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Cruel irony: water costs the most for those who can least afford it

Longstanding public-versus-private debate hinders real progress, says 2006 Human Development Report

Cape Town, 9 November 2006—Across the world, the poor are forced to pay much more for clean water than their affluent neighbours, says the 2006 Human Development Report, released today.

The Report, entitled *Beyond scarcity: Power, politics and the global water crisis*, notes that in the slums of Nairobi the poor pay five to 10 times more per litre of water than wealthy people living in the same city. The poorest households of El Salvador, Nicaragua and Jamaica spend on average over 10 percent of their income on water; in the United Kingdom, by contrast, spending more than three percent of family income on water is considered an economic hardship.

And the longstanding public-versus-private debate on water will not bring prices down, stresses the 2006 HDR. In recent years, public debate on water-delivery policy in developing countries has been dominated by a polarizing discussion on privatization versus public ownership. But the authors argue that this is a false choice, diverting attention from the ultimate goal of finding viable ways of getting potable water to those who can least afford to pay.

“The debate over the relative merits of public and private-sector performance has been a distraction from the inadequate performance of both public and private water providers in overcoming the global water deficit,” says the Report. A new, more strategic approach that puts the poor at the centre of the solution is essential to reach the Millennium Development Goals by 2015, stress the authors.

As a starting point, the Report advocates for all governments to go beyond vague constitutional principles in enabling legislation to ensure the human right to a secure, accessible and affordable supply of water. At a minimum, this implies a target of at least 20 litres of clean water a day for every citizen—and at no cost for those too poor to pay, the authors emphasize.

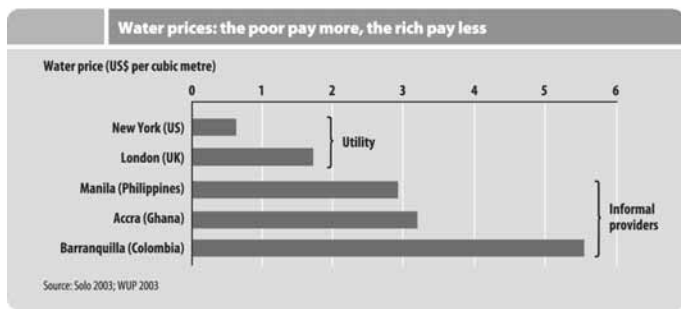
The way forward

The 2006 HDR lays out a number of recommendations on how to make this a reality:

- **Put water at the centre of poverty-reduction strategies and budget planning:**

A bold, coherent national water plan grounded in strategies for reducing poverty and extreme inequality is a first step, stress the authors, but this needs to be backed with predictable finance.

- **Extend ‘lifeline tariffs’:** The 2006 HDR notes that lifeline tariffs would allow poor households to access a minimum amount of water for a very low price or no charge, with usage fees rising thereafter. South Africa has already legislated that every person should have a minimum of 25 litres of clean water each day. However, tariffs alone will not help where informal settlements are not connected to the utility or where households do not have meters installed, says the Report.



- **Expand ‘pro-poor’ investment:** Water is underfinanced, says the Report. The biggest financing gaps are in rural areas and in informal urban settlements. Closing these gaps requires increased financing and a reorientation of public spending to rural communities, through the provision of wells and boreholes, and to urban slum areas, through the provision of standpipes.

- **Set clear goals—and hold providers to account:** The authors stress that contract arrangements under public-private management agreements should set clear goals for expanding access for poor households living in slums. Non-performance should result in financial penalties. The same rules should apply to public providers, with nonperformance penalized through incentive systems, says the Report.
- **Develop and expand the regulatory framework:** The public-versus-private debate has diverted attention from the pressing issue of public utility reform, stress the authors. “The water sector has many of the characteristics of a natural monopoly and in the absence of a strong regulatory capacity to protect the public interest through the rules on pricing and investment, there are dangers of monopolistic abuse,” says the Report. It stresses that creating an independent regulator to oversee water providers—including the intermediaries that serve the poor—is vital for ensuring that water provision reflects the public interest.
- **Rethink and redesign water tariffs and subsidies:** Subsidies can play a critical role in delivering affordable water to the poor, says the Report, but too often, they instead deliver windfalls to the non-poor, while impoverished households using public taps face the highest prices. Targeted subsidies depend on the capacity of the government to identify poor households. Where done properly, as in Chile, this can be a route to efficient water delivery by private utilities and high levels of equity in water access. Using cross-subsidies—a combination of pricing and access policies, including targeted subsidies—to support standpipe users where coverage rates are low would be a step towards improved equality.
- **Prioritize the rural sector:** Rural water supply poses special challenges. Building on successful demand-responsive approaches, governments need to make service providers more responsive and accountable to the communities that they serve. Decentralization of water governance can play an important role, provided that decentralized bodies have the technical and financial capacity to deliver services, says the Report.

What does water cost?

No one can live without water. But for 1.1 billion people around the world, water sources can be unreliable, unsafe or beyond their purchasing power. The Report notes: “‘Not having access to clean water’ is a euphemism for profound deprivation. It means that people walk more than one kilometre to the nearest source of clean water for drinking, that they collect water from drains, ditches or streams that might be infected with pathogens and bacteria that can cause severe illness and death.”

And the poorer you are, the more you pay for clean water, says the Report. For those who must get water from tankers, access to water costs far more per litre than it does for their richer compatriots, or for people in the cities of the developed world.

Why do the poor pay more—and get less water?

While the rich usually get water from a single supplier, the poor have to reckon with a bewildering array of service providers, such as public standpipes, vendors, truckers, and water carriers. Some of the water vendors access water from the municipal source and then re-sell it at a premium to poor slum dwellers who do not have access to piped water. As a result, water delivered through a vendor is often 10 to 20 times more costly than water provided by the public utility.

Inequality is one driver of the crisis: ‘Water lords’ now dominate the water market in the Indian state of Gujarat, for example, where falling water tables are compromising the lives of hundreds of thousands of vulnerable people. Large

landowners have constructed deep wells, depriving neighbouring villages of water, only to sell it back at a high price to those whose wells they have emptied.

Elsewhere, tariff structures can be a disincentive to conserve water and can, in fact, make it cheaper for the affluent or rich to consume even more water. In places like Dhaka, Bangladesh, where a flat tariff is charged for water usage, those with private water connections are in effect subsidized to the detriment of the poor: A tariff rate that increased with the level of water consumed would generate resources that could then increase coverage of the water network and improve the infrastructure of the water utility.

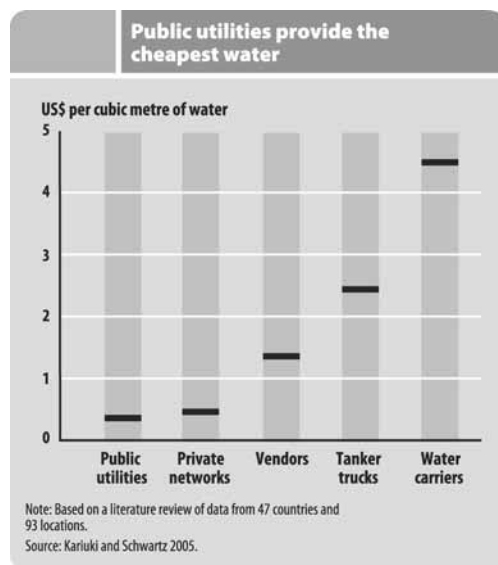
One of the deepest disparities in water and sanitation is between urban and rural areas, partially because incomes tend to be lower in rural areas, but also because delivering services is more difficult and often more costly per capita for dispersed rural populations than for urban populations, says the 2006 HDR. Political factors also come into play, with people in rural areas—especially marginal areas—typically having a far weaker voice than their urban counterparts.

The public-versus-private debate

In countries with high levels of poverty among unserved populations, public finance is necessary to extend access, regardless of whether the provider is public or private, stress the authors.

Experiences in Argentina, Bolivia, the Philippines and the United States show that the private sector does not offer a ‘magic bullet’ solution to providing equitable water for all. Their experiences in fact indicate that greater caution, regulation and commitment to equity in public-private partnerships are necessary.

Public providers dominate water service, accounting for more than 90 percent of the water delivered through networks in developing countries. Many publicly owned utilities are failing the poor, but some, like Porto Alegre in Brazil, have succeeded in making water affordable and accessible to all.



What is currently spent on water?

Water and sanitation suffer from chronic under-funding. Public spending is typically less than 0.5 percent of GDP. 2006 HDR research shows that this figure is dwarfed by military spending: In Ethiopia, for example, the military budget is 10 times the water and sanitation budget—in Pakistan, 47 times.

The Reports’ authors urge all governments to prepare national plans for accelerating progress in water and sanitation with ambitious target backed with financing to the tune of at least one percent of GDP and clear strategies for overcoming inequalities.

Water and sanitation is not a donor-country priority, either, says the Report, with only five percent of Overseas Development Assistance spent on this sector. The authors say a doubling of aid flows—an extra US\$3.4 billion to \$4 billion annually—is necessary to have any chance of reaching the MDG on water and sanitation.

Progress in water and sanitation requires large upfront investments with a very long payback period, says the 2006 HDR, so innovative strategies like the International Finance Facility are essential. This would be money well spent, according to the authors, who estimate the economic return in saved time, increased productivity and reduced health costs at \$8 for each \$1 invested in achieving the water and sanitation target.

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BROADCAST FOOTAGE ON THE 2006 HDR IS AVAILABLE under embargo from Wednesday, 1 November at <http://hdr.undp.org/hdr2006/media>. For broadcast enquiries, please contact Boaz Paldi, boaz.paldi@undp.org, +1 917 213 7520.

ABOUT THIS REPORT: The Human Development Report continues to frame debates on some of the most pressing challenges facing humanity. It is an independent report commissioned by the United Nations Development Programme (UNDP). Kevin Watkins is the Lead Author of the 2006 report, which includes special contributions from U.K. Chancellor Gordon Brown, Nigeria's Finance Minister Ngozi Okonjo-Iweala, President Lula of Brazil, Former U.S. President Carter, and UN Secretary-General Kofi Annan. The Report is translated into more than a dozen languages and launched in more than 100 countries annually. Further information can be found at <http://hdr.undp.org/hdr2006>. The 2006 Human Development Report is published in English by Palgrave Macmillan.

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