

The Water Question

There's no question that Asia's urban poor need water – and water that is just as clean, reliable and affordable as what the better off already receive. Getting the urban poor connected to piped water sources and sanitation services, however, requires heavy investments that are simply beyond the current fiscal capabilities of many utilities. Governments have sometimes involved private water corporations as well as initiated their own innovative schemes in order to get the poor connected.

Whether it is a public or private service provider that connects the poor, one question is pressing the water agenda: Who will pay the bill? Should Asia's urban poor pay for water service?

The reality is simple – the urban poor are already paying. They know official connections to water utilities are much cheaper than the rates they are paying for water from informal vendors. They also know that piped water is a service that pays them back by saving them time, money, energy and health risks. Research and project experience has further shown that urban poor users contribute to utility companies becoming more financially capable of maintaining and expanding their services in new and improved ways.

The Poor Pay, Dearly

The urban poor across Asia are already paying for water – 20 to 40 times more per liter than what connected users pay. In Manila, the poor pay \$15 a month for non-connected water while connected users pay only \$5 per month.

To compensate for the lack of official water services, small-scale private water vendors have taken full advantage of the urban poor market. These vendors distribute as much as 25 percent of the total volume of water in a city and generate as much as 75 percent of total revenues.

Paying Less for More: A Neglected Infrastructure

The poor are trapped in this expensive water hole because tariffs are too low for connected customers. Consequently, utilities simply do not have the revenues to expand services to the poor. And unfortunately, they are reluctant to raise tariffs to the necessary levels to incorporate the poor.

The average domestic tariff in Asia is only 18 cents per m³, which covers only 90 percent of average operating costs and excludes depreciation and expansion costs. Low tariffs also encourage a low perceived value among connected users, leading to high consumption rates that leave little to no supplies for outlying customers and risk systemwide interruptions. For example, in India, where domestic tariffs are as low as 2 cents per m³, some residents receive only 1-2 hours of piped water every other day.

Low tariffs also make it more affordable for informal water vendors to continue operating by reselling tap water to the poor at a much higher rate.

How much should the poor pay?

Equitable access to water does not mean it has to be free. At the same time, the poor should not be expected to pay the same rates as wealthier users. Cities and water service providers can recover their costs through innovative pricing strategies, such as a fee scale that matches a user or community's ability to pay. Cities with large income inequalities could raise tariffs according to income blocks.

Where there's been a will to expand services to the poor, Asian cities have found ways – ways that were affordable for all connected, even the poor:

- In Phnom Penh, Cambodia, more than 80 percent of residents receive a 24-hour supply of clean water at a cost of 25 cents per m³, which is 10 cents below the recommended level for Asian cities, yet it has proven to generate enough revenue to fully cover operations and maintenance costs and is also starting to pay for expanding the system.
- In the Maldives capital city of Male, residents were struck without a fresh water source when the groundwater lens was irreparably damaged by pollution. Residents agreed to pay \$5 per m³ to operate seawater desalination plants. They afford the high tariff by using an average of only 34 liters per person per day, compared to a 40-liter average in other Asian cities.
- City leaders in Katmandu, Nepal, segmented the city into individual water supply zones. As the water service is upgraded in an individual zone, the tariff is increased in that zone only. The city's water system is being upgraded and tariffs raised one zone at a time.

To reach the Millennium Development Goal of halving the number of people without access to improved drinking water and sanitation by 2015 (which is expected to cost \$380 billion), cities and water service providers must start thinking of the urban poor as they think of themselves: Valuable, willing, able and deserving customers.

"How is it that water which is so useful that life is impossible without it, has such a low price; while diamonds, which are quite unnecessary, have such a high price?"

- Adam Smith (1776)