

Are World Bank investments benefiting the urban poor?

Improving the effectiveness of urban water and sanitation investments



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Cover: WaterAid/Jon Spaul

Introduction

The World Bank is the largest source of development finance for water and sanitation in Africa. Its financing window for Low-Income Countries, the International Development Association or IDA, is the single most important funding channel for the sector.

WaterAid has been engaged in research¹ and dialogue with the World Bank focused on four projects in three African cities – Ouagadougou, Accra and Dar es Salaam – to assess the effectiveness of some of the Bank’s work in delivering water and sanitation services to the poor. The studies looked at the extent to which IDA investments, totalling over USD\$300 million, benefited poor people and strengthened institutional capacity to target service delivery to poor people.

This paper summarises the research and goes on to propose a set of policy options for the Bank, utilities and donors with the aim of strengthening the delivery of water services to the urban poor. It looks first at the findings from each of the projects studied, summarises some of the issues in common to all three, and then proposes recommendations and a framework for use by decision-makers.

The research

All the projects studied incorporated measures to target poor urban dwellers. But the research findings raise some serious questions over whether the pro-poor dimensions were systematically pursued or all the desired results achieved. It concludes that there was a lack of sufficient rigour attached to targeting IDA investments for the delivery of services to poorer communities, and that significant shifts are required to achieve IDA’s mission to reduce poverty and inequality.

The research aimed to capture three phases of Bank-supported investments: mature, ongoing/ mid-term, and new project/design phases. It attempted to analyse the effectiveness of pro-poor targeting by assessing whether the poor were the chief beneficiaries of services, and by measuring the accountability, affordability and longer term sustainability of services. And, lastly, it explored the extent of the inclusion of the poor in the projects’ planning, implementation and monitoring processes.

The researchers used desk studies, semi-structured interviews with senior government and Bank officials, utility staff, focus group discussions in beneficiary communities and poverty mapping and surveying techniques. When the research was undertaken, the Bank had not yet launched its Access to Information policy. As a result, the key sources of information were the Project Appraisal Documents and other official documents of the Bank such as the *Implementation Completion Report* of the Burkina Faso project and, the mid-term review of the urban water project in Ghana. The research has been strengthened subsequently by an open and positive dialogue about the findings with World Bank staff.

While the findings of this study are drawn from a limited number of projects, it is WaterAid’s view that there are similar material weaknesses in all three projects that raise questions about the Bank’s operations and IDA’s financing structure.

1 The Research was conducted by the Overseas Development Institute (ODI) and the University of London’s School of Oriental and African Studies (SOAS). The report *Strengthening pro-poor targeting of investments in urban water and sanitation – the role of the World Bank IDA finance* in collaboration with in-country researchers, can be found on WaterAid’s website www.wateraid.org

Findings in common between the three projects

Critical analyses of project work too often downplay or obscure some significant achievements. It is worth remembering that water and sanitation programming in urban slums faces formidable and dynamic challenges in complex social, economic and spatial environments. Despite this, all three projects reviewed did manage to improve the provision of bulk water, strengthen management systems and improve the financial viability of the utilities. These constitute some of the necessary conditions for delivering services to the poor. Indeed, significant numbers of poor people now have access to services as a result of the Bank's finance and work.

Without wishing to downplay the scale of these positive achievements, there are significant weaknesses in common between the projects that are worth considering in the interests of improving future water and sanitation investments. The areas of particular weakness outlined are important to explore further

because they are central to the main purpose of the Bank and IDA finance – *viz* delivering sustainable and affordable services to the poor. These are:

- A disproportionate amount of IDA financing ended up benefitting the better served households or communities – that is, the non-poor or more affluent communities. In all the projects analysed, customers without household connections continue to pay more. Surprisingly, water from standpipes/kiosks – often seen as a pro-poor solution – was actually more expensive.
- The financial and technical analyses in project preparation dominated service design, and this tended to overshadow, if not displace, the focus on pro-poor targeting. While financial viability and technical performance are vital components to the successful delivery of services to the poor, the prioritisation led to utility plans and contracts focusing on improving utilities' technical performance and financial stability, without any comparable performance targets, or priority, given to meeting social objectives.



A latrine under construction in Burkina Faso.

- There was a variable use of socio-geographic mapping for pro-poor targeting and coverage policy in the project design. The lack of systematic rigour attached to the identification of the poorest areas excluded large groups of poor people from network expansion, new connections or even standpipes.
- There was little evidence of the rigorous use of *ex ante* analyses to identify the constraints, depth or severity of poverty faced by the most marginalised groups such as those with physical handicaps, single women headed households, the elderly, people living with stigmatising diseases such as AIDS or people excluded from services by official utility policies or regulations, such as those without land ownership or title.
- None of the projects showed detailed preliminary analyses of tariff structures that might work for the poor. Connection subsidies were geared to increasing the number of connections irrespective of for whom, while consumption subsidies benefit wealthier households who already have a household connection.
- There are some serious shortcomings in the sustainability of service provision in poorer areas. The Burkina Faso research found that in Tabtenga, all eight standpipes installed under the project were non-functioning while only 7% of kiosks built under the Dar es Salaam Water Supply and Sanitation Project (DWSSP) in Tanzania were functioning at a reliable level.
- Lack of attention to the monitoring of pro-poor services in all 3 countries raises concerns about accountability. This was compounded by the lack of strategy or performance indicators for inclusion.
- Where IDA finance was delivered with a lending component, it was accompanied by the recipient authorities passing on an escalation in interest rates. WaterAid argues that this interest rate escalator skewed investments towards fulfilling a cost recovery imperative that weakened the original pro-poor objectives.

Burkina Faso – Ouagadougou Projects

Operating environment:

The objectives of social equity and inclusion for poor people take primary place in national laws and policies in all three countries. In Burkina Faso, both the Water Law and the National Water Policy recognise water as a right with the policy promoting equity as a principle in delivering water supply and sanitation. *The National Programme for Water Supply and Sanitation* (PN-AEPA) sets clear targets for increasing access to drinking water in urban areas. However, the targets are not disaggregated on a socio-economic or geographic basis. It recognises the need to investigate low-cost solutions for service delivery to the poor. But no clear criteria, guidelines, regulation, action plan or strategies have been developed for targeting poor communities.

Key social objectives in the PAD:

The study reviewed two IDA-supported projects in Burkina Faso. The Urban Water Supply Project (the 'New Project') was approved for IDA funding in May 2009, while the Ouagadougou Water Supply Project (the 'ZIGA' Project) was concluded in 2007, with a World Bank evaluation carried out in June 2008.

The key social objectives in the Bank's Project Appraisal Documents, or PADs, for the two projects are:

- ZIGA project –
 - to provide connections to 'low-income households', by reducing the price of connection, or installing standpipes;
 - to improve the access in poor fringes of Ouagadougou;
 - to reduce the access bias between formal and informal areas.
- New Project –
 - to facilitate access to services through programmes for constructing social water service connections, public standpipes and on-site sanitation facilities.

Urban Sanitation Fund: Innovative financing for an orphan sector

The Government of Burkina Faso introduced an Urban Sanitation Fund in 1985 to generate funds for sanitation investments. The fund is supported by a cross subsidy system where urban water users pay a surcharge of 21 FCFA per cubic metre of water sold on their water bill. The fund supports the implementation of the Strategic Sanitation Plans for Ouagadougou and Bobo-Dioulasso. It provides finance for the construction of urban sanitation facilities – sewerage, drainage and on-site sanitation.

Sanitation did not receive any funding under the ZIGA Project but features prominently in the new Urban Water Sector Project with 50% of the IDA grant going towards the sanitation component. The focus of one of the objectives of the new project is on-site sanitation. The absence of a set of disaggregated criteria by which its key performance indicators will report on households who are to benefit from the sanitation investments is of concern. Given the large positive social and health impacts that come with access to basic sanitation, it is hoped that the Urban Sanitation Fund will provide a constant source of funds to sustain the investments.

Findings

It is clear that the activities of the Burkinabe utility, Office National de L'Eau et de L'Assainissement (ONEA) and the Bank's financial and technical support have together substantially increased the city's bulk water supply. The number of people in Ougadougou with access to improved water supply doubled as a result of the Ziga project. The research also finds the managerial leadership of the utility considerably strengthened. In other words, some of the necessary conditions for pro-poor service delivery were secured.

However, there were significant material weaknesses in the project's approach to pro-poor targeting.

- The focus of the Bank's Key Performance Indicators and in its logical framework is on strengthening the utility's technical and financial viability. There is no comparable weight attached to the project's social objectives.
- The design of the Ziga project was not informed by socio-economic analysis. There was, for instance, no mapping of areas of extreme poverty and so the opportunity for developing a systematic approach to the pro-poor targeting of new services was weakened [Annex maps 1 and 2 provided by

the researchers].

- Subsidies to stimulate demand for household connections were made available to all households irrespective of wealth status. Focus group discussions suggested that even with the subsidy, the price of connection was not affordable.
- The assumption that the population in the service area is uniformly poor went unchallenged by the World Bank.
- The loan component in IDA appears to have been passed on to recipient authorities with an interest rate escalation. The question arises as to whether this introduced a cost-recovery imperative that weakened pro-poor objectives.

Ghana – Accra Project

Operating environment:

The Constitution of Ghana stipulates that water is a right of all citizens. Access to potable water supply, especially for the poor, is recognised in the country's Growth and Poverty Reduction Strategy (GPRS II) and the National Water Policy. The high level aim is supported by policies with a strategic focus on the poor, such as the development of a Social Connection

Fund, service extension to low-income customers and support to domestic small water providers. The Public Utilities Regulatory Commission (PURC), the sector regulator, has provided leadership for realising these social policy aspirations and leads a process to develop pro-poor service models funded by the IDA-supported Urban Water Project (UWP). The PURC projects look set to make a positive impact on poor households.

Key social objectives in the PAD:

The Urban Water Project has experienced significant delays. It was scheduled to close in 2010 but has now been re-scheduled for 31 December 2012. The project's social objectives are:

- To provide at least 50,000 new household connections, the majority of which will be low-income households and from the provision of standpipes.
- To increase the cubic metre of water sold at the 'lifeline' tariff in the private sector management contract.

Findings:

Although it is too early to make a final assessment of the performance of the Ghana UWP, the study found that the UWP has suffered several setbacks because of procurement delays, a lack of coherence in the division of roles and functions between Ghana Water Company Limited (GWCL) and Aqua Vitens Rand Limited (AVRL) and a weak collaboration between PURC and GWCL.

The research found that the extent of the challenge of reaching the poor was underestimated. While there is ample reference to the importance of reaching the poor in the PAD, this has not been followed through to implementation. The research found that:

- The detailed socio-economic studies that were due to be undertaken were not carried out in time to inform project implementation. Discussions with beneficiaries in

Obuasi suggested that project design was insufficiently informed by people's preferences.

- An apparent excessive optimism given to a trickle-down benefit for the poor that was expected to emerge from new investments in capital works and the setting up of a management contract.
- The current increasing block tariff does not benefit poor households (due to multi-occupancy) and needs to be reviewed. In addition to the cost of connection, poor households struggle with the bureaucratic process involved in securing a connection.
- The PAD's commitment to reaching the urban poor is not captured in the results framework, which means that there is no requirement to monitor the impact of the project on the poor.
- Procurement delays had a negative impact on project implementation and on the valuable pilot scheme focused on low-income areas.

Tanzania – Dar es Salaam Project

Operating environment:

In the last 30 years, the population of Dar es Salaam has tripled to 2.9 million. With 70% of inhabitants living in poor areas and slums, a strategic and systematic focus on delivering water and sanitation services to unplanned areas is urgently needed.

The National Water Policy in Tanzania enshrines the right to water and sanitation and mandates urban water supply and sanitation entities to take the appropriate social equity considerations when providing a basic level of service to the poor at affordable cost. The 2006 to 2016 National Water Sector Development Strategy specifies that low-income groups will be identified and provided with appropriate water and sanitation services. The strategy expects low-income users to contribute to the



People collecting water at a tapstand, Dar es Salaam, Tanzania.

WaterAid/Marco Betti

cost of services, and requires the determination of affordability criteria to establish low-income subsidy and service mechanisms.

The National Strategy for Growth and Reduction of Poverty (NSGRP) – known as MKUKUTA, – prioritised targeting urban poverty and the promotion of social well-being. It proposed a series of strategies to promote basic services, including a lifeline tariff for water supply for vulnerable people and the achievement of 90% access coverage by 2009/2010. Sector policies and strategies identify the utility as responsible for implementing plans to achieve these targets.

According to sector managers, identified low-income households receive eight 20 litre buckets of water per day for free. There is a national regulator, Energy and Water Regulatory Authority (EWURA).

Key social objectives in the PAD:

The Dar es Salaam Water Supply and Sanitation Project (DWSSP) in Tanzania, supported by IDA, was completed in November 2010. The

DWSSP set out to achieve an increase in water production, the rehabilitation of sewerage facilities, improvements in the equity of water distribution and the strengthening of institutional capacity. The PAD outlines a set of measures to provide more affordable water to low-income households including establishing:

- a low-cost ‘lifeline’ volume of water for household networked customers;
- free connections for low-income households by 2008 – with at least 80% of the proposed new domestic water supply connections expected to be installed under the project financed from the Connection Fund (established from a levy on water bills);
- construction of water kiosks, for those in networked areas without a connection – about 250 new water kiosks proposed were expected to be built by 2008;
- stand-alone community-managed schemes in areas far from the network – about 50 community WSS schemes were expected to be built and operating by 2008.

Findings

The project also included a much needed investment in bulk water supply in an effort to increase the volume of water supply, to meet the demand of a hugely expanded urban population. There were elements of the Dar es Salaam Water Supply and Sanitation Programme DWSSP that successfully reached poorer households. In large part this was through the Community Water Supply and Sanitation Programme (CWSSP) project, which provided improved and affordable services to 400,000 people.

The research also found that the World Bank had encouraged the Dar es Salaam Water and Sewerage Authority to develop pro-poor operations. But the support for a stronger poverty dimension was not followed through with adequate guidance on how to target the poor most effectively.

- Little attention was given to the suitability of tariff structures for low income households. Subsidies were used to provide universal free connections and subsidise consumption by all households (ie the poor were not targeted).
- Where poorer communities were successfully reached, it is notable that the use of local knowledge and analysis of those communities and the higher levels of community participation in the project design and implementation, led to pro-poor outcomes.
- There is a lack of information on the investments made and who has benefited from these. This reflects the lack of pro-poor monitoring and information systems for water and sanitation services in Dar es Salaam.
- The IDA lending component to the Tanzanian recipient authorities entered onto an interest rate escalator. This had the effect of introducing a cost-recovery imperative that weakened the pro-poor targeting objectives of the original loan.

Analysis and recommendations

Despite the stated pro-poor focus in the Bank's own Operational Guidance on water and sanitation, the research found shortcomings in the rigour attached to ensuring pro-poor outcomes of all three projects. The research found that the Bank attached a high priority to strengthening the utilities' financial viability and technical performance. Little comparable priority was given to understanding the constraints facing poor communities or to the targeting of investments for their benefit.

This imbalance gives rise to questions over whether the lending component within IDA's financing structure encourages incentives within the recipient authorities that are out of step with IDA's central pro-poor purpose. The research found instances in two projects where IDA finance entered into an on-lending structure, with Ministries of Finance passing on IDA's loan component to utilities along with pressure to secure a return on investment and, in some instances, 'full cost-recovery'.

The question then arises as to whether the loan component in the terms of IDA's finance, albeit relatively small and highly concessional, structures the incentives of project development towards pursuing financial viability at the expense of targeting the delivery of water and sanitation services to poorer communities where the returns are less apparent. The speculation here is that a cost recovery imperative is introduced and comes at the expense of targeting coverage in poorer areas where leveraging financial returns is more complex and the prospects of cost recovery more precarious, requiring more rigour. In short, the loan component of IDA is being passed on to utilities that are seeking out 'bankable investments' with returns.

Can this skewed incentive structure be reformed to embed pro-poor goals? Can the prospects of achieving pro-poor outcomes be strengthened by shifting IDA's financing terms from concessional lending to grants when pro-poor targets are met? The proposition here is for

a fundamental review of the way IDA finance is delivered to meet explicit pro-poor goals and the satisfactory coverage of sustainable, affordable and accessible services for the poorest. In other words, the terms of IDA's finance are shifted wholly to grants when key social and pro-poor objectives have been met and certified under a more rigorous monitoring framework with clear key performance indicators and outcomes.

WaterAid proposes the following options for Bank staff and the Executive Directors to consider:

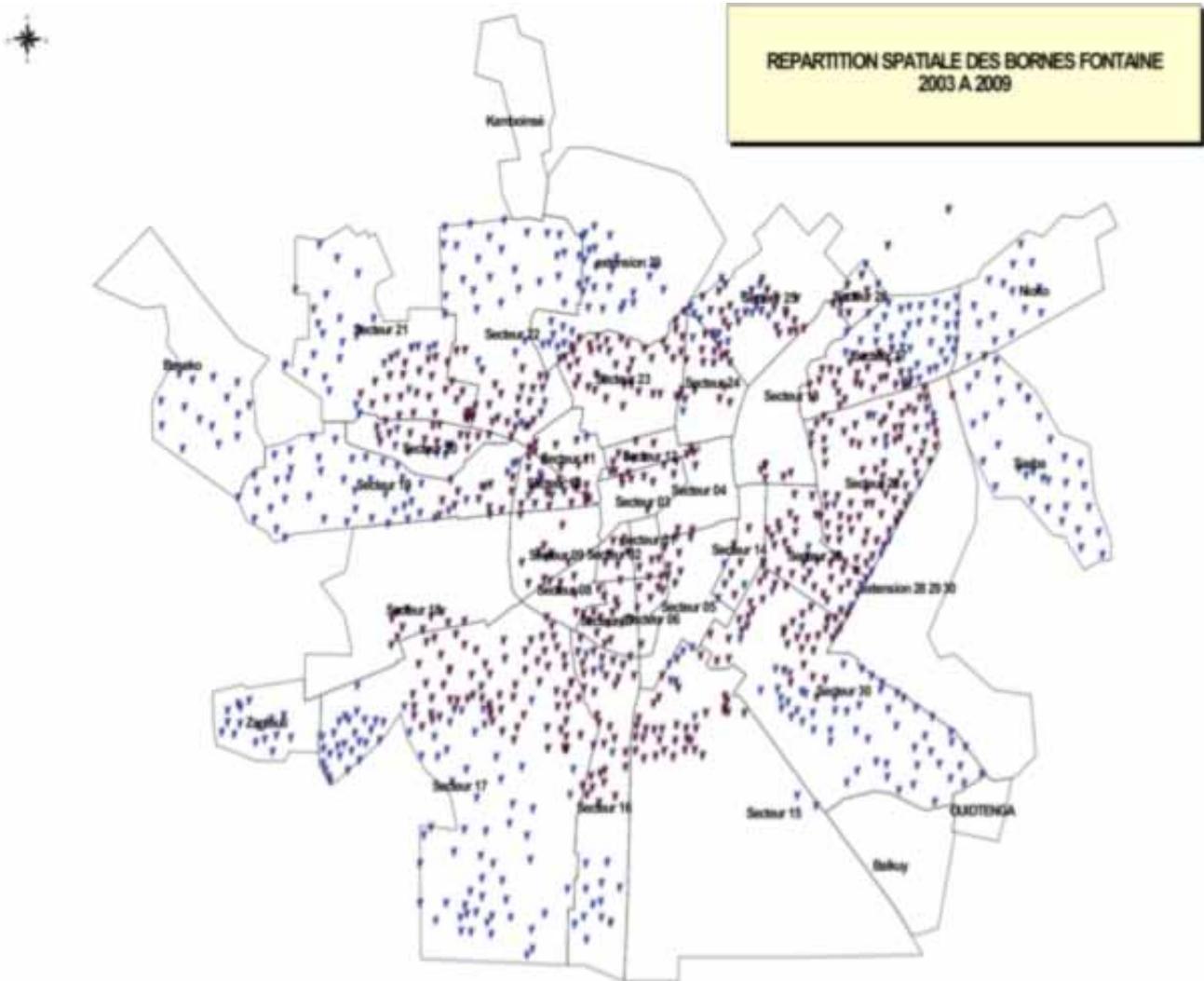
- A review of IDA's financing terms and conditions, to include reforms that strengthen the incentives for pro-poor targeting by shifting concessional loans to grants on the successful achievement of pro-poor objectives.
- The use of detailed *ex ante* analyses, using local sources of social, economic and technical analysis, to better understand the identities and particular economic, physical, socio-cultural and regulatory constraints faced by poorer and more marginalised communities including the poorest of the poor, single women headed households, the elderly, disabled, people living with stigmatised diseases such as HIV/AIDS and landless informal settlement dwellers. And further, that the social development advisors are influential in all aspects of the project design.
- The participation of representatives of local communities and marginalised groups throughout the development of the design, implementation and monitoring processes.
- Structures of accountability that leverage more responsive and capable service provision beyond a paying consumer-service provider relationship.
- Delivering equitable expansion of water services with pro-poor tariff and subsidy regimes targeted at the poorest.
- The development of a rigorous pro-poor performance monitoring framework to guide project development, which includes key indicators balancing technical performance, financial sustainability and pro-poor targeting.

A sewage channel in between houses in Ghana.



Annex 1 Maps

Map 1: **Distribution of standpipes in Ouagadougou**



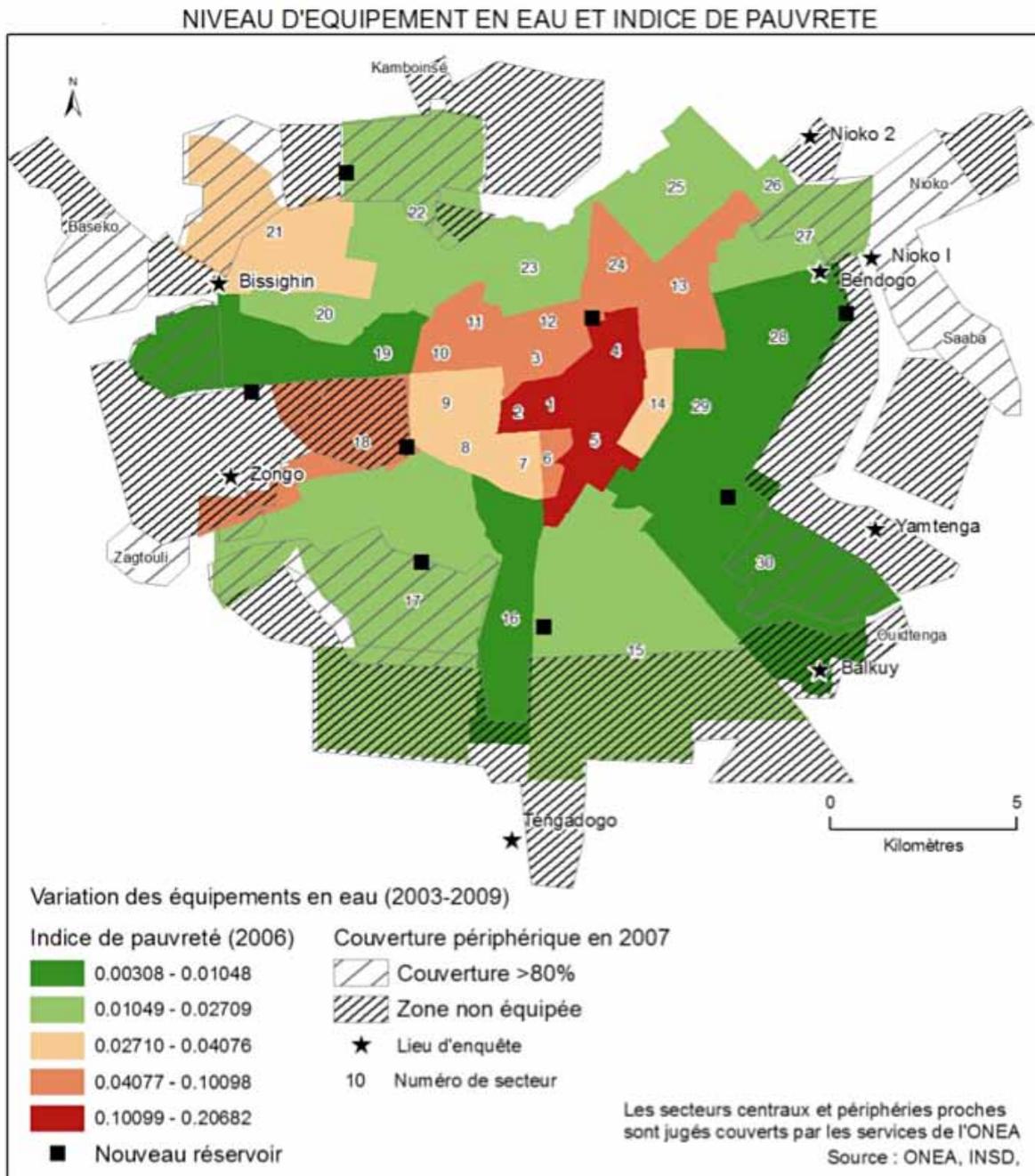
Map 1: This map on the spatial distribution of standpipes in Ouagadougou shows standpipes installed before 2003 in red and those constructed between 2003 and 2009 as part of the IDA-supported programme marked in blue.

During this period, the utility ONEA focused installation of standpipes in the parts of Ouagadougou outside the central sectors, consistent with agreed criteria. Only five central sectors are listed as receiving standpipes. These are non-poor districts as defined in Map 2, and they each received fewer than five standpipes.

The three sectors that received over 40 standpipes (17, 19, and 30), and three of the four that received between 20 and 40 standpipes are all either poor or very poor: this is consistent with a pro-poor targeting approach.

However, sectors 15, 20, 26, 28, and 29 are all poor or very poor, and received fewer than 10 standpipes each. This is not consistent with a pro-poor targeting approach, and leads to the conclusion that there is no systematic pro-poor targeting approach detectable.

Map 2: **Poverty levels in Ouagadougou neighbourhoods**



Map 2: This map is based on poverty levels in different parts of Ouagadougou, drawn with the help of the National Institute of Statistics from the 2006 census. It should be read in conjunction with Map 1.

The areas in green and dark green are respectively the poor and poorest areas surrounding the central sectors of the city which are coloured in beige to red, indicating higher income neighbourhoods, with red representing the most wealthy sectors.

Areas well covered by water infrastructure are marked in wide hatching and areas 'not equipped' with narrow hatching.

Those not hatched are between these ends of the spectrum.

Annex 2 Pro-poor project checklist

Performance framework: Ensuring that water services reach the urban poor			
National policies and sector strategies	Utility plans and contracts	Project design (PAD)	Project implementation
Explicit commitment to equity / goal of extension of services to the poorest	Performance targets related to extending services to the poorest	Performance targets related to extending services to the poorest	Technical assistance provided to improve the delivery of pro-poor service provision
In-depth analysis of constraints facing the poorest Assessment of user needs, preferences and capabilities	Balance of emphasis between financial viability, technical performance and pro-poor services	Attention to terms of lending – grant financing for pro-poor components	Targeting strategies included: Subsidy and tariff regimes Geographical / socio-economic targeting Provision of differentiated service levels (kiosks, standpipes, community managed systems) Flexible payment methods
	Inclusion of incentives to work with the low income water economy (check disincentives, such as targets for cost recovery)		
	Strategy development for pro-poor services, including: <ul style="list-style-type: none"> • Pro-poor unit or task force • Formal mechanisms for feedback on service quality • Assessment of requisite financial and engineering resources • Review of financial policies 	Project design informed by data relating to: <ul style="list-style-type: none"> • Geography: where the poor live, proximity to network, physical challenges • Socio-economics: income levels, assets and access to basic services • Existing water and sanitation services: formal and informal service provision, gaps, preferences and costs (money, time) • Other obstacles beyond affordability 	Systems for utility-led monitoring of pro-poor outcomes
Mechanism for involvement of poor communities, including marginalised groups	Mechanism for involvement of poor communities, including marginalised groups	Mechanism for involvement of poor communities, including marginalised groups	Mechanism for involvement of poor communities, including marginalised groups

Notes

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