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Regulation and the Poor

**Presentation by:
Ilze Gotelli**

**2nd Southeast Asia Water Forum
Building Credible and Independent Water Regulators and
Reforming Tariffs for Better Water Services**

September 1, 2005

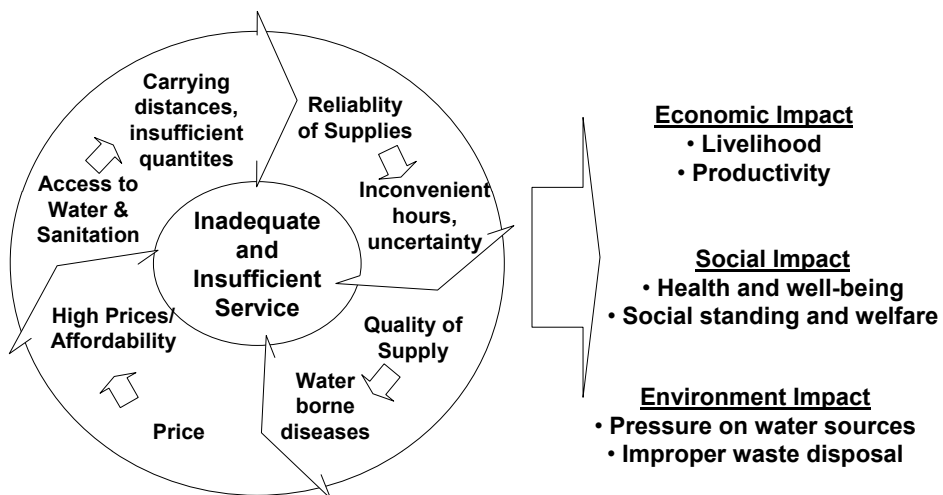
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Presentation Overview

- **Defining the Problem**
- **Role of Regulation**
 - Regulation versus policy
 - Role and mandate of the regulator
- **Regulatory Strategies for the Poor**
 - Levels of service
 - Pricing
 - Access

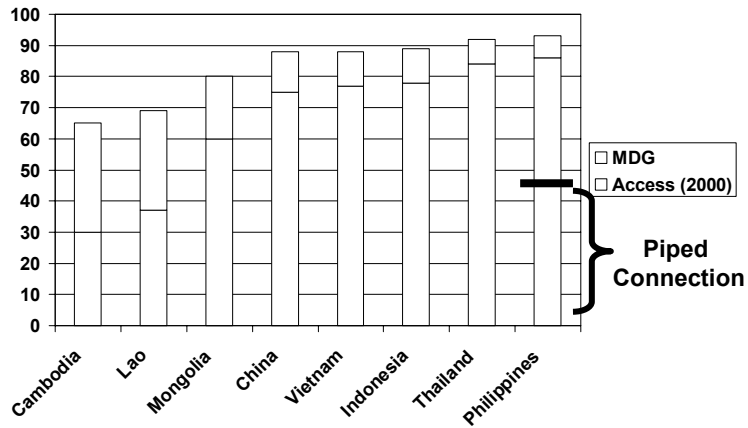
Defining the Problem

Why is it Important be Concerned about the Poor?



Expanding Coverage Levels is a Priority to Reach the Poor

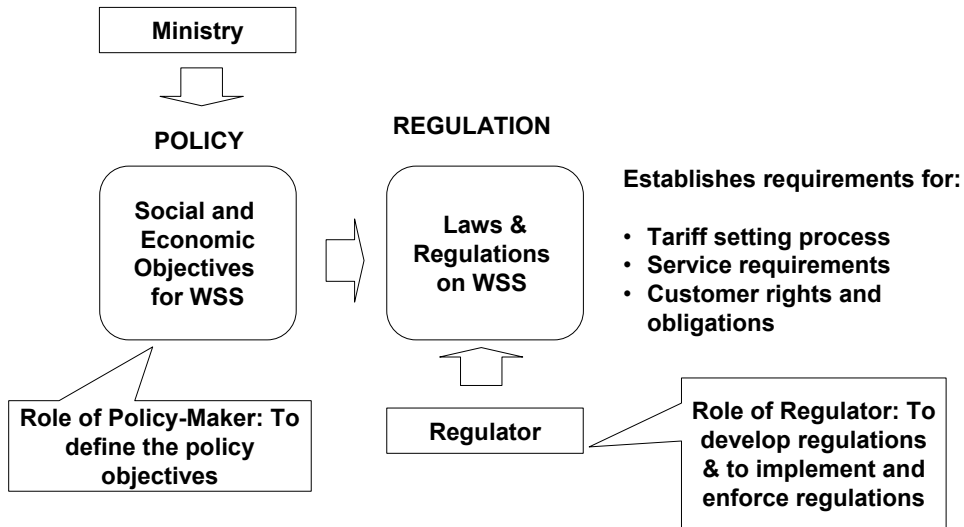
Coverage Levels – Access to “Improved Services” and Additional Access Required to Meet MDGs



Note: WHO “Improved Services” includes connections and water from other sources

Role of the Regulator: An Overview

Policy and Regulation – Understanding the Different Roles



Role of the Regulator

PRIMARY ROLE

- Set service standards that reflect the levels of service that customers want overall
- Set tariffs equal to the efficiency costs of services (minus any subsidies)
 - Requiring efficiency gains

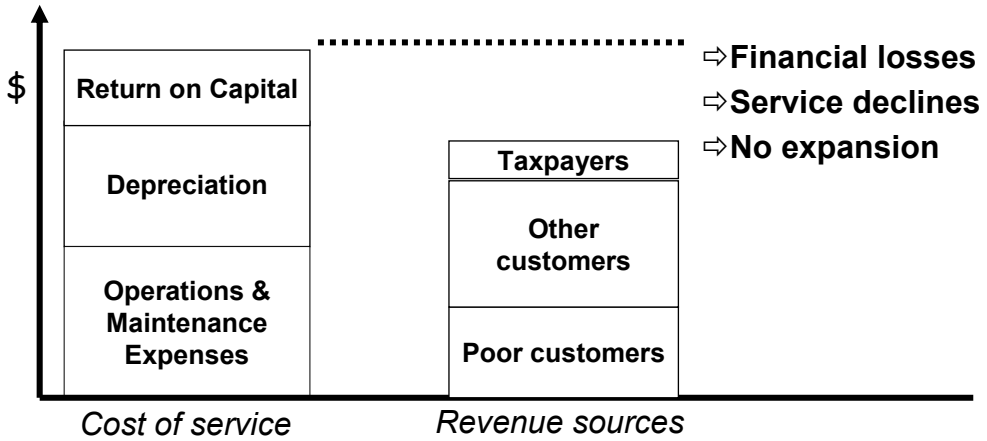
RESPONSIBILITY TO CONSUMERS

- The Regulator typically has a mandate to protect all consumers, including the poor

HOWEVER:

- The Regulator is required to balance ALL interests – not just those of the consumer – and to be perceived as fair and objective

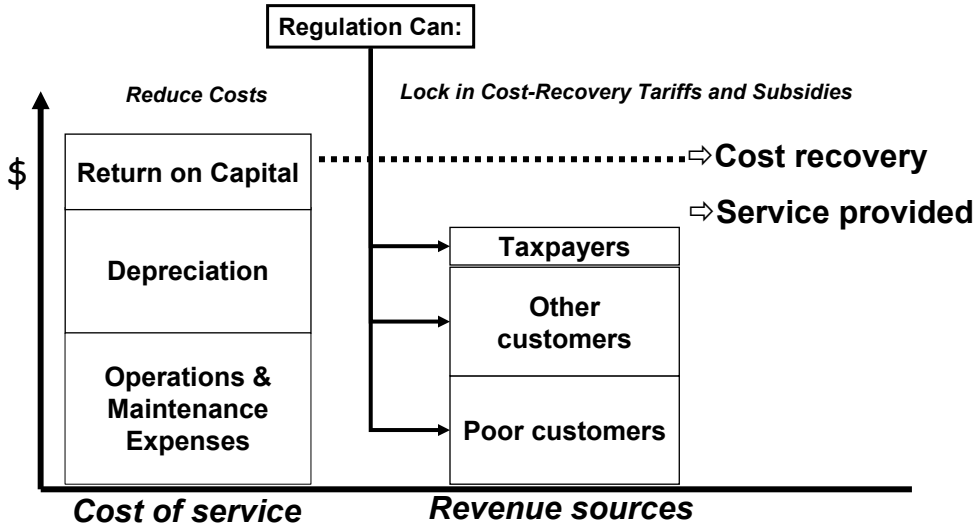
The Typical Problem: No Money, No Service



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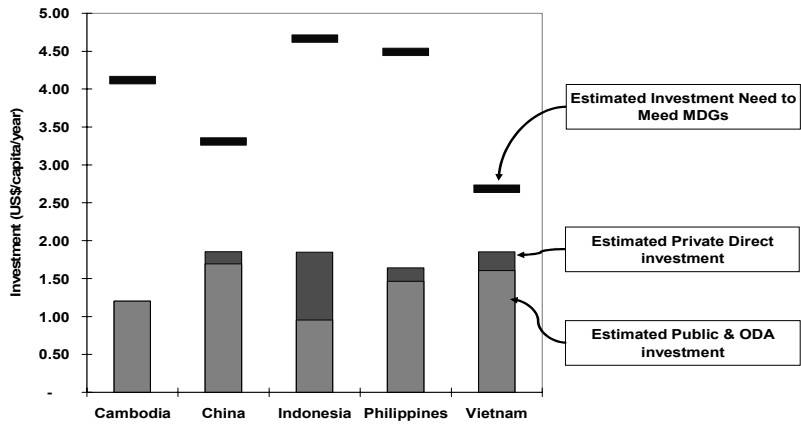
Effective Regulation Can Help to Break the Cycle



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Effective Regulation Attracts Investment - Improving Service and Increasing Access Requires Investment



Investment Needs (to 2015) vs. Historic Actuals (1990-2000) (US\$/person/year)

Regulatory Strategies for Addressing the Needs of the Poor

***Levels of Services
Pricing
Access***

Levels of Service – Key Issues

- **Requiring the same level of service reduces opportunities to serve all households**
 - Service provided by the network generally must be the same – offers little flexibility or choice
 - Households may not be able to afford the service provided through the network
- **Poor households may have different preferences**
 - Different levels of service – quality, pressure, quantity
 - Service levels should equate with prices that households can afford

EXAMPLE FROM JAKARTA

Surveys found that the main complaints:

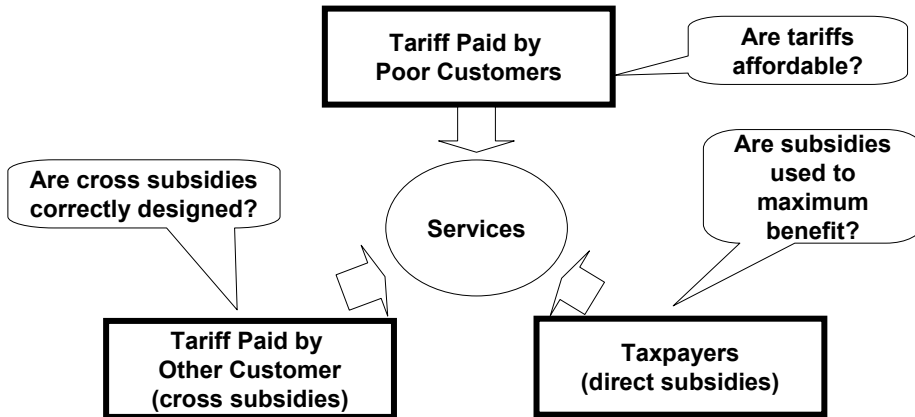
- Supply interruptions
- Low Pressure

What do Customers want? – Reliable and clean water but not necessarily potable

Pricing Strategies for the Poor

Pricing Strategies – Funding Service to Poor Households

The Money to Pay for Services Must Come from Somewhere



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Traditional Approach to Water Affordability Doesn't Work

Policy	Problem
Government subsidizes the water utility to make water affordable	Many poor people are not connected to the water utility, so do not benefit
Tariffs are kept below cost	Utility cannot provide good service or finance expansion – poor usually suffer most
Service to poor is provided by cross-subsidy from other customers	Poor are unprofitable, so utility avoids serving them

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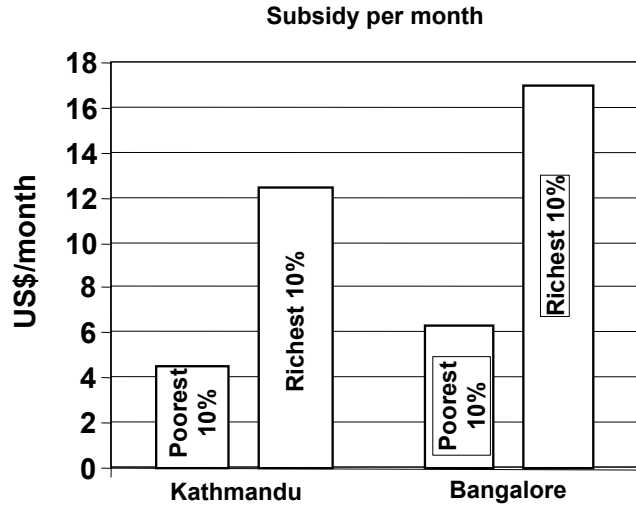
Kathmandu and Bangalore: Do Cross-Subsidies Tariffs Work?

Free public taps

- Used by poor
- But get only 5% of total subsidy

Rising block tariff

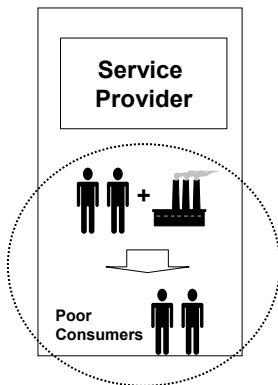
- Little difference in consumption between rich and poor
- Poor people less likely to have private connections



75% of subsidy goes to the better-off

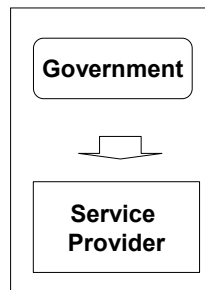
Regulators Should Advise on Subsidy Design and Include in Cost Recovery

Cross Subsidies



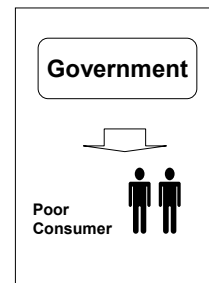
- No external subsidies
- Often not well targeted

Direct Subsidies to Provider



- Lowers overall tariff
- Everybody benefits not just the poor

Targeted Subsidies



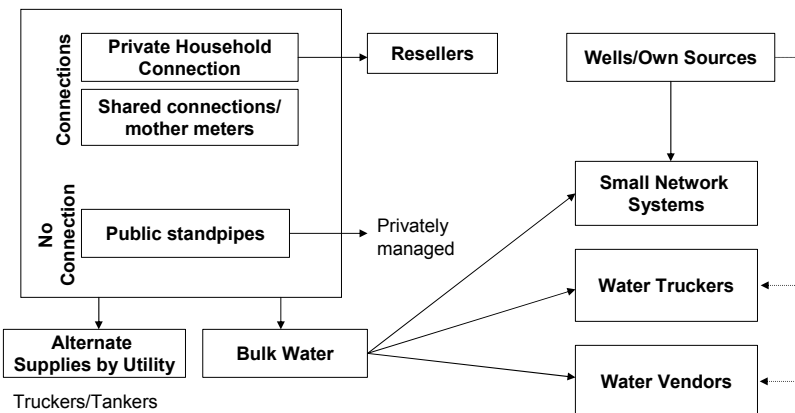
- Targeted at poor consumers
- Can be for "access" or "consumption"

Access Strategies for the Poor

How do People Get Access to Water?

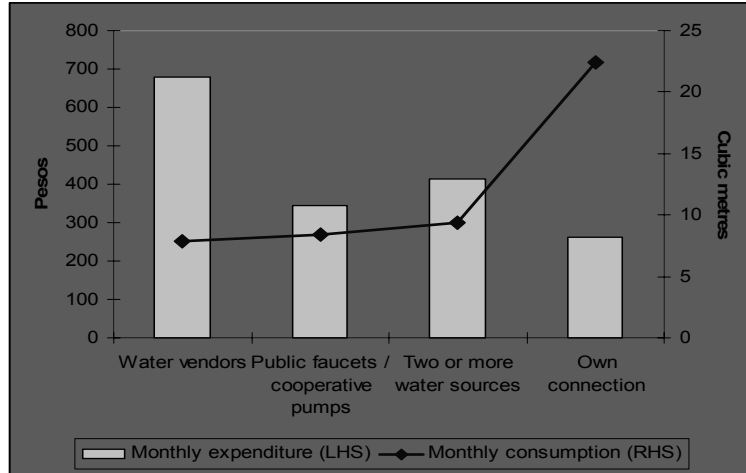
Water Provided by Water Utilities

Water Provided by Other Providers



Different Types of Services Have Different Costs

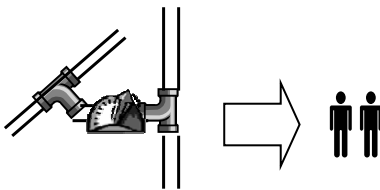
Water Expenditure in a Manila Barangay



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Regulatory Strategies: Providing Access Through Formal Connections



- Coverage targets (By area – including poor areas)
- Allow multiple households on a single connection
- Allow entrance by small network system providers
- Policy decision on land titles

???
Affordability of Connections

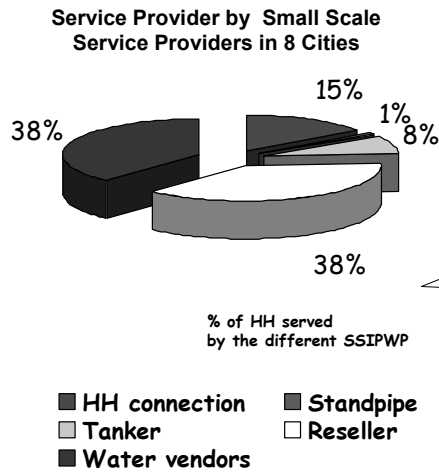
Manila > \$100
Jakarta > \$50

- Payments by instalments
- New Connection Fund

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Filling the Gap – Enabling Small Scale Service Providers



- SSSPs provide 20-45% of service in East Asia
- Manila – 30% receive water from SSSPs

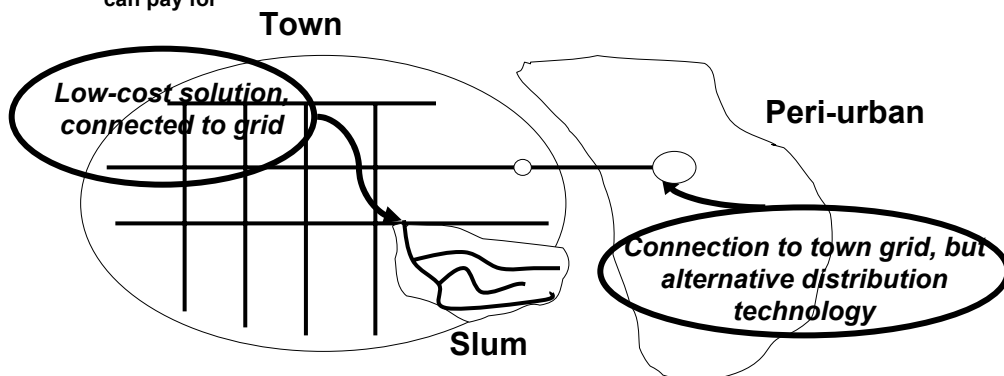
ADB Study on Small Scale Service Providers

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Regulatory Strategies – Networks and Distribution Technologies

- Legitimacy and exclusivity – rights to provide service
- Allow for innovation
- Regulation of prices and quality – held to the standard that customers want and can pay for



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Regulatory Strategies – Vendors, Resellers

- **Key Issues**

- In theory should be competitive market – but is it?
- Prices – can be 2-3 times higher than water from connections
- Quality – quality can be questionable



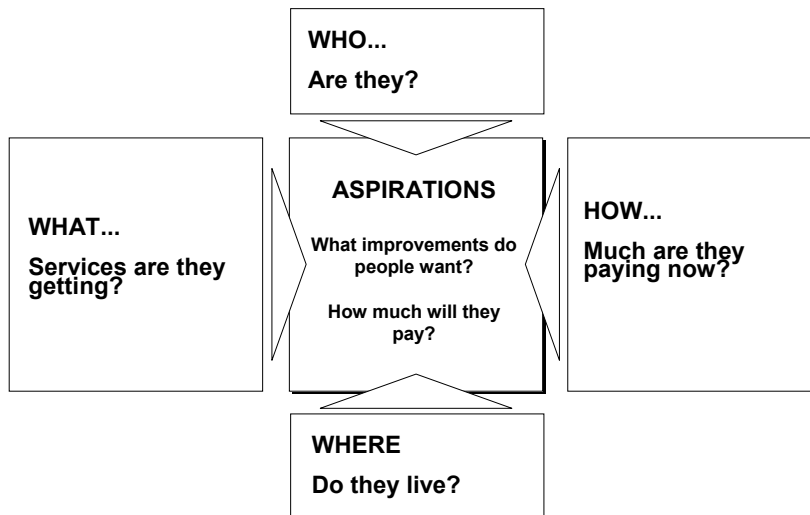
- **Strategies**

- Licensing / limiting monopolies so consumers have a choice
- Pricing structures that allow for profit but not monopoly rents
- Sales of water at bulk water rates by utilities
- Quality certification



Final Thoughts

Get the Facts (Social and Poverty Mapping) and Design Programs Around Clear Objectives



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Final Thoughts

- **Clearly define the mandate of the regulator with regard to the poor**
 - From a regulatory perspective, and
 - Where it is directed to take on a policy function
- **Design well targeted programs and clearly communicate them to stakeholders**
- **Understand where the barriers are due to “regulation” and where they are due to other factors**
- **Involve stakeholders in the process in the design and monitoring process– particularly the communities in question**
- **Allow for innovation and flexible service standards and set prices to match**

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