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# Private Sector Approaches to Water Supply and Sanitation for Low-income Communities

LISETTE PROVENCHER

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## I. Supply and Demand Laws

Since the Water and Sanitation International Decade 1980-1990, a great deal of attention has been given to the need to improve water and sanitation services in rural and urban areas. Water-related investments made between 1980 and 1990 accounted for more than US\$130 billion. As a result more than one billion people obtained access to water supply and 750 million people to sanitation services. The goal that had been set—universal coverage in water supply and sanitation by 1990—was not achieved.

In 1990, the World Summit for Children held in New York set the goal of providing drinking water and sanitary excreta disposal facilities to all by 2000. This target too has not been reached.

The International Decade mentioned above succeeded in creating awareness of the magnitude of the problem, but despite huge investments made by national governments and the donor community, water and sanitation services remained limited. In most cases the management of utilities has remained too inadequate to cope with rapid urban growth and the expanding low-income urban neighborhoods or slums.

Populations without access to the network are constantly seeking to strike a balance for their own water consumption. They have to reconcile a vital need for water with the household budget. They seek complementary water supply including:

- (i) unlimited use of “free resources” for nondrinking water (private wells, ponds and rivers)
- (ii) daily purchase of drinking water that they use very sparingly (home delivery, tank-trucks, street fountains, neighborhood resale, etc.)

The so-called “free resources” do not come free when the overall costs are taken into account (time, equipment, etc.). The vital need for water and lack of structured services leads to the emergence of various types of informal services. Water of poor quality is sold at a high price reaching 10, 30, or even a hundred times the price set by water companies.

Surveys show that users—including low-income families—are willing to pay for a good service that meets their needs, i.e., regular supply, good bacteriological quality of the water etc.

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## II. The Financial Challenge

In many large cities, services only reach a small portion of the population. For example in Jakarta only 40 percent of the 15 million inhabitants have connections to the water network and none have access to sewerage. High financial investment is needed to expand access to water and sanitation for all. In developing countries the necessary financial investment capacity is out of the reach of local or national governments. The challenge not only lies in the level of investment needed, but also in the sound management of the utilities, including setting appropriate tariffs to cover both capital cost and operational costs.

This highlights inadequacy of the current form of water and sanitation services management, emphasizing the need to develop innovative solutions. These solutions include new institutional models, cost-effective technologies, appropriate tariff structure, and a social approach to the problem.

## III. New Approaches and New Forms of Partnerships

In many countries, large cities are initiating new forms of management of water and sanitation services to provide low-income areas with access to the services. South Africa, Manila, Buenos Aires, and La Paz demonstrate various successful solutions in supplying low-income neighborhoods with water services using appropriate approaches. A description of these projects has been published by Lyonnaise des Eaux (*Alternatives solutions for water supply and sanitation in areas with limited financial resources*).

Well-designed partnerships between the public sector, private companies, and users, and a clear definition of the roles of each actor enables utilities to provide efficient services to the poorest part of the communities. Four elements need to be taken into account:

### (i) Institutional Framework

The private sector has showed, whenever it is involved in the management of public utilities, its capacity to provide efficient services to all customers. However, private sector involvement in the public sector may require thorough institutional reforms. Well-designed concession contracts and appropriate tariff structures are essential to provide the private company with an adequate working

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environment. It is very important to design a partnership between public authorities (defining the conditions and level of the service) and the private companies (responsible to provide the service complying with contract norms and country regulations).

**(ii) Cost-effective Technologies**

The service provided through traditional technologies often turns out to be too expensive for low-income communities. Innovative design of water and sanitation networks (as applied for instance in Bolivia) allows up to 50 percent savings in construction costs. These savings can in turn be applied to connection fees.

**(iii) Support to Community Development**

Service expansion cannot technically be planned the same way in peri-urban areas and slums. The urban pattern is unusual, residents scarcely have property titles, illiteracy rate is high, and family income is based on informal activities resulting in small daily income. Any effort to expand services to these areas needs to consider all of these aspects. Future potential users need to be closely involved in the decision-making process related to choice of technology to be used, level of service, and payment options. They should also be closely involved through community participation in the construction of the infrastructure and the management. This activity is usually conducted with the participation of nongovernmental organizations or community associations.

**(iv) Appropriate Tariffs**

Based on the statement that water is a social good, water tariffs have been kept at an artificially low level in many countries. Consequently, many water utilities have been faced with insufficient financial resources to make the necessary investment in new areas of emerging urban growth and to maintain existing infrastructure. This has resulted in a degradation of the service. It is now accepted that water is an economic good and the service should be paid for at its real cost in order to provide utilities with enough financial resources to operate and maintain the infrastructure efficiently and to respond to new demands resulting from human growth.

These principles are currently being applied in various countries in the world and have had a positive impact on poor communities, improving the quality of their life. New forms of partnerships are being developed suggesting that the slogan Water for All could finally become a reality.

In Manila, Maynilad Water Services Inc. has designed a special program for the urban poor, called "Bayan Tubig" (Water for All). This program aims at serving the poorest in the community. Since the beginning of the program in 1999, more than 410,000 people have been supplied with cheap, safe, and accessible water. An additional 500,000 should benefit from this program by the end of 2001.