	Some responsibility for determining tariff structure may be given Service levels are secondary
Concession	Responsible for funding expansion and incentive to add customers. Connection subsidies will drive expansion, Cross subsidies discourage it.	Affordability will increase customers and revenues. Universal service obligation would encourage innovation

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.
- Pro-poor objectives should be imbedded in PSP contracts with specific targets and monitoring systems. The monitoring to allow for inclusion of services provided franchise and partnerships.
- The financing of operating subsidies during initial period of reform to allow gradual transition from very low tariffs to cost related ones should be included in addressed.

Priorities for further learning

- Systematic analysis and documentation of country cases and dissemination of lessons learned and good practices.
- 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 2. A Vision for Action

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.**

The way forward:

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