This Practice Brief shares experiences from SNV’s practice in supporting small town water companies in several African countries. As part of sector-wide reforms being undertaken in these countries and elsewhere in Africa, dedicated agencies have been created to deliver water and sanitation services to local populations. Their emergence marks the transition from poorly-managed and inefficient water utilities to more commercially viable service providers that can expand and sustain access to affordable basic services.

SNV has provided extensive capacity building support to enable the nascent utilities to improve their service delivery, with a focus on enhancing their planning and operational capacities. Linked to this, significant efforts have been made to strengthen relations between small town water companies, their customers and other stakeholders.

One of the arguments commonly advanced against commercialisation is that this will take place at the expense of the poor. While this risk is acknowledged, the experiences discussed in the Practice Brief confirm that poorer groups in small towns and peri-urban areas - who are disproportionately affected by inadequate services - can benefit from socially responsible commercialisation. However, targeted support needs to be combined with pro-poor policies if it is to deliver the desired results.

In 2006, the Isiolo Water and Sewerage Company was created to provide water to over 60,000 residents of Isiolo town in northern Kenya. The company inherited a dilapidated infrastructure and operational systems that were neither effective nor efficient. SNV worked with the company to improve its internal operations and management. In addition, a customer satisfaction survey greatly helped the company to identify areas for improvement. The company developed an explicit policy to serve the poor, through subsidising major costs such as the installation of meters, to be repaid by customers in manageable installments. Within two years unaccounted-for water had declined from 65% to 41%, while the company’s revenue increased more than four-fold, to US$ 36,670 per month.

In Zambia, the Chambeshi Water and Sewerage Company delivers water to the urban centres of Northern Province. Established in 2003, it struggles to provide adequate services. The company is faced with negative perceptions from customers, the regulator (NWASCO) and potential donors. Building on its experiences in Kenya, SNV partnered with Water & Sanitation for the Urban Poor (WSUP), a UK-based NGO, to carry out a needs assessment. SNV subsequently helped to facilitate a stakeholder forum to discuss the problems facing the water sector. Following the consultations the company formulated a Performance Improvement Plan (PIP) aimed at achieving tangible service improvements and restoring its credibility. SNV is currently helping the company to improve management of communal water kiosks in peri-urban areas.
Reaching the urban poor through socially responsible commercialisation

The African continent is at risk of not meeting many of the Millennium Development Goals (MDGs). With regard to sustainable access to safe drinking water and basic sanitation (MDG 7.c), the 2011 UN MDG report acknowledges that while significant progress has been made in expanding access to water, sanitation lags far behind. Moreover, the report underlines that the most vulnerable groups continue to be locked out of water provision services. Nevertheless, this finding is set against a backdrop of encouraging rise in the rate of economic growth in many developing countries, coupled with overall improvements in the policy environment, and strong macroeconomic fundamentals.

In many countries in Africa the water sector policy reviews of the last decade have ushered in new institutional models for service delivery in urban areas. These policy reviews were motivated by the need to increased outreach for quality services in a professional and sustainable way. Providing water is often an expensive undertaking, with the infrastructure required (pumps, pipes, storage, treatment, etc) laying a huge claim on government budgets. Sustainable management of these systems requires not only management capacities, but socially responsive commercial models that expand access to the poor and marginalised, while simultaneously achieving quality improvements in existing services.

In rural areas, where water provision often relies on boreholes, shallow wells or simple piped systems, management for maintenance and operations is mostly handled at the community level. The social capital embedded in relations at the village level, if effectively mobilised, can ensure basic maintenance and minor repairs. In urban centres and metropoles, where large and extensive systems are required to serve the sprawling and fast growing population, management is assigned to dedicated agencies on a semi-commercial basis, or even to privatised entities. Due to the potential to achieve economies of scale, full sustainability of operations is, in general, a realistic goal.

For small towns, management of water service provision presents a different challenge. They are characterised by rapidly expanding and unplanned settlements that blend rural and urban characteristics. They are generally too small to generate interest from large private companies, and too large and dislocated from traditional social structures for community management to work effectively. Most small towns and peri-urban areas therefore end up with quasi-government agencies tasked with operations and maintenance of water systems, with the mandate to operate professionally and commercially. In most cases, these agencies have professional staff and an independent, albeit government-appointed board, and are encouraged to partially privatise their operations, mainly through sub-contracting.

However, the increasingly commercial outlook of these agencies also carries a risk. Poorer residents are often seen as unable or unwilling to pay for services, though in reality they may actually end up paying more for their water than the more affluent citizens. To

Lake Victoria Regional Water and Sanitation Initiative (LVWATSAN)

UN Habitat is implementing a programme to support secondary towns around Lake Victoria to improve their water and sanitation services. The first phase of the programme covered 11 towns in Uganda, Tanzania and Kenya, and included a component for improving infrastructure. A complementary component provided training and capacity building support to ensure that the developed infrastructure was properly operated, water resources managed and procedures created to enhance the financial sustainability of the services. SNV was the lead partner in a consortium consisting of UNESCO-IHE (an international institute for water education), FCM (Federation of Canadian Municipalities) and GWA (Gender and Water Alliance), while a local NGO, NETWAS, implemented the Training and Capacity Building component.

As part of the programme 27 different trainings were carried out, each targeting a specific issue identified during the Systemic Action Research phase. Over 110 sessions in total were conducted, reaching more than 2,200 participants from the 11 towns. Each participant prepared an individual action plan at the end of the training. In some cases (for example Kisii town in Kenya) the local water company compiled these into a Rapid Result Initiative to realise quick results in improved service delivery. In Bukoba (Tanzania), meter reading was streamlined, and non-revenue water re-calculated as a result of the training. The relationship between the agency (BUWASA) and the local authority (District Council) was also clarified, with the former focusing on water provision in the urban areas and the latter in the peri-urban and rural areas.
prevent further marginalisation of poor populations it is critical that the increasingly commercial outlook of small town water supply agencies is implemented in a socially responsible manner. This Practice Brief aims to contribute to the debate on how this can effectively be achieved.

**SNV experiences in supporting socially responsible commercialisation**

SNV support for socially responsive commercialisation of basic services has adopted a three-pronged approach made up of broadly inter-dependent actions. The first part of SNVs methodological approach comprises the set of analytical tools that are used to understand the contexts in which small-town water utilities operate. The second aspect entails facilitating capacity building of utilities for improved performance. Lastly, SNV pays explicit attention to the broader institutional environment and the formulation of supportive pro-poor policy interventions. As our practice evolves, we will continue to integrate these three components into a more comprehensive support framework.

**a. Application of analytical tools**

In order to design appropriate capacity development interventions in support of small town agencies and companies, a proper diagnosis of the underlying social, economic and political context is required. During the diagnosis stage, it is necessary to go beyond the issues articulated by local stakeholders, as these are often symptoms of more deep-rooted and interrelated factors that require deeper understanding. SNV has developed two approaches to deepen such analyses, namely Systemic Action Research (SAR) and service surveys.

SAR is a specialised methodology that draws on systems thinking to carry out a context analysis and identify suitable interventions to help improve the performance of small town water companies. It aims to build up a comprehensive picture of particular issues and identify relevant actors (people and organisations) and their interrelationships. SAR seeks to avoid the pitfalls of many development interventions, which are based on defining problems in terms of deficits, for instance “lack of skills, information, and understanding”. Rather, it seeks to create a deep understanding of the current situation as a basis for generating feasible solutions.

The emergent capacity development responses therefore:
- engage people on real issues as they see them
- work to foster action on these issues
- challenge existing assumptions that restrict the options for taking action, and;
- nurture several possible lines of response in a way that accommodates complex dynamics and facilitates further problem solving.

This approach is also based on a belief that not only is it right for local people to determine solutions to their own problems, but that unless they understand and own the process, any gains from capacity building are likely to be very short lived.

**Systemic Action Research in Mutukula, Uganda**

In Mutukula town (Uganda), a revolving micro-credit scheme for improved sanitation had not met its objectives. The expectation was that members of the various community based organisations would borrow from the revolving fund and use the resources to construct toilets, thereby increasing latrine coverage in the town. At the time of this inquiry, one year since the launch of the scheme, only two households had made use of the revolving fund.

Using the SAR methodology, a five-member team from the LVWATSAN consortium convened to analyse the situation. The team members met with different stakeholder groups, including the Mpologoma Women Group, the KK Savings and Credit Cooperative (Sacco) involved in administering the scheme, officials of the local Kakuto Sub-county administration and individual potential beneficiaries. In the evening, the teams reported on their findings, based on which an issue map was constructed, with follow-up questions for the next day's discussions. Through a careful process critical analysis and several iterations of the original issues identified by stakeholders, the true picture of the failed loan scheme emerged.

The core issue turned out to be the lack of consultation on the design of the credit scheme. Potential beneficiaries in Mutukula had wanted to receive the loan in cash to enable them to buy materials from reputable suppliers and hire fundis (builders) of their own choice to construct the toilets. Instead, the criteria for accessing funds stipulated that upon approval of the loan and toilet design, KK Sacco would buy materials and hire pre-approved “fundis” (artisans) to construct the toilets on behalf of the members. Loan repayment was however to be done in cash by the beneficiaries. Since Mutukula members had not been fully consulted on the decision to receive the loans in kind, they were no longer interested in the scheme.
An alternative set of analytical tools used to improve service delivery is the use of service inquiries, such as customer satisfaction surveys. The surveys help water companies to understand their customers better and can contribute to the formulation of workable service models. In a number of Kenyan towns, for example, SNV-assisted customer surveys have exposed the extent to which poor customers and residents in peri-urban areas are inadequately serviced by the companies. Building on national water regulation, which requires local companies to develop pro-poor policies, the customer survey helped the companies to understand the issues from a customer perspective and clarified the changes needed to improve service delivery.

b. Capacity building of small town companies

Provision of water services has been primarily the responsibility of government, including national water ministries, local councils and water corporations. The poor performance of these governmental bodies has, however, triggered calls for water sector reforms across many African countries over the last decade. Subsequent reforms have created new (quasi-government) companies, mandated with operating water services professionally and commercially, using the infrastructure inherited from the old institutions (though the specific arrangements differ from one country to another).

The implementation of professional and commercialised water services requires a number of enabling conditions including: putting in place a new institutional and business culture; a well-equipped workforce with the requisite capacities and readiness to embrace the new service model, and most importantly; a thorough understanding of the diverse groups of water users/customers (including their socio-economic status, service situations, ability to pay, and so on). These issues present some of the most pressing challenges for the new service institutions as they embark on the transition from public utilities to commercially-managed service providers.

To effectively manage this transformation, the new water agencies need to not only understand their capacities, but their inadequacies as well. It is essential that this learning process is undertaken in an empowering way so as to catalyse their energy to act, as opposed to inducing alarm and paralysis, which contributes to frustration and discourages innovation. The diagnostic approach used in the needs analysis and development of appropriate actions is therefore as crucial as identifying the desired outcomes.

SNV’s work with multiple water agencies in Kenya, Uganda, Tanzania and Zambia has provided much-need capacity development support in this transformation towards a more commercial orientation. This approach has been most pronounced in Kenya, where the following broad areas of support have emerged:

- **Institutional development** - To operate effectively within a new institutional space, building both horizontal (peer interaction and learning) and vertical relationships (with policy makers and regulators) was a critical first step for the new agencies. SNV helped to convene multi-stakeholder consultative processes at the district and regional levels that launched an interactive engagement process and provided opportunities for peer learning. The facilitation of vertical relationships was equally instrumental in enabling the new agencies to understand and interpret policies, rules and regulations for service delivery. These peer interactions and learning have made a significant contribution towards creating a new institutional culture
and norms for the new agencies.

- **Commercial efficiency** – Making the transition from a publicly oriented service to a commercial operator is no easy task. This is especially true for the new companies that inherited a badly maintained infrastructure coupled with high levels of unaccounted-for water (65% in some instances). Other problems included poor revenue collection and billing management, huge operational costs and limited customer awareness and outreach. SNV worked with the new water agencies to develop strategic business plans, performance enhancement plans, and tariff setting and billing management, amongst other interventions. Ultimately, attaining commercial efficiency is a trigger for better service delivery, since the two are mutually reinforcing. The graph shows the water coverage situation of six water supply companies supported by SNV Kenya.

- **Development of (pro-poor) policies and strategies** - SNV assisted most of the new water supply companies to design roadmaps for achieving their intended purpose by developing more effective internal policies (for example on their human resources, financial, technical and procurement practices) as well as explicit strategies for reaching out to the poor. Some of the supported companies have been able to make a business case for increasing services to the poor by demonstrating that increased coverage supports their commercial objectives.

- **Governance of institutions** - The internal governance of water supply companies (their organisational structures, role and mandate, norms, leadership culture and resource management) is a critical ingredient in achieving efficient operations in any service delivery chain. Providing capacity building support geared towards enhancing internal governance of the agencies was therefore a key area of focus for SNV.

Based on this approach, concrete results were achieved, as the following two examples illustrate:

<table>
<thead>
<tr>
<th>NAWASCO (Nanyuki, Kenya)</th>
<th>ELDOWAS (Eldoret, Kenya)</th>
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<tbody>
<tr>
<td>After two years of interventions:</td>
<td>SNV spearheaded a campaign to increase utilisation of the sewer system in two under-served areas, Huruma and Kamakunji. In a 3-month period 115 new connections were made (a 30% increase). One landlord in Huruma explained that the demand for his rental rooms had increased as a result of his investment of KES 50,000 (about US$ 500) in improved sanitation.</td>
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<td>• an additional 10,000 people gained access to safe drinking water through residential connections;</td>
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<td>• hundreds of under-served customers gained access through six new communal water kiosks;</td>
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<td>• extension of the sewerage system and initiating the provision of exhauster services enabled 2,000 people to gain access to improved sanitation;</td>
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<td>• monthly revenue increased from KES 2.4 to 4.0 million, (US$ 2,400 to US$ 4,000) while late payment charges of 2% were abolished (a pro-poor measure).</td>
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**c. Supporting pro-poor interventions**

The drive to achieve financial and organisational efficiencies in water service delivery that is critical for successful commercialisation tends to draw the ‘eyes’ of water utility managers away from the social dimension of the water business. Deliberate effort and attention is therefore needed to ensure that achieving commercial sustainability is not at the expense of equitable access to this basic human right. Care must also be taken to avoid indefinite postponement of service extension to the poor because deferral does not only result in greater inequality but also translates into revenue losses for the utility. Socially responsible service improvement focuses on improving efficiency and enhancing profits, while recognising the potential of low-income areas for revenue generation through the use of creative approaches.
The case of Mwanza town in Tanzania described below illustrates the need for a carefully crafted pro-poor policy design, and close attention to its implementation. The case study tests the common assumption that providing for communal water kiosks ensures equitable access to water in poor communities.

A key strategy in enhancing access to basic services is to forge creative partnerships between the under-served populations (the urban poor), non-profit organisations, private sector players and government bodies. This ensures that broader systemic factors such as institutional policy aspects, pricing mechanisms, and governance and accountability facets are addressed. The case of the NAIVAWASS water service provider in Naivasha, Kenya, demonstrates how such partnerships are contributing to the development of innovative solutions to enhance water access in the town’s informal settlements.

Water for All in Mwanza (Tanzania)

In Mwanza, the Mwanza Urban Water and Sewerage Authority (MWAUWASA) is responsible for the provision of affordable and safe drinking water to all residents. For those without access to piped residential connections, a network of public kiosks has been set up where drinking water can be purchased by using buckets. The underlying assumption has always been that communal services such as water kiosks provide affordable and safe water to all. In order to test this assumption, SNV supported MWAUWASA to carry out two surveys of kiosk users in order to get a better perspective of pro-poor service provision. One survey covered all 124 kiosks in the town, while the second study interviewed 312 households in three different consumer areas of Mwanza (Buhongwa, Mbugani and Nyamaroro).

The surveys revealed that the pricing guidelines for public kiosks set by the Energy and Water Utilities Regulatory Authority of Tanzania (EWURA) were largely being ignored. Instead of the official price of 15 shillings per bucket, prices in Mwanza generally ranged between 20-30 shillings. It also came to light that not all residents had equal access to the kiosks, with those living further away being charged even more for a bucket of water. Equity had thus not only been compromised at design and operational stages of service delivery, it was exacerbated by poor management of the water facilities. For example, 39 of the kiosks visited during the survey did not open daily while five others had irregular opening hours. Another two kiosks were open at inconvenient hours, mostly late in the evening or before dawn.

Armed with this concrete evidence, MWAUWASA management realised that it was not enough to provide kiosks but needed to closely monitor their operations to ensure sustainable returns from investing in pro-poor services. The company further realised that a large number of kiosks were located in areas already served by piped house connections, further reducing access in areas where there was a real need.

Partnerships for the poor in Naivasha

Naivasha Water and Sewerage Company (NAIVAWASS) is a local authority owned company providing water and sanitation services to more than 300,000 residents of Naivasha town, 30% of the residents live in low-income informal settlements. SNV teamed up with the UK based NGO Water & Sanitation for the Urban Poor (WUSP) to promote a business model for delegated management of local water services in the town. The model is designed to ensure affordable but high-quality services for poor consumers, profitability for the operators, and sufficient revenues for sustainable asset management.

As part of the intervention, a private borehole owner received support to invest in a larger pump and an innovative de-fluoridation system based on bone-char technology. As a result, the water provider is able to sell safe water to the neighbouring communities through community-managed kiosks. Through this arrangement, access to good quality water has been extended to an additional 40,000 residents of Karagita informal settlement while the cost of water access to residents of Karagita has dropped by more than 60%. SNV continues to promote this pro-poor service delivery model in other informal settlements in Naivasha.
Conclusion: Towards socially responsible commercialisation

Achieving the sustainable delivery of safe water and sanitation services in small towns in Africa is a huge task. Fast-growing populations quickly outstrip the available infrastructure and supplies. Government revenue allocations and aid and other financial flows are inadequate to finance the increasing gap. Water sector reforms emphasise the need for (financial and other) independence for water providers, and encourage the commercialisation of operations by water supply companies in order to enhance revenues and encourage additional investments in the sector. However, there is concern that the focus on commercialisation will increase inequality in access to basic services.

Building on its experiences on the ground, SNV wants to contribute to overcoming this huge challenge. SNV has been following a step-by-step approach in several African countries aimed at building the capacities of local companies to cope with the challenges they face in providing equitable and sustainable water supplies to all residents in small towns and peri-urban areas. The emerging practice of socially responsible commercialisation consists of three steps.

The first broad step aims at gaining a better understanding of the actual situation. SNV’s analytical approach focuses on two aspects. To start with, it is important to gain an understanding of the underlying issues causing service-delivery problems. This often means gaining access to different perspectives, and bringing the under-valued and often ignored voices to the table. Secondly, it is important to share the deepened understanding gained with a wide range of stakeholders. It is this deep and shared understanding that empowers the relevant stakeholders to take steps leading to sustainable improvements.

The second broad step consists of providing capacity strengthening support to the water supply agencies. Four levels of support can be identified: creating organisational relations (with customers, local institutions, regulators and policy makers); improving the commercial orientation of water agencies through a focus on performance, tariff setting and management procedures; developing appropriate policies, including for procurement and outreach; and building internal governance systems.

In the third and final step, SNV provides support to water agencies to improve their outreach to under-served customers, often the urban poor and/or those living in peri-urban areas. This often involves engaging in genuine dialogue, and jointly looking for solutions to delivery problems.

Considering the challenges faced in the sustainable delivery of water services, there is indeed a real risk that if blindly applied, commercialisation will deny access to water for the poorest and most vulnerable groups in society. SNVs practice offers some evidence that it is possible to achieve a balance between economic (sustainability) and social (equity) objectives, if the three-step approach described above is implemented in an integrated and holistic way.
SNV is an international not-for-profit development organisation that works in 36 developing countries in Africa, Asia, Latin America and The Balkans. The East and Southern Africa Region of SNV covers Ethiopia, Kenya, Mozambique, Rwanda, South Sudan, Tanzania, Uganda, Zambia and Zimbabwe. We help empower local communities, businesses and organisations to break the cycle of poverty by providing them with the tools, knowledge and connections they need to increase their incomes and gain access to basic services. We do this by providing advisory services, knowledge networking and supporting advocacy in the agriculture, water, sanitation and hygiene, and renewable energy sectors.

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