

## Chapter 4

# **Selling to and providing services for low-income customers**

### **4.1 Introduction**

The outline approach to marketing described in the previous three chapters of Part II is based around the customer value chain framework of: 'know, target, sell and service'. Having determined how potential customers receive water and sanitation services at present and what options they might want if their needs are to be properly addressed; it is necessary to consider how improved services might be promoted and sold and then serviced over the long term.

Informal housing settlements, slums, compounds or peri-urban areas provide viable though often unexplored revenue bases for utilities. The fact is that many of the consumers who are not served directly by the utility live in such areas and continue to have inadequate access to basic water and sanitation services. This means that they need to obtain water from elsewhere, and it is often expensive and of poor quality. For the community and household this means that related social and economic factors, including chronic health problems, are made worse. For the utility a sizeable percentage of its potential revenue base remains untapped. This need not be the case.

In determining how best to sell and provide services in informal settlements, we firstly consider the potential barriers and solutions to serving these areas, such as: high connection costs, government and utility staff attitudes, land tenure issues and the 'spaghetti' problem. We then move on to consider how best to improve services in informal settlements using carefully designed participatory projects and partnerships with other key stakeholders.

If we are to maximize the support to service providers and other stakeholders in serving the poor, then appropriate incentive mechanisms and policies need to be in place. Example initiatives are proposed. Finally, as new approaches are piloted, lessons need to be learnt for scaling up across a city or town. This requires strategic planning and marketing approaches, which are examined in Part III.

### **4.2 Overcoming barriers to serving informal settlements**

A number of common barriers to improving services in unplanned or informal settlements and strategies for overcoming such problems are briefly discussed in the following sections.

**Land tenure issues**

Often, urban water utilities are faced with difficulties when extending water and sanitation services to parts of some cities or towns, particularly informal settlement areas, due to complexities in the land tenure system. These complexities usually make it difficult for the authorities to enforce regulations. This in turn contributes to a proliferation of unauthorized dwellings being erected.

In addition, both companies and individuals in cities in developing countries employ people on low wages, and those employees and informal sector workers tend to reside in unplanned settlements because that is the only accommodation that they can afford. A summary of how the Cato Crest informal settlement developed in Durban, South Africa is included in Box 4.1.

**Box 4.1. The history of informal settlements in Durban, South<sup>1</sup>**

In 1990 Durban City, the second largest city in South Africa, experienced rapid urbanization, mainly caused by political violence, severe drought and unemployment in the rural areas, and sparked off by the socio-political changes in the country. The first informal settlement in Durban City was Cato Crest, which is located about four kilometres north-west of the city centre, off the Western Free Way. The first inhabitants of Cato Crest forced their way onto empty land belonging to the central government in the mid-1970s, fleeing political violence in the surrounding areas of Kwazulu-Natal. The migrants constructed simple temporary structures, known as shacks, or *umjondolo* in the local Zulu language.

With changes taking place in the political arena at the time, and as the number of squatters increased tremendously, officials of the City Council could hardly evict the migrants. By 1991, there were about 370 shacks in Cato Crest, with a population of about 1,600 people. It was estimated that about 600,000 people lived in informal settlements in Durban Metropolitan Council areas by 1995.

1. Source: Adapted from a presentation to the 5th Global Forum, WSSCC on "Incentives for Utilities to Serve the Urban Poor: The case of Durban, South Africa" by Sam Kayaga.

Land tenure systems can have adverse affects on the provision of water services in several ways:

- acquisition of land for lay water installations, transmission and distribution mains.
- Difficulties in establishing clear and specific addresses for the end-user customers.
- Approvals for laying pipes for house connections and standpoosts or water kiosks.

Different forms of land tenure systems exist in different countries. Similarly, a wide range of legislation to enforce the land tenure system is in place in various countries, where the strictness of enforcement also varies considerably. For the purpose of providing water services in an urban area, land tenure systems may be categorized as follows (Lyonnaise des Eaux, 1998):

Public land, which is more easily accessed by squatters, and may be sub-divided into:

- inalienable public land, which authorities cannot give up under any circumstances;

- inalienable public land, which the authorities are willing to sell, rent, or grant as a concession. This type of land is attractive to potential squatters; and
- 'available' public land, such as forests, national parks, etc, which is not allocated to anyone but is governed under the public land system. This is the type of land most easily accessible to spontaneous urbanization.

Private land, which is more difficult for the squatters to access, and may be subdivided in the following categories:

- Properly and legally registered private land that clearly has an owner poses no specific problems, as the utility can negotiate with the registered owner.
- Illegally registered private land, which may have been illegally allocated by local authorities with no reference to the central government land registry office. The best option is to follow up formalization of the registration procedures.
- Unregistered private land, which loosely comes under the sovereignty of a community or some other customary group, and is governed under a law which is not necessarily laid down in writing. The boundaries of such land is not always clearly established.

General guidelines have been suggested by Lyonnaise des Eaux (1998) (now Ondeo, Suez, on the general course of action to be taken by a water utility in acquiring land to extend water services, particularly for the benefit of low-income communities. This is based on their experiences as an international water operator. These adapted guidelines, which are shown in Table 4.1, are characterized according to the attitude of the responsible authorities.

It is relatively easy for water utilities to acquire land to extend water and sanitation services into the public land categories. It is more difficult for utilities to acquire land from private owners for the purpose of developing water and sanitation systems. In some instances, the costs of land compensation are so prohibitive that projects are abandoned altogether.

It is recognized that land tenure laws and systems are difficult to amend overnight. It is therefore suggested that governments should reassess and amend their legal frameworks to circumvent such land tenure constraints. Examples of potential initiatives for improved water services in illegal or unauthorized settlements include:

- regularizing appropriate unauthorized settlements;
- de-linking the rights to services from tenure status;
- seeking to resettle some people without legal title (WSP and PPIAF, 2002);
- compulsory acquisition of land by utilities from landlords for extension of water services to low-income settlements, at a fee agreed by independent arbitration, according to the regulations;
- granting of 'easement' areas for the utility to construct and maintain water and sewerage facilities, with appropriate levels of compensation for disruption paid to landowners, according to the regulations. The utility requires ongoing free access to the facilities constructed for maintenance and rehabilitation purposes, with planning restrictions enforced on building over pipelines;

**Table 4.1. Implications of status of land for extension of water services<sup>1</sup>**

	Public land			Private land	
	Inalienable	Alienable	'Available'	Registered	Unregistered
<b>A. Status of land registration procedures</b>					
1. Land with recognized title deeds	Extreme caution	Caution	Possible intervention	Avoid	Clarify or steer clear
2. Land with doubtful title deeds	Avoid	Clarify or steer clear	Clarify or steer clear	Avoid	Avoid
3. Land occupied with no title deeds	Only intervene if the communities are large and have a political advantage. In that case use the land for a project that is specifically beneficial to the communities.				
<b>B. Status of attitude of the authorities toward an area</b>					
1. Officially accepted occupation	<i>This is a rare case</i> Handle carefully	<i>This is a possible case</i> Intervention is possible	<i>Highly feasible</i> Intervention is okay	<i>This is a rare case</i> Clarify or steer clear	<i>This is a possible case</i> Handle carefully
2. Implicitly accepted or rejected occupation	Analyse, evaluate with care; do not make any commitments, even verbally, without an official decision being made by authorities.				
3. Officially rejected occupation	Steer clear. If the communities concerned are large, analyse and evaluate so as to be in a position to react in the event of a change of status. In the meantime use the land for a project that is specifically beneficial to the community.				

1. Source: Adapted from Lyonnaise des Eaux (1998) (now Ondeo,Suez)

- acquisition of land for extension of water services to low-income settlements by the central or local government, i.e. the government pays the landowners and owns the land over the public water facilities.

Flexibility should be encouraged to explore which potential solution is the most appropriate in each case. The legal framework should support the preferred options for action. Such initiatives make it easier for utilities to work in unauthorized settlements and hence are likely to increase their willingness to work in those areas.

In most cases laying of water pipes through plots in informal settlements is likely to increase the value of the land, and therefore landowners should not require compensation payments. Disputes about the routes of new pipes can be addressed through negotiation and there should be a presumption against compensation payments. There are, however, likely to be some exceptional cases where some compensation payment would be reasonable. In such cases a streamlined arbitration system could facilitate speedy dispute resolution, so the progress of projects are not unduly delayed. Appropriate government policies and procedures are required to allow such a process to be introduced, together with adequate promotion of the new streamlined process amongst interested stakeholders.

Land tenure issues can be overcome, provided sufficient time is allowed for negotiations. Positive examples of this have occurred in cities around the world, including the brief case studies in Chapter 1. In some places, laying temporary mains has overcome objections.

### **Connection fees, procedures and costs**

In many cases water mains are a considerable distance from houses in informal settlements, so new house or standpost connections are very difficult. In such cases there is a clear need for the utility to provide water mains closer to such areas, provided they think that there is sufficient demand for their services.

Even where public water mains are close to or within low-income areas there are many constraints to households obtaining a legal pipe connection. These relate to:

- the utility/municipal connection fee;
- costs of constructing the new household pipe connection; and
- the utility connection procedure (both formal and informal).

A high utility connection fee can act as an effective barrier to households entering the market for utility water, which will result in lost revenues for the utility. Many enlightened utilities have reduced their connection fee in recent years to encourage more connections. Utility costs associated with new connections can be recouped later through slightly higher water charges.

The high cost of constructing the pipe connection from the water main to the house or yard can also be an effective barrier to more connections. In Buenos Aires and Durban the utilities have explored ways of reducing these connection costs in poor areas, using such measures as encouraging residents to participate in the construction of the pipe connection, with successful results. Where government's and utilities have poverty reduction strategies, reducing connection costs for low-income areas through targeted subsidies can be an effective poverty reduction strategy as people will use more water and they can sell on to neighbours. This can lead to both economic and health benefits.

The formal utility connection procedures may seem logical on paper and may include aspects such as: taking the land title deeds to the utility office, arranging for the utility surveyor to visit the site, commissioning approved construction drawings, followed by site inspections. But poor households can find such a process particularly onerous when it involves many visits to utility offices. There may also be 'informal' aspects to such a procedure, for example payments to utility staff for transport to visit the site. Utilities can therefore seek to streamline procedures to make it easier to connect. In low-income areas the utility can also go to potential customers to encourage them to connect, reducing the need for people to visit their offices, through specific projects for informal settlements.

### **Staff attitudes to serving informal settlements**

Some typical statements that are made in relation to why informal settlements are left without utility-provided services include:

*'the poor can't pay'*

*'they (the poor) are looked after by donors and NGOs'*

*'we (the utility) are only just managing to serve the rest of the city without supplying people who are living on land illegally'*

At worse some utilities simply do not recognize informal settlements as a customer base. But the expected percentage of people living in unplanned or informal settlements is likely to increase over the coming years to 40 to 60 per cent of the population in many cities, so this issue should not be ignored. Such government/utility staff attitudes can be influenced by disseminating and discussing the implications of government poverty reduction strategies and exposing such staff to best practice in serving the poor from elsewhere.

The challenge for utilities and governments is to change the assumptions that exist about informal settlements and their potential for revenue. This means recognizing the scope for growth in these areas and devising simple and achievable methods for capturing people's willingness to pay for services.

### ***The 'spaghetti' problem***

Where water mains are a long way away from housing areas, often a few households are able to afford to lay a long private water connection pipe to the mains, which may be more than 100 metres in length. Their neighbours may then wish to connect to this private pipe. Owners of these private connections are often not enthusiastic about allowing their neighbour's connections, because it will mean a reduction in the water pressure in their own taps. The pipe owners often exploit the neighbour by charging a high 'permission to connect' fee. Over a period of time more connections are made to these private pipes and a 'spaghetti' of small diameter and often leaking pipes emerges, many of which may be unauthorized. Supplies from such pipes are often inadequate or unreliable because they have not been properly designed and constructed.

This is common in many low-income areas in cities in Africa. The best solution to this problem is for the utility to lay new water mains of adequate capacity closer to and into these areas, replacing the 'spaghetti' pipes if necessary.

### ***Culture of free or cheap water***

In countries in Africa and South Asia where previous government regimes have promoted either free or cheap water to help the poor, there is often substantial resistance to raising tariffs to sustainable levels. Where tariffs are low there is generally insufficient resources and water to serve all consumer groups and the rich and powerful are generally allocated much of the scarce resources and water. This leads to the poor missing out in the allocation of investments and piped water, so the very people who are supposed to benefit from the low tariff policy (i.e. the poor), suffer the most. In most countries charging adequate tariff levels is the only way to generate sufficient revenues to invest in expanding services to unserved areas.

Chapter 7 describes a process of determining sustainable tariff levels and cross subsidies that is rational and equitable.

***Differing priorities for men and women***

In poor areas it is usually the responsibility of women to collect water, so they have a clear vested interest in the provision of improved water services closer to their homes, whereas men may not be willing to spend some of their limited income on new piped water sources. It is therefore important to engage both men and women's groups on projects when discussing the benefits of new water service options and seeking their participation.

Having considered common barriers to serving informal settlements and related potential solutions, we move on to consider positive strategies for selling improved water services and serving such areas.

**4.3 Utility projects for serving low-income areas**

Utilities often have limited water services in informal settlements. Typical services that they do provide include a few water kiosks/standposts and in some cases temporary solutions such as water tankers may be provided. If a substantial improvement in service levels is to be achieved through actions such as increasing the number of active house or yard connections with on-selling to neighbours, then specific initiatives need to be developed and implemented. Potentially worthwhile investments and targeted subsidies for serving the poor are likely to include:

- extending water mains closer to and in to informal settlements;
- paying for and supporting special participatory projects, with both substantial hardware and software components, for providing more piped water connections in informal settlements;
- subsidizing both the connection fee and connection costs in defined low-income areas;
- allowing people who sell on water to low-income consumers to pay for all their water on the lowest block on the tariff structure in defined areas; and
- improving performance measurement of user perceptions and utility services in low-income areas, in order to track service improvements. This is discussed further in Chapter 6.

By selling more water by providing an increased number of yard or house connections there are good opportunities for the operator's running costs to be met from water sales in those areas.

The process of becoming involved with potential customers in their own environment will involve skills, knowledge and experience that the utility may not have. This need not be a prohibiting factor as a number of options exist to bring such attributes in to the utility. For example collaboration can be explored with local NGOs, civil society groups and social development specialists in universities and so on. Such collaboration has value added benefits for all stakeholders and contributes to the development, expertise and breadth of knowledge of existing utility staff. Investment in informal settlements requires time and commitment. Utilities may consider the setting up of an inter-disciplinary team or an inter-departmental unit within the utility that can focus solely on services for informal settlements. This has been done in the Lusaka Water Company and in municipal corporations in India.

The next sections demonstrate how partnerships with NGOs, local civil society groups, large and small-scale private sector groups, water vendors, etc. can draw on an improved understanding of the communities existing and preferred services and payment regimes. New management regimes become the tools - or the means - to ensure that improved, sustainable services are sold successfully to low-income groups. Integrated within the new management regimes should be a range of policies and mechanisms to ensure that all stakeholders involved in the management and supply of improved water supplies have the appropriate incentives to serve the poor.

#### **4.4 Partners for improving services to the poor**

There are usually a number of stakeholders already working in slums or unplanned areas, such as local government, NGOs, CBOs, small water enterprises, etc. A key question for a utility is how could they best work with such organizations, taking advantage of their particular strengths to improve services. Utilities tend not to have staff with the right skills to work in informal settlements and with participatory approaches, etc., so working with other sector stakeholders is a sensible strategy.

##### ***Potential partners***

###### *Local authorities*

Municipal officials often interact with local communities when dealing with a variety of services. In some cases municipal officers may have some responsibilities for improving sanitation or even water services in their area of jurisdiction. Local authorities will also usually have established structures for mobilizing communities.

Local authorities may, in conjunction with the water utilities, also act as regulators of water vendors and other delegated enterprises, particularly if the municipality has a clear environmental health responsibility which relates to issues of water quality and sanitation. Municipalities dealing with the promotion of on-plot sanitation are also important partners for utilities who are contemplating extending service options such as sewerage and disposal facilities for suction trucks.

###### *Small water enterprises or vendors*

These are individual people or groups who collect and sell water to households or other establishments in poorly served areas. Small water enterprises or small-scale providers have a number of positive impacts, including those listed in Box 4.2.

Examples of the different types of small water enterprises (SWEs) or small-scale providers and the countries where they are used are listed in Table 4.2 Some SWEs are licensed while others are not.

It may be beneficial for the utility or municipality to assist in forming an association of SWEs in a city, or at least to collaborate with SWE groups, because it will be useful to:

- share experiences about service provision in poorly served areas and how they may be improved;
- explore how to remove constraints to their operations, such as legal recognition;
- provide a forum to consider how the utility could support SWEs in providing improved services (such as providing convenient water collection points for SWEs or vendors)



**Box 4.2. Success factors of small-scale independent providers (SSIPs)<sup>1</sup>****Small service providers make a difference**

Studies conducted in the four East African cities of Dar Es Salaam, Kampala, Mombasa and Nairobi in 1998 and 1999 listed the following success factors of small-scale independent providers (SSIP) in the water supply and sanitation services:

- Monopolistic public enterprises are often unable to respond to the dynamics of market demand.
- SSIP can access peri-urban areas not covered by the public enterprise.
- SSIP are commercially oriented.
- SSIP respond to the needs of the market by accessing high population density communities through the provision of standpipes and water kiosks.
- SSIP operate other businesses in addition to the provision of urban environmental services.

1. Source: World Bank (2000).

**Table 4.2. Examples of small water enterprises<sup>1</sup>**

Type of small water enterprises	Examples of countries where used
<b>Water trucks</b> Sell water to distributing vendors or direct to consumers	Haiti, Mauritania, Tanzania and Uganda
<b>Animal-drawn carts</b> Vendors selling water to consumers or water carriers from donkey, camel or horse-pulled carts	Senegal, Mali, Mauritania
<b>Water kiosk or standpipe vendors</b> Engaged by utility, community or private owners to sell water to consumers	Kenya, Senegal, Uganda and Tanzania
<b>Handcarts</b> Selling water direct to consumers at or near their homes	Indonesia, Kenya, Vietnam, Burkina Faso
<b>Water carriers by hand or cycles</b> They sell water directly to consumers at or near their homes	Mali, Haiti, Uganda and India
<b>Private boreholes</b> May be connected to standpipes or house connections	Kenya and Mauritania
<b>Small private pipe networks</b>	Benin, Philippines, Guinea and Mali
<b>On-selling to neighbours</b> May be from yard taps or flexible pipe from neighbour's house	Kenya, Cote d'Ivoire, India, Uganda

1. Source: Derived from Collignon and Vezina (2000) and Lyonnaise des Eaux (1998)

who sell on water), particularly in areas where the utility is unable to serve for some time; and

- provide a forum for the utility/municipality to explore how SWEs could support utility initiatives for serving areas that do not have water mains.

Utilities or government should not, however, try to organize the informal sector.

*Community-based organizations (CBOs)*

To compensate for the limited capacities of municipalities and other public sector service providers in many low-income countries, civil society are forming community-based associations organized alongside various activities, such as micro-credit schemes, water and sanitation, health, church, youth, women, or neighbourhood security associations. Many of these associations are interested in getting involved in determining the community's destiny in terms of major public services such as water, education, and health. CBOs can be effective partners in shared management arrangements for water services such as those discussed in the Kibera case study summarized in Box 4.3.

**Box 4.3. Co-operative management of water distribution in Kibera, Nairobi**

Kibera is one of the largest informal settlements in Africa, with a population of about 500,000 people and an estimated population density of 2,000 people per hectare. According to a survey conducted by the Water and Sanitation Program in Nairobi in Laini Saba, one of the nine villages in Kibera, the residents consider sanitation and water supply to be the most crucial problems they face.

In response to the water supply problems in the area, Ushirika, a community-based organization in Laini Saba, created a partnership with a local NGO, Maji Ufanisi, to extend piped water services to the area. Maji Ufanisi provided materials and technical expertise, while the local community arranged for labour to lay the pipeline and construct the water kiosks. In collaboration with Nairobi City Council (the water utility), a new distribution pipeline was extended to Laini Saba, which was commissioned in 1998.

A bulk flow meter was installed on the main distribution network where the Ushirika pipe connected, and the Ushirika Co-operative Water Society are issued water bills on the basis of the bulk meter readings. A management committee was set up to manage the water project on behalf of Ushirika. Consumers pay for the water by volume at the new water kiosks. The tariff is higher than the bulk cost price charged by Nairobi City Council but less than other local vendors' prices. Ushirika hire staff to sell the water at KSh2 per jerrican. These staff are paid a proportion of the money they collect according to the water meter at the kiosk. The surplus funds are then invested in other projects funded by Ushirika in Kibera

The Kibera case in Box 4.3 provides a good example of collaboration and partnership between a CBO, an NGO and the water utility.

*Water management committees*

These committees are often set up during development projects to ensure sustainability through community management. The committee members could be elected by a ward council to manage water services in their area. These organizations can be useful partners if they are active and are considered reasonably representative of their community.

*Non-government organizations (NGOs) and university departments*

The process of becoming involved with potential customers in their own environment in informal settlements involves skills, knowledge and experience that the utility may not have. This need not be a prohibiting factor as a number of options exist to bring such attributes into the utility. For example, collaboration can be explored with local NGOs, civil society groups and social development specialists in universities. NGOs usually deal with a number of problems of concern to the community such as water, sanitation, income generation, solid waste management, etc. These organizations typically have good skills

in facilitation, negotiation, and participatory planning which could be used by utilities intending to work in informal settlements.

#### *Private consultancy companies*

A wide range of consultancy companies are becoming more common in developing countries, and they are often able to offer expertise in working with community-based organizations, fulfilling similar roles to NGOs. They may also be able to provide technical expertise. People who have gained experience with either NGOs or the public sector may move on to work as private consultants.

#### **Developing partnerships to serve low-income areas**

It would be beneficial for utilities and concerned government departments to consider the merits of either collaborating with or contracting organizations such as those listed above to undertake defined roles in improving services in low-income areas. This can be a way of using the particular skills and comparative advantage of each type of organization for the benefit of people living in low-income settlements.

Establishing formal and informal partnerships between the utility and these various sector stakeholders, can enable effective collaboration, shared understanding and synergy between the different actors. Useful publications on partnerships such as Contracting NGOs are contained on the Building Partnerships for Development (BPD) web-site: [www.bpd-waterandsanitation.org](http://www.bpd-waterandsanitation.org). By encouraging such partnerships and developing capacity the various stakeholders will have more incentives to develop joint initiatives for improving service in low-income areas.

## **4.5 Incentives and policies for serving the poor**

### ***Policy level initiatives***

In order to improve water services in low-income communities, there is a need to have institutional and technical innovations at different levels. A key to encouraging innovations, partnerships and positive action on the ground is to create the right incentives and policies for the key stakeholders. These can be provided by both government and utilities.

At the policymaking level, there should be incentives, disincentives and supporting pro-poor policies. Examples of incentive mechanisms and supportive policies include:

- clear government policies promoting 'universal service obligations' as a primary duty and setting yearly targets for service improvements to all consumer groups, which will form the basis of monitoring progress;
- performance agreements between governments or regulators and the utilities that incorporate service improvements against agreed targets in a financially sustainable manner;
- revised mission statements that reflect improved services to all consumer groups in a financially sustainable manner;
- well-designed performance measurement arrangements that use a variety of consumer survey techniques to produce reliable data against key indicators. It should be possible

to disaggregate data for individual low-income areas in order to properly plan, monitor and evaluate service improvements;

- benchmarking programmes using appropriate indicators that enable fair comparisons between utilities;
- more flexibility on human resource management issues such as appointments and staff remuneration;
- more flexible service provision standards or norms that allow more innovative service options that specifically meet the needs of low-income areas at affordable prices;
- appropriate use of private operators (national and international) with PPP contracts that have incentives for serving the poor;
- ensuring that small water enterprises and community-based organizations have the legal right to operate and manage services in low-income areas; and
- well-designed regulatory arrangements that promote improved transparency and accountability in decision-making.

For further guidance on incentives for serving the poor in PPP contracts, refer to WSP & PPIAF's publication: *New designs for water and sanitation transactions - Making private sector participation work for the poor* (2002).[put in refs] This document provides clear guidance for the various forms of PPP contracts.

Extracts from the performance contract between the Government of Uganda and the National Water and Sewerage Corporation (2000) are set out in Box 4.4. Note that there is a clear policy for serving the poor (100 per cent coverage) and an incentive in the form of potential subsidies from the GoU for 'social mission' work. But the overriding policy of financial viability and creditworthiness for NWSC is clear and justified; otherwise the utility will not be able to raise sufficient funds for sustainable service provision.

#### **Box 4.4. Performance contract for the NWSC water utility in Uganda**

Selected provisions from the performance contract between the Government of Uganda and the National Water and Sewerage Corporation (2000) are as follows:

- **Supply/customer service objective:** The original objective of the GoU national water policy was to extend the use of safe water supplies to 100 per cent of the population. It is generally expected to achieve this aim in 10 to 15 years from the present situation of 50 per cent coverage.
- **Financial objective:** It is accepted by both parties to this contract that the achievement of a financially viable and credit worthy NWSC is the overriding objective.

If investments are a 'social mission' imposed by GoU on NWSC, then the internal rate of return of the investment must be determined in order to calculate the necessary GoU subsidy, to prevent the investment being a burden to NWSC.

**Potential utility initiatives and incentives for serving the poor**

The service provider (utility), whether it is private or public or a combination of both, can provide incentives for low-income consumer groups and individual households. Examples of incentive mechanisms for these groups include:

- low connection fees for pipe connections in poorer communities. The processing of new connections could be done with the help of community leaders and CBOs to ensure that the subsidy reaches the people for whom it is intended;
- lower tariff levels for less convenient service options such as standposts, kiosks, shared connections, etc.;
- the provision of materials for water connection in low-income settlements at subsidized prices and/or provision for payment in instalments;
- the opening of utility liaison points in low-income settlements to provide services such as payment points, bill dispatch and technical/billing enquires;
- investment into research in innovative options, such as local water storage arrangements, suitable for serving low-income settlements;
- encouragement of local community-based labour during the process of connecting services in low-income settlements. This offer will not only reduce the costs of connections, but will also create employment for some members of the community; and
- the offer of more flexible payment options that suit the needs of low-income consumers, such as group connections and community-managed water kiosks with regulated prices.

Examples of incentives offered to people using ground tanks in poorer communities in Durban are included in Box 4.5.

**Box 4.5. Incentives offered by Durban Metro Water to ground tank users**

Durban Metro Water & Waste of South Africa offers the following incentives to members of low-income communities who apply for a ground tank:

- The connection fee for the ground tank is about six times smaller than that for a conventional full-pressure system.
- Unlike users of conventional water supply systems, ground tank owners are not charged a deposit for security.
- The cost of materials is paid for in six-monthly installations.
- Local private plumbers are trained at the Durban Metro Water Services Training School, and were engaged in making water service connections in the low-income settlements.
- A community liaison officer is employed to handle issues connected with service delivery to low-income settlements.

More examples of initiatives for improving incentive mechanisms and policies to support service providers and other stakeholders in serving the poor are set out in Book 1 on guidance for government's enabling role.

#### **4.6 Piloting and scaling up**

It is beneficial to pilot marketing approaches in a few low-income areas or informal settlements in order to learn lessons that are specific to the local context, with a view to scaling up the more successful approaches to larger areas. Governments who have poverty reduction policies will be pleased to see utilities actively piloting new approaches for serving the poor. In some cases further piloting may be necessary before scaling up.

If different service, payment and management options are to be provided on a reliable and sustainable basis to different market segments, then a strategic marketing approach is recommended. This is the subject of Part III of this publication.

More specific guidance on how to target, sell and provide services is provided in Part III; particularly in Chapters 7 and 8, on *Where do we want to be* and *How might we get there*, such as Section 8.2 on the 7Ps (the marketing mix).