Approaches to Conducting Political Economy Analysis in the Urban Water Sector

Seema Manghee and Alice Poole
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### Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>AusAid</td>
<td>Australian Agency for International Development</td>
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<tr>
<td>BNWP</td>
<td>Bank-Netherlands Water Partnership</td>
</tr>
<tr>
<td>CAPEX</td>
<td>Capital Expenditure</td>
</tr>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CGAC</td>
<td>Country Governance and Anti-Corruption (Strategy)</td>
</tr>
<tr>
<td>CMU</td>
<td>Country Management Unit</td>
</tr>
<tr>
<td>CN</td>
<td>Concept Note</td>
</tr>
<tr>
<td>CoP</td>
<td>Community of Practice</td>
</tr>
<tr>
<td>CPS</td>
<td>Country Partnership Strategy</td>
</tr>
<tr>
<td>CSO</td>
<td>Civil Society Organization</td>
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<tr>
<td>CWSA</td>
<td>Community Water &amp; Sanitation Agency</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development (UK)</td>
</tr>
<tr>
<td>DPL</td>
<td>Development Policy Lending</td>
</tr>
<tr>
<td>DKV</td>
<td>Dushanbe Vodokanal</td>
</tr>
<tr>
<td>DWSP</td>
<td>Dushanbe Water Supply Project</td>
</tr>
<tr>
<td>DWSP2</td>
<td>Dushanbe Water Supply Project 2</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ESW</td>
<td>Economic and Sector Work</td>
</tr>
<tr>
<td>FCAS</td>
<td>Fragile and Conflict-Affected State</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GAC</td>
<td>Governance and Anti-Corruption</td>
</tr>
<tr>
<td>GoP</td>
<td>Government of Pakistan</td>
</tr>
<tr>
<td>GoS</td>
<td>Government of Sindh</td>
</tr>
<tr>
<td>GPF</td>
<td>Governance Partnership Facility</td>
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<tr>
<td>GSDRC</td>
<td>Governance &amp; Social Development Resource Center</td>
</tr>
<tr>
<td>IA</td>
<td>Implementing Agency</td>
</tr>
<tr>
<td>IBNET</td>
<td>The International Benchmarking Network for Water and Sanitation Utilities</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IDAAN</td>
<td>Instituto de Acueductos y Alcantarillados Nacionales (Panama)</td>
</tr>
<tr>
<td>IEG</td>
<td>Independent Evaluation Group at the Bank</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institution</td>
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<tr>
<td>IL</td>
<td>Investment Lending</td>
</tr>
<tr>
<td>JMP</td>
<td>Joint Monitoring Program</td>
</tr>
<tr>
<td>GAC</td>
<td>Governance and Anti-Corruption strategy</td>
</tr>
<tr>
<td>GPF</td>
<td>Governance Partnership Facility</td>
</tr>
<tr>
<td>KWSB</td>
<td>Karachi Water &amp; Sewerage Board</td>
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<tr>
<td>LAO</td>
<td>Limited Access Order</td>
</tr>
<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MENA/MNA</td>
<td>Middle East &amp; North Africa region of the World Bank</td>
</tr>
<tr>
<td>MGD</td>
<td>Million Gallons per Day</td>
</tr>
<tr>
<td>MoF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MWC</td>
<td>Manila Water Company</td>
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<tr>
<td>MWSS</td>
<td>Metro Manila Water and Sanitation System</td>
</tr>
<tr>
<td>MWSS-RO</td>
<td>Metro Manila Water and Sanitation System-Regulatory Office</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>NORAD</td>
<td>Norwegian Agency for Development Cooperation</td>
</tr>
<tr>
<td>NRW</td>
<td>Non-revenue Water</td>
</tr>
</tbody>
</table>
ODI | Overseas Development Institute, London
Q&M | Operations and Maintenance
OPCS | Operations Policy and Country Services, World Bank
OPEX | Operational Expenditure
OPIAP | Operational Performance Improvement Action Plan
ORAF | Operational Risk Assessment Framework
PAD | Project Appraisal Document
PCU | Project Coordination Unit
PDO | Project Development Objective
PE | Political Economy
PE CoP | Political Economy Community of Practice
PMC | Project Management Consultant
PPA/PPAP | Public Performance Assessment Project (Manila, Philippines)
PPP | Public-Private Partnership
PSP | Private Sector Participation
PSIA | Poverty and Social Impact Analysis
PRMPS | Public Sector & Governance Group, World Bank
SM | Sector Manager
SSS | Superintendencia de Servicios Sanitarios
ToR | Terms of Reference
TWIWA | Water Anchor, World Bank
UNDP | United Nations Development Programme
UNHABITAT | United Nations Human Settlement Programme
UNICEF | United Nations Children’s Fund
WHO | World Health Organization
WRM | Water Resource Management
WSP | Water and Sanitation Program
WSS | Water Supply and Sanitation
WBG | World Bank Group
Progress in urban water supply and sanitation has been slow over the past few decades. The sector suffers from issues of equity and efficiency. Today, more than 780 million people are still without access to improved sources of water, and 2.5 billion lack improved sanitation. Those average figures mask huge disparities between the rich and the poor—the poor consistently have less access to reliable services than the non-poor. Even those who do have networked service often suffer from irregular service and poorly maintained infrastructure. A search of more than 12,000 observations on the water utility benchmarking website, the International Benchmarking Network for Water and Sanitation Utilities (IBNET), indicates that 37% of water utilities in the developing world do not even cover operations and maintenance costs from their internal revenue.

Most sector experts agree that political economy factors are a key reason for the lack of progress in urban water supply and sanitation. These factors include historical legacies that drive local, regional or national perceptions, policy and implementation decisions. They also include issues of empowerment, where some stakeholders may be excluded from reform efforts, while others are granted too much involvement. The authors of Characteristics of Well-Performing Public Water Utilities (World Bank, 2006) argue that water sector reform is “inherently political and requires the full commitment of its policy makers to correctly balance financial and political objectives.”

Although traditional infrastructure planning models do not easily incorporate political economy considerations, such analysis can be useful. Traditional planning models are designed to optimize the technical, financial, economic and engineering elements of investments, while taking into account environmental and equity considerations. But formal procedures do not lend themselves to documented analysis of stakeholders and interest groups, particularly where dishonest or nebulous practices are involved. World Bank projects usually incorporate some elements of political economy analysis of varying degrees of formality and comprehensiveness. Most teams have an understanding of the winners and losers from proposed reforms. Nevertheless, political economy assessments are useful for World Bank staff that must consider what can be achieved and in what time period. Political economy analysis adds a realistic perspective that acknowledges and identifies the reasons that can slow or block reforms.

Approaches to Conducting Political Economy Analysis

This paper introduces the reader to political economy, explains how political economy analysis can be a useful—if not indispensable—operational tool and offers actual case studies across a spectrum of learning situations. The audience is primarily urban water specialists and country managers in the World Bank; a secondary audience is other external partners and stakeholders. Political economy can be effective, particularly when employed in the early stages of a project cycle and used throughout the project, to:

- Improve project design, lessen project risk and improve the likelihood that funds can be disbursed to achieve the project objectives.

1 Progress on Drinking Water and Sanitation, UNICEF and World Health Organization, 2012 Update.
Shed light on why reform efforts are not fully, or ever, implemented, and how prospects for reform change over time.

Explain and anticipate the likely distributional aspects of reform efforts, and improve the sustainability and equity—e.g., provision of water supply to the poor—of Bank operations.

Promote more thoughtful and effective multi-stakeholder engagement with the many different institutions and actors involved in urban water (e.g., the mayor, municipality, MoF, other ministries and private and NGO service providers).

Help a task team and sector specialists to understand the interactions between politics and economics in new contexts.

This paper makes extensive use of case studies that apply political economy analysis. The cases span successful reformers, such as Chile and Senegal; reforms where the results are still incomplete or have not been replicated, such as Ghana and Panama; and those where reforms are pending, such as Pakistan. Lessons can be learned from both from success and failure. The case studies describe the equity, efficiency and sustainability of water supply and sanitation services in each country, and summarize sector governance comprising the legislative and regulatory framework and institutional arrangements and incentives. Successful reforms do not fit a simple single recipe. Each case study country has attempted reforms in the context of its cultural, historical and social legacies. These factors form a core element of political economy analysis.

In Chile, successive policy makers believed that complete financial autonomy would be possible for water supply and sewerage service providers given the existence of higher potential for user fees.

In Senegal, in a crisis situation, the government opted for a private affermage operator, which shows the opening of reform options to include negotiation of an equitable contract with a private operator.

In Panama, the public utility has been providing reasonable service but has been financially unsustainable for the past two decades, because of diminishing cost recovery and high non-revenue water.

In Karachi, Pakistan, the city has an acute problem with water availability. The case study offers important lessons from the public water service provider, which struggles to meet the demands of its fast-growing population. The public utility Karachi Water and Sewerage Board (KWSB) loses at least a third of its water through leakage, pilferage and non-revenue water.

Ghana has attempted textbook sector reform (i.e., aiming for larger coverage and higher service quality) that is well-focused and includes the creation of a regulator, the implementation of increased block tariffs, contracting with a private operator and the creation of an asset ownership company. Political economy analysis may offer the richest lessons in a country such as Ghana, which has tried best-practice reforms with mixed success.

Overall, political economy analysis provides a practical and useful operational tool that World Bank task team leaders and other urban water specialists can employ in their sector and project work. This paper, along with other analytical work such as Guidance Note, Public Expenditure Reviews from the Perspective of the Water Supply and Sanitation Sector, undertaken by the Water Anchor, is a part of a series of tools for urban water specialists available at www.worldbank.org/water.
I. Context

This section provides context around the political economy of urban water study, including why it was conducted, timing, audience and objectives, definitions, and methodological approaches taken. The purpose of this section is to provide background to the guidance and to explain how the work will be used going forward.

Why political economy assessments matter in the water sector

Water is a highly politicized sector, in part because water meets a basic need and is a human right. Political economy (PE) issues are typically evident in interference from local governments and mayors in utility operations, the role of water in political campaigns, and patronage, which diminishes the accountability of utility managers to consumers. Political economy assessments of urban water can help to:

- Improve project design by enhancing the understanding of the prospects for reform and by indicating approaches that take account of the political sensitivities of water.
- Lessen the risk that project implementation and operations will be held up by impasses.
- Promote increased understanding of how reform efforts change over time.
- Explain the likely distributional aspects of reforms, and improve the sustainability and equity of Bank water operations.
- Help a task team and sector specialists understand quickly the interactions between politics and economics, especially if they are working in a new country or regional context.

Timing of the study

The study of political economy and governance in the urban water sector coincides with a number of changes in how the World Bank’s approaches to PE issues. After completing the first phase of its Governance and Anti-Corruption (GAC) strategy the World Bank is now launching a second phase with emphasis on helping sector and country teams meet their country’s governance priorities. The Bank’s Political Economy Community of Practice (PE CoP) was founded in late 2009 and has heightened awareness of the importance of political economy analysis (http://go.worldbank.org/48RZDT850).

In November 2009, the Bank supported a joint donor conference on political economy with UK’s Department for International Development (DFID), the European Commission (EC) and the United Nations Development Programme (UNDP) that was specifically focused on the sector-level analysis of the water, education and roads/transport sectors. The present study is, in part, a follow-up to that conference. The Overseas Development Institute (ODI) has also recently produced a PE guide to the water sector for DFID, using a complementary problem-driven PE approach to the methodology deployed in this study and guidance note.4

Background

The primary audience is Bank operational staff in the urban water such as water sector specialists, governance specialists, and teams in countries where water is a significant for part of the Bank’s engagement. A secondary

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Defining Governance and Political Economy in Urban Water

The Global Water Partnership and UNDP define water governance as ‘the range of political, social, economic and administrative systems that are in place to develop and manage water resources and the delivery of water services, at different levels of society’, a definition adopted by the World Bank. In urban areas, the objective of most governments is to provide a water service that is **equitable** (meeting demand at the least cost), and **sustainable** (financially, environmentally and socially). Understanding why some governments are making good progress in reforming urban water provision and why others are not, and understanding why service improves, stagnates or even deteriorates, requires a thorough analysis of political economy drivers.

Good governance in the water sector includes, then, the ability to design public policies and institutional frameworks that are supported by key stakeholders. The stated principles of good water governance focus on equity, efficiency, participation, decentralization, integration, transparency, and accountability. To understand how the principles apply in practice, it is worthwhile to look at the legal, institutional, economic, administrative, technical and social instruments through which they are implemented.

PE is the study of both politics and economics, and specifically the interactions between them. It focuses on political power and how economic resources are distributed and contested and the resulting implications for development outcomes. PE analysis also considers interests, incentives, rents/rent distribution, historical legacies, prior experiences with reforms, social trends, and how all of these factors effect or impede change.

**Methodological approach**

This study incorporates the methodological approaches outlined by the primary World Bank conceptual frameworks on political economy. These are the “Problem-Driven Governance and Political Economy Analysis: A Good Practice Framework”, by Verena Fritz, Kai Kaiser, and Brian Levy (2009); and the “Political Economy of Policy Reform”, published by the World Bank’s Social Development Department (2008). The frameworks were anchored in external political economy literature and empirical work, and both place emphasis on a diagnostic component to analyze i) the challenges or opportunities, ii) the institutional arrangements and iii) the political economy drivers. More recently, the problem-driven approach has also included a fourth step of ‘what can be done’ to help bridge the gap between analysis and action. This is explained further in Section III of this report.

**Case study selection**

The project has undertaken a number of case studies, of which four were detailed case studies (Ghana, Pakistan, Panama and Senegal). Cases were selected where there was demand for analysis from sector/country teams and were therefore not selected ex ante. However, they provide a cross-section of different types of issues to help understand how a PE analysis can be most helpful to operations and illustrate the range of Bank operations in the sector. The countries are drawn from different regions as shown in Box 1 with the reasons for inclusion indicated:

**Dissemination and Learning Events**

Knowledge management and opportunities for collaborative learning were built into the study to ensure that the learning and knowledge gathered through this study be shared as widely as possible. To this end, the guidance and case studies will be disseminated widely both internally and...
The project has accorded a good opportunity for mutual learning across different units and disciplines in the Bank, bringing together those who work on urban water issues with those who work on political economy and governance. A working seminar was co-hosted by the Water Anchor and the Political Economy Community of Practice in March 2012, and the lively discussion around the project’s draft findings proved the value of such sessions. Future dissemination plans for FY13 include a joint session with Operational Policy and Country Service (OPCS) on the incorporation of political economy in the value chain tool and a joint event with the team conducting a study of the governance and political economy of groundwater at the Bank.

It is anticipated that the emerging training syllabus for the water anchor will include the political economy of water either as a separate course or by integration into other training sessions.

External liaison is also an important way to ensure that the findings and knowledge generated on the PE of urban water is widely used. A joint workshop to consider how to advance this paper will be held in 2013 in London. This workshop will include representatives from GPF donors, the core Bank team, and other interested partners.

### Key Challenges in the Urban Water Sector

The challenges in the urban water sector remain daunting since at least 780 million people worldwide lack access to an improved source for drinking water. Target 10 of Millennium Development Goal 7 is to halve the fraction of the World’s population without access to water and sanitation by 2015. This target has been met, measured as access to an improved water source, although major challenges remain.

Major constraints in water supply are political, social, institutional as well as technical and financial. These constraints include political instability, corruption, social dislocation through urban migration, and population growth. Internal migration has stressed institutional capacity where it is weakest: i.e. in peri-urban slums and small towns. The greatest challenge lies in building efficient, and service-oriented, institutions for continuous water supply (and sanitation service) provision. Without such institutions, capital investments fall into disrepair, and services fail.

### The World Bank and Water

This study focuses on urban water since the politics and economics around urban water are particularly acute and because the Bank’s programming is much more sizable in urban water than in other sub-sectors.
In 2010, 51 percent of the world population lived in an urban area, up from 40 percent in 1990. By 2030, 60 percent—or approximately five billion people—of the world’s population are expected to reside in urban areas. By 2050, close to 70 percent of the world’s population will be urban. The projected growth puts tremendous stress on already limited resources, although rapid urbanization can lower the per capita costs of providing essential services.\(^7\)

Where formal water service is inadequate or non-existent—e.g. in slums—residents are dependent on small-scale, informal water vendors. Typically, residents are forced to pay many times the official price of water for sub-standard quality, and, given high prices, they are unable to afford sufficient amounts of water. Small-scale providers are mostly unregulated and provide little accountability to their users. The informal water provision ensures that a significant share of water payments are locked into inferior service, an arrangement that often significantly distorts and impedes reform efforts due to vested interests of the providers.

Water supply and sanitation (WSS) projects account dominates the World Bank portfolio, with approximately double the amount of resources allocated compared with the combined additional four subsectors. Urban water accounts for approximately 75 percent of the WSS sector portfolio, while the projects in other sub-sectors—flood protection, hydropower and water resource management—provide many direct and indirect benefits to the urban provision.

The overall water practice comprises a complex institutional environment where many ministries and levels of government play a role. Common organizational features of the sector are:

- **Divided responsibilities** across central government ministries for the achievement of sector goals and implementation of sector strategies.
- **Primary responsibility for implementation of water schemes** lies with local government and with a range of ill-equipped sector agencies operating at the local level (with different structures in urban and rural areas).
- **Informal actors not part of the government structure** can also play an important local-level role in the implementation of water strategies, though data on their significance in terms of financing, their impact and their ability to exert influence is very variable both between and within countries.

**Figure 1: World Bank Water Portfolio by Subsector**

![Figure 1: World Bank Water Portfolio by Subsector](image)


Efforts to address the challenges of institution building have been made. The Bank’s “Guiding Principles for Successful Reforms of Urban Water Supply and Sanitation Sectors” (2009) highlights the need to engage key stakeholders to build consensus on sector reform.

The Bank has already supported some PE analysis to underpin water sector reform. In 2011, the Water and Sanitation Program (WSP)\(^8\) and the World Bank presented the results of a Global Economic and Sector Work study on the political economy of sanitation in Brazil, India, Indonesia, and Senegal.\(^9\) The Water Anchor is also undertaking the study on “Managing the Invisible: The Governance and Political Economy of Groundwater” that analyzes the impediments to better governance of groundwater within a given political economy context, and proposes recommendations to address the key governance issues.

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\(^8\) The Water and Sanitation Program is a multi-donor partnership administered by the World Bank to support poor people in obtaining affordable, safe and sustainable access to water and sanitation services.

II. How to Do Political Economy Challenges and Governance Assessments in Urban Water

This section provides a guide for task team leaders and sector manager for conducting political economy assessments. The purpose of this section is to help Task Team Leaders and sector managers understand what to look for, and what is important to know in conducting or commissioning PE assessments.

Political economy is the study of both politics and economics, and specifically the interactions between them. It focuses on power and resources, how they are distributed and contested in different country and sector contexts, and the resulting implications for development outcomes. PE analysis involves more than a review of institutional and governance arrangements: it also considers the underlying interests, incentives, rents/rent distribution, historical legacies, prior experiences with reforms, social trends, and how all of these factors affect or impede change.

What is a Political Economy Assessment?

Analytic tools such as stakeholder analysis, analysis of winners and losers, institutional and governance analysis, risk assessments—can play a valuable role in PE assessments. However, none of these on their own constitutes a PE assessment and using any of these tools in isolation risks missing important elements. For example, stakeholder analysis rarely explains the historical legacies (e.g., colonization, privatization attempts) that constrain policy choices around urban water today; while an institutional and governance analysis misses the incentives of players in and around the municipality, mayor’s office and other relevant institutions. A PE assessment is more systematic and comprehensive than any of these tools used in isolation. A problem-driven approach includes looking at the problem, in this case, an urban water problem, and its institutional underpinnings, and then drilling into the drivers that explain why the problem is there and then examining what can be done. Such an approach may include using elements of multiple tools—the sector value chain, an institutional review, rent analysis, historical analysis, and stakeholder analysis—all of which can be tailored for urban water.

Analytical Steps in a Political Economy Assessment in Urban Water

For urban water, a PE assessment could be conducted at a sector-wide level in a country comparing different cities, or consider specific cities/urban areas; or could...
be conducted to review a specific water Bank project. PE assessments for urban water can be conducted using the same overarching methodological approach for all categories of countries—i.e. (developed), middle income, low income, fragile and conflict affected (FCS). Where informal and formal rules strongly diverge, it would be useful to analyze rents and rent-distribution, patrimonial and clientelistic activities in more detail—this would include FCS states but also in many other countries. The additional incorporation of the Limited Access Order concept may help to highlight the risks of Bank activities in the urban water sector—i.e. that institutional solutions which work in highly developed countries may not work in other countries, and to show the possible impact where reform options alter balance of power around distribution of rents in the sector.

Step 1: Identify the problem or opportunity in urban water to be addressed through the analysis.

1a. Identify the problem or set of problems most acute to the urban water sector in question. Be as clear as possible in identifying the challenges before the PE analysis is commissioned, so that the assessment will be tailored to the specific context and is most likely to generate helpful recommendations that can be implemented. Typically, the problem is likely to consist of aspects regarding sustainability and/or equity. Lack of financial sustainability could be manifested in many ways: e.g. lack of cost recovery for operations and maintenance; high levels of non-revenue water, static tariffs at low rates, and high levels of central or local government subsidy to the water utility to cover capital expenditure and/or difficulties in securing external finance. Lack of sustainability in some cases may not be obvious, but may be deduced from high levels of deteriorating infrastructure, and a reduction in service provision/quality or service standards. Sustainability challenges could also include environmental or social challenges. Problems around equity may include high coping costs, especially for poor, unconnected households are forced to pay high unit costs for unsafe water while the middle- and upper-classes develop alternative arrangements to compensate for inadequate water provision.

1b. OR, instead of focusing on a problem, identify the reform opportunity that can be explored in a PE analysis. For example, a new government or Mayor may...
have been elected on promises to expand access of poor people to water (or to improve the quality standards of water), and has asked the Bank for help. Or a financial crisis may have prompted the central or local government to reconsider subsidy and tariff levels, and be more willing to take risks to push through less popular reforms.

1c. OR, if the task team wants to consider the urban sector but does not know which of the problems or opportunities to prioritize, commission a sector-wide PE study. After the sector area and process are analyzed, teams are encouraged to set out an action framework. However, it would still be likely that a few avenues of challenge areas were pursued for more thorough analysis, to avoid an overly broad approach that may not provide specific recommendations for the team to implement.

Step 2: Map out the institutional and governance arrangements and capacities.

2a. Once the problem or opportunity has been outlined, the next step in the analysis is to consider institutional and governance arrangements. These are typically complex in the urban water sector and so mapping of institutional and governance arrangements are especially important. Characteristically, there is no one ministry or agency with responsibility for water, with water institutions involving all levels of government—central, regional, municipal/local, district; multiple ministries (e.g. Ministry of Finance, Ministry of Health etc.) and different agencies with roles for policy, regulation and service delivery. Overlapping mandates are common, with lack of distinct roles and responsibilities. Informal providers are frequently evident in this sector, and so informal supply institutions (e.g. for-profit or not-for-profit institutions that deliver water to urban slums on tankers, trucks, donkeys etc.) need to be included along with analysis of formal service providers.

2b. Laws and regulations relating to urban water should be analyzed in this step. This might include the laws of relevance to the analysis: How is water regulated, which agencies are responsible for the regulations, and which regulations are contentious?

2c. At this step, the broader structural features of a country which affect urban water should be considered:

- Features that affect the political economy of a country, tend to change only slowly over time and are beyond the direct control of stakeholders.
- Examples for urban water: economic base and level of development, climate and geography (e.g. amount of rainfall, level of ground water supply, geological foundation of urban areas), population dynamics (especially rural to urban migration), and equity/inequality (particularly in cities with large slum populations).

2d. Institutional variables related to rules of the game would also be typically included in this analytical step:

- Related to “rules of the game”, including formal and informal institutions.
- Examples of formal institutional variables for water:
  - Political system, structure of government and ministries (especially level and type of decentralization; how water responsibilities are shared between agencies).
  - Body of law and regulation on urban water.
  - Policy and budget processes (e.g. patterns of subsidies and tariff levels).
- Examples of informal institutional variables:
  - Social norms and expectations around water supply and quality levels—e.g. dominant ideologies around urban water.
  - Patronage networks (especially in the municipality and utility).
  - Rent-seeking arrangements (including in relation to informal service providers).

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11 The “Political Economy of Policy Reform” framework (World Bank, 2008) promotes a diagnostic approach that incorporates a broader review of political economy at the sector level.
Step 3: Drill down to the political economy drivers.

3a. Arguably, one of the core aspects of PE that is different from a governance analysis on its own is the analysis of the underlying PE drivers seeking to explain why things are as they are in urban water. PE drivers typically include analysis of stakeholders, rent/rent distribution, historical legacies, path dependency, and history. For example, if there has been a tradition where water has been provided for free in a city, urban region or country, that creates expectations which are hard to change even decades later. Water subsidies tend to benefit high-income customers who are have better access both to water connections and to politicians. It is important to think through interactions between formal and informal institutions and stakeholders such as when politicians and utility managers have economic relationships with informal water vendors who benefit from poor public service.

3b. An overall PE assessment would typically incorporate many of the variables and concepts shown below. They can all be used in different settings (e.g. middle-income as well as fragile states)—deciding which concepts to use will depend upon the problem, the time and budget available, and the preferences of the person/team conducting the assessment. Learning from the first generation of governance and PE work in the sector has affirmed the importance of informal processes, and both formal and informal power… so the concepts should be used in a way to tease out those dimensions.

- Mapping stakeholders and their influence and positions in proposed reforms.
- Identifying for the urban water sector or project:
  - Who stands to win and lose from urban water reform (e.g. informal water providers might lose, the Mayor might win or lose depending how well the reform is implemented and whether s/he receives credit or blame).
  - How they can impede, block, or promote reform (e.g. through speeches, constitutional bodies).
  - What means they might use (e.g. direct or indirect lobbying, public information/disinformation campaigns).

- Historical legacies can shape current dynamics profoundly. Therefore there is a need to summarize key trends, events, processes and policies for urban water.
  - Example: impact of colonial and post-colonial era on water pricing and access policies.

- Path dependency considers how previous policy choices and investments in organizational capabilities have lasting effects on subsequent situations and the range of policy options available.
  - Examples: prior experiences of privatization, tariff increases, reduction in subsidies and subsequent political and economic ramifications.

- Identifying and mapping stakeholders (both individuals and organized groups) and their relative influences, power relations, and positions. This should include both the demand and supply sides of urban water.

- Internal stakeholder examples for urban water: political parties, ministries, regulatory agencies, utilities, business associations, local non-governmental organizations, community-based organizations, formal and informal providers of water, legal and illegal users, subsidized users.

- External examples: external donors (including the World Bank and other international finance institutions), foreign investors, international water/health non-governmental organizations, and other municipalities.
3c. Concepts which consider rents, patronage networks and how water features in elite bargains are likely to be of particular value, given the prominence of informal processes in the sector:

- How economic and political rents emerge and how they shape the incentives for actors; and how the sources and allocations of rents evolve and shift over time.
  - Examples: changes of allegiances, power struggle between political/economic elites who have interests in urban water such as over control of water tankers or donkey carts which provide water for under-supplied areas.

- Terms used to describe situations on which the formal and informal institutions (sometimes strongly) diverge, and informal rules subvert formal ones.
  - These concepts matter in multiple ways, including mapping the existence of patterns of personal loyalty and rent distribution that supersede or frustrate reform efforts.
  - Examples: where positions in the utility/municipality are bought and sold, where Mayors have business or family/ethnic links to corrupt and/or inefficient service providers.
  - In states or districts where institutional development is low (especially in fragile states), these concepts are especially pertinent to analyze.

- One concept regarding the organization of society, or a social order, is a Limited Access Order (LAO) where societies limit violence through the manipulation of economic interests by the political system in order to create rents that enable powerful groups and individuals to find it in their interest to refrain from using violence.
  - Example: in a LAO, elite bargains over rents might include who controls water provision for politically sensitive urban areas. Water provision may be divided not around technical best fit, but around the cleavage lines of conflict—e.g. ethnicity/clan/district. Disturbing these rent arrangements could lead to renewed outbreak of violence.

3d. There are multiple other variables and approaches that could be incorporated; game theory approaches may be particularly useful to consider given the nature of the sector, including:

- Collective action challenges occur when a lack of information, missing and/or asymmetric information generates incentives that prevent individuals resolving a situation where multiple individuals associate to produce something of value together. This makes it difficult for groups to self-police and to punish/contain free riders.
  - Examples: over-use of water supply by certain groups without extra cost or sanction; illegal tapping of common water supplies; pollution of urban water without penalty.
  - This includes the challenges of organizing coalitions to address issues around allocation, quality and equity of urban water supply.


Principal-Agent Relationships

- Principal-agent relationships refer to the challenges encountered where one actor (the principal) relies upon and therefore must motivate another actor (the agent) to act on their behalf or in their interest.
- Examples: where the local government (principal) depends upon a water utility (agent) to supply urban water; or where the water utility (in this example, the principal) is dependent upon suppliers (the agent) to deliver water to unconnected, poor areas.

Aspects of political market imperfection include consideration of information constraints, social polarization, and credibility of political promises.
- Examples: typically, water users have little information about the rights or service standards they can expect... provision of increased levels of accurate information in an accessible manner on a regular basis can change the incentives of politicians and service providers.

This stage should include the development of an explicit theory of change, through which causal links which link program inputs to expected program outputs are articulated. This includes an assessment of the range of potential entry points that may be viable for the Bank or other external actors who seek to facilitate or support the change. For example, it may not be feasible to opt for full cost recovery in the short-term, especially where quality of water provided is low, which might result in a recommendation to promote a stepped improvement in quality standards and cost recovery over a longer timeframe than initially envisaged. In a context where the political costs of reform are high, and the benefits spread widely, then it may be possible to find ways to lessen the political costs of reform and/or to increase the visibility of the benefits. This could include a range of actions, from supporting a broader coalition that shares the political costs of reform, improving communication strategies and so on.

Recommendations on the way forward may wish to consider explicitly the challenges around how best to show and publicize good results in the urban water sector. In this sector, it is typical that attention is drawn when there is a crisis or poor results—e.g., sub-standard connectivity, brackish water, breakouts of disease. Characteristically, it is far harder to see or promote the effects of good results—e.g., gradual improvement in connectivity, or more efficient operations. Mechanisms to consider how best to help utilities, local municipalities, central government, and politicians evaluate and publicize better results may be a core part of how to ensure ongoing momentum for reform efforts.

Process Steps for Conducting a Political Economy Assessment

The previous section explained the approach/content behind each analytical step; this section details the main areas to consider in the process of conducting a PE assessment. These are laid out in Table 1.

The following aspects are also important to consider:

Involvement of Task Team Leader and wider team: It is essential that both the Task Team Leader (TTL) and the wider team be engaged throughout the process. This is the best way to ensure that the PE assessment of urban water is effective and useful—that is, grounded in a focused problem or opportunity, with findings calibrated with sector (and country) teams and recommendations that have
Table 1: Process Areas, Purpose, and Role of Task Team Leader/Task Team

<table>
<thead>
<tr>
<th>Process area</th>
<th>Purpose</th>
<th>Role of Task Team Leader/ task team</th>
</tr>
</thead>
</table>
| Planning problem-driven PE work in urban water<sup>a</sup> | To clarify:  
  - The objective of the urban water PE analysis.  
  - Questions to be investigated.<sup>b</sup>  
  - Whether the output is formal or informal, primarily internal or external.  
  - How the PE findings will feed into urban water program design and policy dialogue. | • Clearly articulate the key questions to be answered for the urban water project/sector.  
• Be part of an interactive process in creating a realistic and focused ToR/Concept Note with relevant staff and consultants.<sup>c</sup>  
• Decide and inform the PE specialist/s whether the output is formal or informal, primarily internal or external.  
• Agree how the PE findings will feed into program design and policy dialogue.  
• Ensure that the process is continuously adaptive, to address new issues, lines of thoughts, or for comparative research purposes.  
• Ensure that the sector manager and country director/manager approves commissioning an assessment. |
| Defining and sourcing the necessary skills<sup>d</sup> | To ensure that a PE assessment team incorporates the necessary skill set (PE skills, strong knowledge of the water sector, and linguistic and writing skills). Typically, most PE assessments combine at least one international expert and one local expert who cover these skills between them. | • Oversee the creation of the team, ensuring that the skill sets are met as well as possible, given time and budget constraints.  
• Harness available Bank resources—e.g., the CoP has created a roster of consultants (including water specialists), has materials to introduce them to the Bank operational context, and can also provide comments on ToRs/Concept Notes. |
| Considering how best to involve stakeholders | To build upon existing tacit knowledge and begin to translate findings into operations.  
To decide how participatory to be with government and other stakeholders. (Given that the water sector is complex and involves many stakeholders, some form of dissemination/communication is likely to be useful.) | • Ensure that the Bank team considers the challenges and takes the time to share their tacit knowledge, e.g., project teams working in urban water in different cities/urban areas.  
• Decide whether the audience is internal to the Bank or whether to adopt an intensive participatory approach with the government and other key stakeholders.  
• Ensure regular feedback to and from PE consultants to the team, to help validate findings and consider recommendations for programming.  
• Ensure quality management throughout the process.  
• Decide how to share and disseminate the work and whether to do so during the process or after the findings are completed. The default position should be to seek wide dissemination, but this is not always possible.  
• Consider that PE findings do not need to be written in a document per se. Also, the final document does not need to be shared broadly, but the findings still could be discussed with a group of relevant stakeholders (e.g., municipality, utility, NGOs, local media, service providers, external donors). |
| Sharing and disseminating the work (and when to do so) | To determine how and in what form to share and disseminate the work. |  
| Bridging analysis and follow-up action | To ensure that analytical findings are shaped into recommendations that can influence Bank policy and programs. | • Ensure an effective link between analysis and implementation by engaging actively throughout the process, not just at the end stages, and by involving sector, country, and project experts in shaping the policy recommendations section of the PE assessment.  
• Unlocking the latent potential in the sector requires unconventional approaches: learning to maneuver given the political economy context—tactics and strategies may change. |

Source: Adapted from How-To Notes: Political Economy Assessments at Sector and Project Levels. World Bank, 2011.

<sup>a</sup> Problem identification may take more time than expected but helps to drive focus. On occasion, the current context may change so quickly that it may prohibit effective PE studies—e.g., the planned PE water studies in MENA for this report were not possible given the circumstances surrounding the Arab Spring uprisings.

<sup>b</sup> See Annex for a set of questions by each step of the value chain which may also help determine the most appropriate questions to investigate.

<sup>c</sup> See Annex for a draft ToR that can be adopted for any urban PE assessment.

<sup>d</sup> The set of case studies for this project varied in focus and detail in part as a result of whether a water or PE sector specialist primarily carried out the study, and/or whether the product was largely authored by an international or local consultant.

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maximum operational relevance. Project teams should consider ways to draw on expertise from the practice across the Bank (network and other regions) and from other practices.

Timing:
Commission PE analysis early in the design process, so that the findings can be incorporated into the project design. A less ambitious PE assessment, focusing on a specific problem and commissioned in time to influence the design of the sector or project, is often preferable to a more in-depth study after a Concept Note and budget have been agreed. However, PE assessments can be used at different times throughout a sector strategy, project or reform process. PE assessments can also be used retrospectively to consider why urban water reform projects/strategies did not deliver their intended results.

Scope:
It can be difficult to ensure that the PE assessment has the right balance of focus and breadth to be of maximum operational usefulness to urban water task teams. To help with scoping, task team leaders are advised to ensure that there is a clear vision of the intention of the work from inception, with a shared understanding among the task team about (a) the focus of the work; (b) the type of output (informal or published); (c) whether the assessment will be used internally only, or will form part of a participatory approach with the government and other stakeholders; and (d) how the analysis will feed into urban water sector or project operational design and implementation. For example, if the work is to inform a particular project in a short timeframe, then a much tighter focus and smaller scope would be appropriate, whereas an overarching sector/comparative study is likely to be broader and take longer. It is important to manage expectations about what PE assessments can offer, by being realistic about what is possible under specific financial and time constraints.

Discussions with internal and external clients:
A PE assessment is also likely to involve discussions with the internal Bank client about the assessment aims. This may include careful deliberations about how to proceed once the findings are uncovered, especially if rents are uncovered to be a prominent problem.

Usually, there needs to be some general introduction to the study with country counterparts. This can be time-consuming given range of actors involved in urban water, and because the sector is political. In this case, consulting with stakeholders with different points of view may be an important step to take. Nevertheless, PE assessments can be undertaken to match different time and budget constraints, and, when done well, should produce considerably more value than the alternative of not conducting such analysis at all.

It is possible, even likely, that PE assessments raise issues that are sensitive to disclose publicly. Specific decisions in this respect must rest with the country and sector teams, who can seek guidance from members of the Political Economy Community of Practice on how to raise issues. Although PE assessments are normally written down, rather than verbal, the actual report could be considered for internal use, as a deliberative document, or could be published. Ways to consider tackling sensitivity include: removing some specificity around names (especially interviewees), triangulating data with as many sources and through use of quantitative as well as qualitative data; and through using a presentation or a focus group discussion rather than a report to disseminate key findings.

Time and Financial Requirements:
PE assessments can be tailored to budget and time constraints. Typically, a project or sector political economy assessment would cost around US$30-$50,000, while an in-depth/participatory assessment (for example, as part of a Poverty Social Impact Assessment) might cost up to US$100,000. In the latter case, that might also involve technical assistance to incorporate the recommendations for action into strategic or operational work. The CoP’s Menu of Products for political economy assessments includes specific options for project and sector teams to provide guidance for task team leaders who wish to commission PE work by clarifying what outputs might be achievable given different resources and requirements. It is applicable for urban water PE studies.

It will be difficult for task team leaders to fund PE assessments in urban water from existing budgets or from Regional or sector-based funding and PE assessments will therefore be more likely to need additional financing.

12 It is important to consider the requirements of the Bank’s Access to Information policy; however the PE CoP has not found, and does not expect, that this will significantly change the frequency of methods of dissemination of PE work, which, when it is an input to an urban water (or other) operation, is deliberative in nature and therefore is not disclosed.
13 Political Economy CoP Menu of Products, April 2010.
This comparative PE analysis in urban water has been funded through the Governance Partnership Facility and additional funding may be available from the Multi-donor Trust Fund for Poverty and Social Impact work (hosted by the Social Development Department and the Poverty Reduction and Economic Management (PREM) Poverty Reduction Group), particularly if the PE assessment analyzed equity and distributional issues. Otherwise, alternative types of Trust Funds are likely the most realistic way that PE analysis can be undertaken given budget constraints.

Selection of consultants to carry out the PE assessment in urban water:
It is challenging to find the appropriate mix of consultants to support PE of urban water; and will take time and energy of task teams. Combining political economy skills and strong understanding of the urban water sector is the most important factor—but there is often a trade-off between them. Likewise, local consultants may be vital to help explore the underlying political economy factors, but have limited understanding of how the Bank functions.

PE tools that can be used in the Assessment Process:
A variety of analytical tools ought to be deployed in a PE assessment to ensure that the problem is systematically analyzed. Use of any one of them in isolation is not adequate, because none of them constitute a political analysis in themselves. It is only through an overall analytical approach, incorporating multiple tools, that an assessment can be considered to be a PE study.

Stakeholder and influence mapping
Stakeholder (and power/influence) mapping is of particular significance to this sector, because of the complexity and political nature of the sector. Mapping of stakeholders helps to determine the positions, levels of influence and power of different actors, and the channels through which the influence occurs. Many interests are difficult to define, especially if they are covert, numerous, or in contradiction with the stated aims or objectives of the organization or individual.

To maintain focus on the problem, consider each stakeholder in relation to the proposed objectives and activities of the specific urban water project or policy. The following questions should guide the inquiry into the interests of each key stakeholder or group, and should explicitly include key informal actors:

- What is the stakeholder’s expectation of the policy/project?
- What benefits are there likely to be?
- What costs are there likely to be?
- What channels and resources might the stakeholder mobilize?
- What are the likely implications for reform prospects?

Power and influence refer to the impact stakeholders can have on a project or policy, for example to control what decisions are made or to facilitate or hinder its implementation. Stakeholders’ interrelationships are as critical to consider as their individual relationship to the project or policy. The following questions are a good starting place for organizing information about social, economic, political and legal status, authority, control, and relative negotiating positions among stakeholders:

- What are the relationships between the various stakeholders? Who has power over whom? Who is dependent on whom?
- Which stakeholders are organized? How can that organization be influenced or built upon?
- Who has control over resources? Who has control of information?

In some cases, these questions can be answered through a review of secondary information; more often, some degree of primary interviewing will be necessary to determine the answers. Triangulation of multiple primary and secondary sources will help to determine a more robust mapping, although some levels of bias will remain. Answers to the questions will reveal the kind of support that is needed for a given project or policy and which stakeholders are in the best position to provide that support as well as identify which actors are likely to block reform, how and in what form.

The outcome of the stakeholder analysis should be organized into a table to organize information about interests, power, influence and involvement of each key stakeholder or group. A draft template is provided in Table 2 for use in urban water projects. The idea of the mapping template is not to be mechanistic—instead, it can and should be used in a flexible way. For example, this may
## Table 2: Draft Stakeholder Mapping Template for Urban Water

<table>
<thead>
<tr>
<th>Stakeholder (examples for urban water)</th>
<th>Status</th>
<th>Motivations to support reform</th>
<th>Costs associated with reform</th>
<th>Rate relative importance/level of influence (including power of veto)</th>
<th>Channels of influence and resource (including veto points and informal channels)</th>
<th>Implications for reform prospects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
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<td>Ministry of Public Works</td>
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<td>Ministry of Environment</td>
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<td>The Mayor</td>
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<td>The Municipality</td>
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<tr>
<td>Utility Management</td>
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<td>Utility staff</td>
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<td>Consumers</td>
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<td>Community-based organizations*</td>
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<tr>
<td>Formal service providers (e.g.</td>
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<tr>
<td>businesses/NGOs)</td>
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<tr>
<td>Informal service providers</td>
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<td></td>
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<tr>
<td>Environmental group</td>
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</tr>
</tbody>
</table>

Source: Authors.

* For different organizations — e.g. CBOs, NGOs, businesses — the analysis should be done for each key organization.

## Table 3: Draft Influence/ Interest Matrix for urban water

N.B. See if can find ways to move players from this quadrant into supportive quadrant.

N.B. Largely ignore players here try to find ways to promote influence & support.

N.B. Try to get more players in this quadrant.

N.B. Try to find ways to improve level of influence of these stakeholders.

Source: Authors.
include adding in new actors, or adding in new rows and providing summary analysis of the different standpoints in ministries, views of different key NGOs, private sector groups, and so on.

When this template is filled in, the findings can be mapped onto a stakeholder interest/influence matrix, where all the key stakeholders would be placed into one of four quadrants.

Strategies can be then developed to find ways to overcome/mitigate some of the obstacles for reform and to strengthen the influence of committed reformers e.g.:

1. Try to find ways to support more actors to move into the high influence, high interest/support matrix.
2. Improving the incentives of actors in the high influence/low interest quadrant to support reform, e.g. through differing timing of reform, changing key messages etc.
3. Helping the actors in the low influence/high interest quadrant to have more voice and influence, e.g. through providing useful data, access to media.
4. Largely ignore those stakeholders in the low influence/low interest quadrant.
This section presents the political economy findings of the case studies, primarily through the methodological lens of a problem-driven political economy approach. Applicable aspects from the case studies have been used to explore a narrative about some of the most relevant challenges in urban water, and to provide detailed examples of these challenges. In the course of the study, the project team decided to incorporate the value chain analysis tool and adopt it to incorporate a political economy lens; therefore a second part of this section includes a brief presentation of findings in four components of the value chain for urban water.

**Figure 3: Steps in a Problem-driven Political Economy Assessment of Urban Water**

1. **What are the challenges?**
   - Problem-definition—evidence of poor outcomes to which PE issues appear to contribute
   - For example, issues around cost recovery, sustainability and/or equity

2. **Institutional/governance arrangement & capacities**
   - What are the institutional arrangements for urban water? Are they capable, effective and efficient?
   - Mapping of:
     1. Relevant institution
     2. Laws and regulations
     3. Policy processes (formal and de-facto rules of the game)
     4. Analysis of corruption

3. **Political economy drivers**
   - Why are things this way? Why are policies of institutional arrangements not being improved?
   - Analysis of:
     1. Stakeholders, incentives
     2. Rents and rent-distribution
     3. Historical legacies and earlier reform experiences
     4. Social trends and forces

4. **What can be done?**
   - What actions can be proposed? Is the project going to work within the existing reform space and/or seek to expand it?
   - Recommendations on:
     1. Timing, tailoring, and sequencing of urban water strategies and projects
     2. Communication and dissemination strategies etc.

Source: Source: Adapted from How-To Notes: Political Economy Assessments at Sector and Project Levels. World Bank, 2011.
Presentation of Findings through the Problem-Driven Approach

1. The Challenges/Opportunities

The case studies confirmed that two of the most common challenges for urban water revolve around i) financial (and other forms of) sustainability and ii) equity. Problems around inadequate or outdated infrastructure, insufficient technical capacity of staff, lack of efficient institutions, and political interference in utility management, inadequate cost recovery, prioritizing middle-and upper-class interests and so on, can all be seen as important contributing factors which typically result in two sub-par outcomes around unsustainable and inequitable water supply. Opportunities are evident where committed, ongoing political leadership, stakeholder involvement, effective policy and implementation strategies have addressed (at least adequately enough) underlying incentive and other political economy issues.

Chile: Chile's successful legal and regulatory framework in the water supply and wastewater sector was developed under the Pinochet military regime from 1973–1990 and has been fully supported by a succession of democratically-elected governments who governed from the early 1990s to date. The reforms have produced the most developed water and sanitation sector in Latin America. Currently, urban water supply coverage through house connections is 100%, public sewerage connection coverage is 96%, and 87% of all wastewater generated is treated. These reforms have been financed from the cash flows of the service providers.

Ghana: The government of Ghana has attempted textbook reforms in the urban water sector that have not produced all the expected benefits at this time. The sector targets are to deliver effective (i.e. higher coverage and higher service quality), efficient, and sustainable (both financially and operationally) services. These targets are well-focused and efforts to meet them have included the creation of a regulator, the implementation of increased block tariffs, contracting with a private operator, and the creation of an asset ownership company. However, these have not had a distinct effect and, in contrast with the objectives, decreasing connection rates, high levels of non-revenue water, insufficient cost recovery, and insufficient investment level mire performance.

Pakistan: Karachi is the largest urbanized city of Pakistan with 18 million inhabitants. The Karachi Water and Sewerage Board (KWSB) is unable to recover its operational and maintenance cost, has inadequate tariffs, and is unable to prevent

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**Table 4: Focus of Case Studies**

<table>
<thead>
<tr>
<th>Current institutional setup</th>
<th>Utility service area</th>
<th>Focus recent of reform initiatives (√)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Yields significant influence: √, influence limited due to interference/lack of authority: (√))</td>
<td>National (all urban)</td>
<td>Cost-recovery/subsidy</td>
</tr>
<tr>
<td></td>
<td>Regional/Prov. govt</td>
<td>Mega city</td>
</tr>
<tr>
<td>National govt</td>
<td>City govt</td>
<td>Utility autonomy</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chile</th>
<th>Ghana (all urban)</th>
<th>Karachi, Pakistan</th>
<th>Panama (all urban)</th>
<th>Senegal (all urban)</th>
</tr>
</thead>
<tbody>
<tr>
<td>√ √ √</td>
<td>√ √ √</td>
<td>√</td>
<td>√ (PPP)</td>
<td>√</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors.

*The major recent reform included a management contract, which ended mid-2011.*

*Privatization discussions were halted at previous elections due to popular backlash against the initiative.*

---
siphoning of water to unofficial tanker businesses. 50 percent of the population of Karachi resides in the katchi abadi (squatter settlements). Citizens residing in the ‘non-regularized’ katchi abadis cannot legally access potable water and are often forced to access contaminated water from informal service providers.

Panama: In Panama City, the public utility (IDAAN) has been financially unsustainable for the last 20 years, because of diminishing cost recovery and high levels of non-revenue water. Maintenance has been cut back and water infrastructure has significantly deteriorated. There is mediocre service to 75% of the population (90% of urban population) while the rest of the population has to make alternative service arrangements. Efforts at tariff increases have not succeeded.

Senegal: Senegal was beset by substantial issues in water from the late 1970s until the 1990s until a reform effort. Since then, a success story has emerged—Senegal pursued the standard sector development goals of equitable, efficient and sustainable service. What is unusual is that all targets have been achieved: i) service coverage has expanded and service quality is 24/7 with bacteriologically safe water; ii) efficiency is demonstrated by non-revenue water of 20% and staff productivity of 2.5 staff per thousand water connections and iii) financial sustainability achieved since all operating expenditure (OPEX), depreciation and debt service is paid from customer collections.

2. Institutional and Governance Arrangements

Typically, responsibility for urban water is spread throughout many different agencies, levels of government, and service providers and therefore careful institutional analysis is particularly important in this sector. There are many examples of how overlapping mandates, insufficient incentives, lack of capacity, and inefficient processes can impede reform efforts.

The following table from Ghana shows how policy formulation, service provision, regulation and support functions can be split between multiple institutions and actors.

There are multiple challenges with respect to the way the institutions are set up and how power is distributed between them. The Government is the sole shareholder of Ghana Water Company Limited (GWCL), the asset-holding company and Ghana Urban Water Limited (GUWL), responsible for operation and management of the systems and wields substantial levels of power. The government controls

**Table 5: Ghana’s urban water institutional arrangements**

<table>
<thead>
<tr>
<th>Actor</th>
<th>Role and responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Policy formulation</strong></td>
<td></td>
</tr>
<tr>
<td>Ministry of Water Resources, Works and Housing (MWRWH)</td>
<td>Overall policy formulation, planning, coordination and harmonisation, monitoring and evaluation of programmes for the water supply through its Water Directorate (WD).</td>
</tr>
<tr>
<td>Ministry of Finance and Economic Planning (MOFEP)</td>
<td>Policy on PPPs and guarantees for GWCL to secure loans to finance the delivery of urban water infrastructure.</td>
</tr>
<tr>
<td><strong>Service provision</strong></td>
<td></td>
</tr>
<tr>
<td>Ghana Water Company Limited (GWCL)</td>
<td>Asset holding company with responsibility for planning and investments</td>
</tr>
<tr>
<td>Ghana Urban Water Limited (GUWL)</td>
<td>Operation and management of the systems</td>
</tr>
<tr>
<td>Other providers</td>
<td>Provide all services not provided by GWCL/GUWL</td>
</tr>
<tr>
<td><strong>Regulatory Agencies</strong></td>
<td></td>
</tr>
<tr>
<td>Public Utilities Regulatory Commission (PURC)</td>
<td>Economic and quality of service regulation for urban water supply. Provide guidelines for rates to be charged by utilities, examine and approve rates to be charged by utilities for services provided, monitor standards of performance for provision of utility services, Protect interest of both consumers and providers of utility services</td>
</tr>
<tr>
<td>Ghana Standards Board (GSB)</td>
<td>Responsible for setting standards, which for urban water supply is the drinking water quality standards</td>
</tr>
<tr>
<td>State Enterprise Commission (SEC)</td>
<td>Responsible for the efficient and profitable operation of the prescribed state owned enterprises, advise government on the appointment and removal of Chief Executives and members of the Boards or other governing bodies of the prescribed bodies</td>
</tr>
<tr>
<td>Water Resources Commission (WRC)</td>
<td>Responsible for regulation and management of water resources in Ghana. Water abstraction permits and charges, and registration of all drilling companies and their activities</td>
</tr>
<tr>
<td><strong>Support</strong></td>
<td></td>
</tr>
<tr>
<td>External support agencies</td>
<td>Technical and financial assistance</td>
</tr>
</tbody>
</table>

Source: Ghana case study.
the appointment of GWCL Board members, top management of GWCL and in setting tariffs. The President appoints and dismisses the Managing Director (MD) of GWCL, who is also a board member. Historically, it is common to see the MD’s position filled by an Acting Chief Executive instead of an appointed Chief Executive, which weakens their authority. Chief Executives or Managing Directors of GWCL can also be fired before the end of their term without recourse to the GWCL Board. Political interference in the appointment and tenure of the MDs of GWCL creates a sense of insecurity for the top management; encourages maintenance of the status quo and does not encourage innovation for tackling embedded problems. Political interference in the appointment of Board members results in greater levels of accountability to the political system than to end users and customers. When the interest of the public and the politicians diverge, decisions are often made in the interest of the politicians.

In Chile, the sector transformation began with the creation of a semi-autonomous national agency, SENDOS, that operated from 1977–1990. SENDOS had 11 regional directorates with control over the individual systems in each region, and one national directorate. In addition, there were two publicly owned water supply and sewerage share companies, for Santiago de Chile, and Valparaiso, respectively. During the 13 years of SENDOS’ existence deep comprehensive legal and regulatory reforms of the sector were prepared. The organization of the sector based on regional companies was a conscious decision to produce economies of scale through an agglomeration of individual systems. From 1989 onwards, transcendental laws and regulations were adopted to support service for all, efficiency, and sustainability. The sector continued to operate under largely public ownership (but with corporate governance) for about one decade to test the legal and regulatory framework and create credibility in the minds of prospective private strategic investors. After confirming the robustness of the legal and regulatory framework during two rate revisions, from the late 1990s and onwards, shares in the publicly owned share corporations were gradually sold to strategic private investors with the contractual rights to provide water supply and sewerage services within their service areas. Private ownership had been only 3% of all service providers in the urban sector in 1989, but had risen to 95% by 2005, with municipal ownership accounting for the balance of about 5%. The results of this carefully planned and implemented transformation of the sector can be seen in the coverage and quality of services. As late as in the year 1965 urban water supply coverage was 54% and the coverage of sanitary sewerage was 25%. The share of treated

Box 2: Underlying Principles behind Chile’s Legal and Regulatory Reforms, 1989

Principle One: Separation between Policy-setting, Regulation, and Operations

The Parliament approves the laws governing the sector and by which public and private service providers must abide. However, the continuous regulation of the correct application of the policies, laws and norms is through a special regulator, the Superintendencia de Servicios Sanitarios (SSS) that regulates both quality of service and the tariff of both water supply and sewerage services. The regulator is established under a special law and receives operational funding from the central government budget. The SSS gives service providers an explicit contractual right to provide services and charge tariffs, as long as service providers meet contractual standards of quality and coverage of services. Failure to do so can be cause for the regulator to rescind the license for service provision and appoint an alternate service provider.

Principle Two: All services must be fully paid for by consumers in accordance with a special Tariff Law. The full costs of both water supply and sewerage services are defined as the average incremental costs of the next 15 years of operations and investments. Tariffs are thus the future costs of service, expressed in prices of the year of authorization, but adjusted by a consumer price index year by year for the interim period between each tariff revision that takes place every five years. Since costs are usually on a rising trend, the principle of charging future costs to all consumption implies that financial surpluses are likely. It should be noted that the SSS attempts to ensure the efficiency of service by comparing the efficiency of capital investments and of operating expenditure (as required to be detailed in each operator’s request for a tariff) with those of other operators. Levels of efficiency, such as level of Non Revenue Water (NRW), are authorized up to the level of the most efficient operator in the sector.

Principle Three: No cross subsidies are allowed under the Tariff Law. However, each service provider is obliged to charge the full incremental costs of service to each consumer in an easily understandable fashion.

Principle Four: To enable all consumers to pay the full costs of service, a special Subsidy Law has been adopted where the subsidies are provided for eligible poor residential clients consuming up to 20 cubic meters of water per month. The targeted and income-related subsidy is contingent on the inclusion of individual households in a registry that is updated every three years through socio-

(continued on next page)
wastewater was a low 8% as late as 1989. Currently, urban water supply coverage through house connections is 100%, public sewerage connection coverage is 96%, and 87% of all wastewater generated is treated.

3. Political Economy Drivers

There is a wide range of context-specific political economy drivers which explain why sub-optimal policies and practices remain and why attempts at reform have been successful or met with (comparative) failure.

Historical legacies

The case studies confirmed that historical legacies—i.e. past practices in the country, district and/or city—are significant for the possibilities of reform. This was particularly evident in the case of Panama City, where urban water provision (and sanitation) has a long tradition of being provided for free or at very low prices. The United States of America, while it owned and administered the Panamá Canal, built the infrastructure to provide water and sanitation to the main cities around the Canal: Colón and Panamá. Americans provided water and sanitation for free from 1914 to 1955, in part to promote legitimacy for their ownership of the Canal. This is an important legacy that has influenced the way tariffs were set afterwards. In 1955, the US transferred these services to the government of Panamá, who created the Comisión de Agua de Potable (Water Commission). The Commission continued to provide water (and sanitation) services for free, and it was responsible to the Ministry of Health, which reinforced the emphasis on public health rather than financial stability. In 1961, the public utility, IDAAN, was created and entrusted with the responsibility of providing water and sanitation nationwide and, at that time, started to charge Panamanians for the service, although they set unrealistically low tariffs from the outset. This historical legacy helps to explain why politicians in Panamá have found it difficult to charge a tariff for a service that i) used to be provided for free and ii) relates to the public health of the population. Incentives for the politicization of water were present from the outset, as Panamanians had seen water as an entitlement rather than a private good.

Path dependency

Path dependency is often linked with historical experience, as it refers to how previous policy choices and investments in organizational structures and capacities have lasting effects on subsequent situations and frames the range of policy options available. Often path dependencies exist, although, especially in less stable developing countries, there can also be very sudden and very significant changes/ruptures, so path dependency does not always restrict options although it may do. In Panama City, against the backdrop of the historical legacy of free/very inexpensive water and mounting financial issues around water, sizeable reform efforts were attempted in 1990s, with the backing of the International Monetary Fund, the World Bank and the International Development Bank. The reform included attempted privatization, cost-recovery initiatives such as improved metering and use of targeted rather than de facto universal subsidies, as well as staff reductions. These reform efforts largely failed in the face of very high levels of public opposition: at the time, public rejection of the utility’s privatization reached 80% according to opinion polls. The political costs of raising tariffs were very high and largely borne by the Presidency, in part because of the centralized nature of power in Panama and in part because of timing, as the privatization issue became a central theme of a Presidential election. President Perez-Balladares lost a referendum for a president to be able to stand for re-election and in 1999 his party’s opponent, Ms. Mireya Moscoso, won the Presidential election having made water a central issue in the campaign. Since that time, the privatization of IDAAN does not appear to be a politically viable option. Any reform alternative for Panama City’s urban water management and supply therefore has to consider a model around a form of public enterprise.

Rents and rent distribution

Rents in the urban water sector can be considerable: their size, and how they are distributed amongst stakeholders, influences the space available for reform. Rents can be
manifested in a number of ways, including provision of water above official quota levels and/or above official rates of sale; control over tendering for bids resulting in sub-optimal bids from a commercial/ quality standpoint and/or being awarded to favored contractors; access to and control of key institutions to impact policy and implementation choices—e.g. over location of water supply prioritizing politically important areas rather than areas of scarcity. Rents can take the form of corruption, in both petty and grand forms, but can also incorporate broader aspects around influence and patronage.

In Karachi, Pakistan, one of the major avenues for rent seeking is manifested through the tanker system. Karachi has an acute problem with water availability. The demand for water is estimated at between 720 and 972 million gallons per day (MGD), while the Karachi Water and Sewerage Board (KWSB) collectively acquires 670 MGD. However, after reductions for leakage, pilferage and non-revenue water of around 30–35 percent, this may fall to 435 MGD. Although various solutions around building dams, increasing the quota of water supply—Karachi through the Indus River, and adopting rain-water saving techniques are discussed, in practice, much of the gap is filled by informal sources of water supply including tankers, pushcart vendors, manual water carriers, donkey carts etc. Chart 1 indicates the importance of tankers to this secondary water supply. The estimation of the size of rents created by siphoning around 41% of the city’s water is estimated at $43 million per year.

Stakeholders

Stakeholders in urban water are typically numerous, including the government, the utility, service providers, business users, high-income users, and low-income users. Stakeholders include the formal stakeholders from institutions—e.g. in the Government, ministries, agencies, utilities—as well as other stakeholders, such as businesses and citizens who use the services, and informal providers of water. Informal actors are particularly prominent in this sector, including people who provide water services (from tankers to donkey carts), and local groups that try to gain community access to water supply (whether formally or informally, legally or otherwise).

Chart 1: Network of Tankers in Karachi, Pakistan

<table>
<thead>
<tr>
<th>Official Tankers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Karachi Water and Sewerage Board (KWSB) has 9 official hydrants and, since 2008, is the authority which is accountable for the tankers.</td>
</tr>
<tr>
<td>• The quota for free supply to water-deficient areas is 3.42 million gallons per day (MGD), with the rest for sale in line with official rates.</td>
</tr>
<tr>
<td>• The official quota for total water usage by the official tankers is 3.75 MGD but, in reality, approximately 25 MGD is supplied through around 8000 trips by tankers.</td>
</tr>
<tr>
<td>• The tanker provider charges more than double the official rates to consumers, and, on average, generates Rs. 10 million.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unofficial Tankers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Many unofficial hydrants or filling stations are located near the bulk distribution mains supply.</td>
</tr>
<tr>
<td>• The main six filling and hydrant clusters include the hub reservoir to Banaras Chowk, and along the National Highway Malir.</td>
</tr>
<tr>
<td>• A total of 161 unofficial hydrants/ filling points are reported through research.</td>
</tr>
<tr>
<td>• Approximately 19.78 MGD water is being supplied from these unofficial hydrants or filling points by hundreds of tankers making 10–12 trips daily.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Private Tankers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• 5000 tankers are connected with the Private Tanker Association.</td>
</tr>
<tr>
<td>• Each tanker made around 10–12 trips daily with a very substantial total of 50,000–60,000 trips made.</td>
</tr>
<tr>
<td>• About 185–222 MGD is supplied through such tankers, of which 70 percent is supplied to the industrial areas.</td>
</tr>
</tbody>
</table>

Incentivizing operators to deliver efficiently, without corruption, is often a challenge. Chile managed to tackle this by ensuring that operators have their full costs recovered from both wealthy and from poor consumers. Cost recovery options created powerful incentives for service providers to connect the whole population within their service area. Indeed, the most active disseminators of the existing government-financed targeted subsidies have been the water supply and sewerage companies since they are allowed to make a profit on each client. The level of profit has been limited though to 9% return on assets, given that water supply and sewerage companies represent natural monopolies.

Vested interests around subsidies affect many stakeholders and were apparent in all the cases. Different arrangements are evident in different countries, dependent upon local preferences, fiscal space, and elite, citizen and political preferences. In Panama, the government provides significant annual untarred transfers which benefit connected middle-and upper-classes as well as businesses. In Karachi, the utility is essentially bankrupt but nevertheless maintains a minimum of service provision under different conditions with an unreliable supply of government and donor subsidies to keep services afloat.

Social trends and forces
Reform efforts—what direction they take, how they are viewed by the public, and how political they are—are significantly affected by social forces. In Senegal, the public debate on water services and governance structure has been heated. This highlighted ideological differences, but at the same time, has served to increase awareness of water challenges. This debate has its ebbs and flows and may dissipate with improved service provision and accountability.

Willingness to pay for water services is a key theme that appeared in the case studies and strongly links to social expectations and forces. It was especially significant in places where informal service provision plays a more important role—in which case, users already pay a significant price for water already (even if for a sub-optimal quantity of water). It is interesting to note that informal vendors are paid on a daily basis, where formal services are paid on a monthly (or perhaps bi-monthly/quarterly) basis which may have include different factors about trust and/or preferences for billing.

Whether private sector participation is socially acceptable depends very much on the social forces in play as well as experiences of privatization. Privatization in Senegal’s urban water has brought financial sustainability to service provision and enabled expansion although it has not come without controversy. In Ghana, plans to engage in an aftermerage contract after the five-year service contract were changed. In Panama, plans to engage the private sector were shelved after much controversy.

Role of a Crisis
Crisis can change the existing negative equilibrium around the urban water sector and promote new urgency, and new constituencies, for reform. Because the sector is so politically charged, and characteristically has many entrenched interests, even a crisis may not always be enough of a tipping point for reform, although there are examples of where it has been.

In Senegal, the main trigger for the reform efforts was Government’s inability to raise funds from international partners to finance capital expenditure. This forced the Government to implement ways of improving the cash flow of water operations in order to attract an experienced private operator who would, in turn, be credible for the efficient and sustainable operations so that international donors would finance the bulk of capital expenditure.

Role of External Donors
The role of donors is an important factor to consider, and should explicitly be included in PE analyses. The influence of donors will depend on many different factors including the availability of alternative funding sources, past experiences between the Bank and the country in question, policy preferences, and whether donors agree on key priorities.

Typically, international finance agencies will have the most influence over policy when the country’s needs are great and when they cannot find alternative funding sources—e.g. in the case of Senegal, where the donors had significant influence on the shape of the reform efforts. However, as important stakeholders, how the donors engage with politically sensitive issues—e.g. tariffs, privatization—itself forms part of the political economy context. For example, in countries or regions where external donors have supported unsuccessful and unpopular reform efforts in the past, politicians and/or citizens may be wary of donor engagement and this...
may limit policy options and the space of donors to be involved in future reform efforts.

4. What can be done – Action Framework

Timing
Timing of when reform is conducted, and how reforms are sequenced, matters. For example, in Panama, in the absence of a fiscal crisis, the Government can probably afford to subsidize the water utility. Reasonably high levels of public satisfaction and high political costs of reform that are typically borne by the Presidency combine to make current incentives for reform rather low. However, even here, there are two implications for timing. The 66-day water crisis in December 2010 left many customers in Panama City without water for days at a time, the first time that all sectors of society were affected. Events like this may shorten the time-horizon for the need for reform. A different aspect of timing considers making gradual improvements to tariff rates, and commencing such a difficult process while the President enjoys high approval rates—e.g. timing efforts at the beginning of a presidential term.

Taking a longer-term time horizon to build consensus for the direction and type of reform can also be important to consider. In Senegal, the Government was patient in slowly developing and negotiating an enabling framework over many years that stood a chance of succeeding rather than adopting a half-measure that would fail. The question for the PE analysts should be to consider the time necessary to analyze and reach consensus on the necessary and sufficient enabling framework.

Harnessing a Crisis to promote Change
Crises do not always lead to successful reform efforts, but they can be harnessed effectively, and to promote reform over the medium-long term. The crisis in Senegal was severe enough—as the Government could not borrow money to fund either infrastructure investment or operations and maintenance—that the Government was able to adopt an affermage contract, unbundle previous sector functions, clarify mandates and enforce contractual obligations.

Changing the performance data available to policy-makers and citizens
Efforts to promote more transparent, broad-based systems may involve independent data gathering which can in turn promote accountability to deliver. For example, in Manila, Philippines, the project financed a Public Performance Assessment (PPA) to assist the regulatory office to become more open and accountable. The project was developed as part of an ongoing dialogue between the government, Metro Manila Water and Sanitation (MWSS), the World Bank and the IFC. The PPA established benchmarks and design an expanded performance reporting system for water supply with three objectives:

- Assisting the Metro Manila Water and Sanitation System-Regulatory Office (MWSS-RO) in improving its decision-making for policy and monitoring.
- Providing the Concessionaires with operational and business planning information.
- Increasing public awareness of all the aspects of the water distribution performance.

It was central to the PPA to introduce an interactive and significantly expanded approach to communication and stakeholder engagement. The regulator engaged in several workshops and seminars to discuss the methodology and objectives of the PPA. Stakeholder involvement was an important piece of the PPA design in order to verify performance through measuring customer perception. In the pilot phase, the regulator introduced customer surveys in 97 barangays. Data collection was undertaken by an independent entity hosted at the National Engineering Center University of Philippines, which had a strong reputation as a center of integrity and technical competence. The data was presented using geospatial information—merging maps and statistical information collected. Through this, the data collected could identify: areas where service improvement had taken place; areas with low levels of service or decreasing service; areas with health problems, e.g. cholera or typhoid; areas with continued water pipe breakage or trouble pipes. The information collected assisted decision-making and resource allocation by concessionaires.

The private concessionaires and the regulatory office were initially skeptical of the PPA, seeing it as an additional audit not specified in the contract. However, as the increased transparency led to higher customer satisfaction the initiative showed its value and over time the information provided through PPA/PAWS has been integrated into concessionaire

15 Smallest level administrative division in the Philippines, a district, village or ward.
planning. Likewise, the additional information through PPA/PAWS enabled the regulator to provide better oversight and enforceable demands.

Building Coalitions
Demand-side management in the water sector has traditionally referred to water conservation efforts or efforts related to personal behavior, for example the block tariffs applied in Senegal. However, demand-side efforts are increasingly used to improve governance by engaging non-traditional stakeholders who can adopt measures to hold utilities accountable for service standards or to prioritize investments. Demand-side tools range from different applications of information disclosure, to consultations and participatory monitoring. The non-traditional stakeholders include ordinary citizens, civil society organizations or other local actors who are not typically engaged in decision-making or planning in the sector. These stakeholders can help to develop and enhance accountable relationships between the supplier and the end user, as well as between the citizen and the political representative.

In Tanzania, the Community Water and Sanitation sub-Project (CWSP) was developed as a response to provide services in urban areas of Dar es Salaam that were not covered under the private lease contract. The initiative was implemented through the Dar es Salaam Water and Sewerage Authority’s (DAWASA) community liaison office with oversight provided by a steering committee. Three international NGOs were contracted through the office to prepare sub-project proposals and design, and mobilize and train local residents in order to establish water user associations. These urban water associations operate and maintain their own facilities. In 2007, the concept was adopted in rural areas as part of a sector-wide approach.

Influencing Leadership Incentives
Given that the political costs for leaders of urban water reform can be high, although there are occasional political gains, one of the key aspects to consider is how to incentivize/influence successive governments of the benefits of reform.

In Chile, there has been little questioning of the thrust of the reform efforts by different governments (including a transition from the Pinochet government) because successive policy makers believed that complete financial autonomy would be possible for water supply and sewerage service providers where user fees had more potential, thereby freeing the central government budget to be used for social sectors such as education, health and social security where the possibility for user fees is more problematic.

In Senegal, the fact that the Government declined to use politically more palatable but ineffectual performance agreements between government branches and opted instead for a private affermage operator indicates that the Government was willing to spend political capital through negotiating an equitable contract with a private operator. The choice of PSP model-affermage-shifted substantial commercial risk to the operator and gave the operator incentives to operate efficiently.

Drawing upon a different Bank example, in Dushanbe, Tajikistan, one of the outcomes of the Bank’s governance assessment on urban water was to promote more active involvement of the local government of Dushanbe in the Bank’s second municipal water supply project. The team sought to work with the local government’s influence and power to bring positive change and more transparency within the utility. Active consultations at key stages of project preparation included asking the Municipality to share a common commitment and incentive to see improvements in the utility. To this effect, the Municipality provided $3million (15%) in co-financing to the project, and local officials have gone on public record supporting the need for reform of the utility (see Box 3).

Presentation of Findings through the four components of Value Chain where the cases focused

Policy and Enabling Environment
In Senegal, 20 years of dialogue resulted in major reform initiated in the mid-1990s. The reform introduced an accountability framework where mandates and contractual obligations were clarified, and were separated responsibilities for policy formulation, service provision, financing and regulation. These provided the basis on which reform was delivered.

In Karachi, Pakistan, the service provider is heavily influenced by politics and economic interests of informal water providers and thus trapped in a status quo dominated by unsustainable finance, inability to expand services to the poor and low tariffs.
Box 3: Example of Tajikistan Urban Water

A Governance Partnership Facility (GPF)-funded governance assessment to identify opportunities for medium-term capacity building and institutional strengthening interventions to strengthen the Dushanbe Vodokanal (DVK) (water utility) management was conducted between February–June, 2001.

The purpose of the assessment was to analyze the institutional and political factors affecting the management, performance and accountability of DVK and to identify appropriate and implementable entry points and achievable milestones to be implemented under a follow up Bank water project for Dushanbe (DWSP2). The analysis and recommendations by the international and local consultants were based on discussions with a range of stakeholders, including the Director of DVK, the Deputy Mayor, the department of complaint handling in the Municipality, the press office of the Municipality, the Consumer Union, the Home Owners Association, and international organizations and donors.

Summary of Assessment findings

The assessment, carried out as part of DWSP2 project preparation, confirmed a critical need to improve DVK’s institutional capacity and management quality if project outcomes were to be achieved in a timely manner in the short term. More importantly, it was projected that DVK’s sustainability and its future operations would have been jeopardized if steps were not taken to improve its overall governance, particularly in instituting improved managerial accountability, operational transparency, staff incentives, and internal and external communication. The Governance Assessment revealed the following key issues that were undermining DVK performance:

i. Poor management capacity
ii. Lack of motivating performance incentives for staff
iii. Weak accountability
iv. Lack of access to information
v. Non-payment or underpayment of user fees and
vi. Lack of a monitoring and evaluation (M&E) system.

Active Involvement of the local government. The goal was to have a more inclusive approach with active involvement of the local government. In this case, the aim is to bring positive change and more transparency within DVK. Fostering municipality ownership in project design was especially important for the difficult prioritization of investments under DWSP2’s limited funds. Positive compromises were reached, reconciling the Municipality’s urge to maximize meter installation with the imperatives of improving potability levels and reliability of service. Active consultations at key stages of project preparation and efforts to improve client ownership led to the Municipality providing $3 million (15%) in co-financing to the project indicating greater ownership of improvements in the water sector, while local government officials have gone on public record about the need for reform of the utility.

Development of the Operational Performance Improvement Action Plan (OPIAP). Findings and recommendations from the governance assessment led to the development of the OPIAP by the DVK and the Municipality as a condition of project negotiations. The OPIAP is a series of identified and agreed tasks and actions that the DVK and the Municipality have committed to implement in order to improve DVK performance. This includes the use of surveys and other monitoring mechanisms throughout the lifecycle of the project. In terms of DVK performance improvement and the action plan, the project is also relying upon the benefits of a South-South knowledge exchange visits with the St Petersburg Vodokanal. A potential outcome is a medium-term “Water Operators Partnership” capacity building and staff training agreement between the Dushanbe and St Petersburg water utilities, which may require specific funding support.

Alternative Approaches to Strengthening DVK and Project Performance. It was recognized that the success of DWSP2 was dependent on DVK performance in the areas of project implementation, utility management and institutional governance. Therefore, based on client consultations, supervisory experience gained during the first project, and the findings of the governance assessment, the project design opted for an implementation arrangement approach with the support of the Municipality for all project implementation oversight tasks and technical assistance entrusted to a single Project Management Consultant (PMC) firm with relevant international experience. The PMC, however, will support and report to the utility.

Contributions to identifying risks. The ORAF in the PAD benefitted from the assessment, key governance related risks were identified and corresponding mitigation measures as mentioned above were incorporated in the project design.

Source: Tajikistan country team, 2012.
Planning, Budgeting and Finance

In Panama, very large government subsidies flow to the urban service provider to keep tariffs artificially low. Meanwhile, political interests and appointments undermine efficient planning and distort priorities. As a result, performance measures are very difficult to enforce as priorities change along with the election cycle.

Service delivery, operations and maintenance

In Senegal, tariffs cover full cost recovery of operation and maintenance. It is noticeable that both service areas are under private concession contracts. In Ghana, where a management contract was in place for five years prior to the case study, as in Panama and Karachi, cost recovery of operations and maintenance remains a remote prospect.

Expansion and Quality Improvements

Chile managed to promote expansion this by ensuring that operators have their full costs recovered from both wealthy and from poor consumers, thereby creating powerful incentives for service providers to connect the totality of the population within their service area. The most active disseminators of the existing government-financed targeted subsidies have been the water supply and sewerage companies since they are allowed to make a profit on each client. See Annex 3 for a further definition of how the sector value chain can be used as a PE tool.
IV. How to Use PE Assessments

There are many ways of how to use political economy assessment, which have been partly addressed in the previous two sections. This section considers how political economy assessments can be used in risk mitigation efforts, an input to the Bank’s Operational Risk Assessment Framework, which is mandatory for investment lending projects at the Bank.

To maximize the value of PE assessments, it is important for the analysis to be used as an input to affect Bank-decision making, through the strategy and design of sector plans and projects, as well as in the way in which they are implemented.

PE assessments can be designed to support colleagues consider the complexities of challenges in urban water and how they affect and interact with planned strategies and programming. In that sense they are specific to sector/task teams (or a country management unit, CMU) as an internal tool to support both Investment Lending (IL) and Development Policy Lending (DPL) operations. PE assessments can be used in many ways to help improve the likelihood of reform prospects, including shaping the way in which projects and sector strategies are designed, how the key actors are engaged and with what key messages, and the timing and sequencing of interventions.

One way to think about the action framework (the fourth step of PE analysis) is to distinguish between PE issues that cannot be changed—but which task teams and sectors have to be aware of and adjust programming around—and those PE issues that Bank teams will try to influence. This includes consideration of how the sector/utility level analysis links to the overall country analysis, and on the larger, country factors that it is important for teams to be aware of—for example, the different prospects of reform where a government that is committed to development rather than one that is less committed. This may also include how the sector can support the CMU in its plans to operate within the existing reform space, or any plans to expand upon it. Figure 5 shows the different experiences of PE reform thus far in the Bank, represents this.

Other Tactical Suggestions

One option for urban centers to think about is the use of data clubs, along the lines pioneered by transport data clubs. These refer to the creation of a forum for self-selecting participants (e.g. utilities/private sector water service providers) to share experiences and exchange information in a confidential way. Data clubs are designed to do internal benchmarking, but not for the creation of league tables—instead, they are supposed to help different participants learn and improve their performance. The data club forum can stimulate productive questions, identify lines of inquiry, and identify best practices in operations and management. With a focus on implementable results, performance improvement and strategy, the clubs can provide information to support dialogue with government, regulators and other stakeholders. Use of such clubs on a long-term, rather than annual cycle, may help would-be reformers find out ways to improve, without risking sharing negative data in a public sphere in the context of challenging reform efforts.

Risk Mitigation Measures

One use of PE assessments, is as an input to risk mitigation and, more specifically, to the ORAF, which Bank country and sector teams are mandated to complete for all Bank investment lending operations. The ORAF was introduced in July 2010 and the guiding questions used to support ORAF were amended in July 2011—changes included incorporation of more political economy aspects.¹⁷ Not all of PE analysis will apply to the framework and not all of the risks included in the ORAF are typically covered by a PE assessment. PE assessments are likely to be considered part of the Bank’s deliberative processes and would not therefore be subject to the Bank’s access to information policies. However, PE assessments are on occasion published (e.g. as Economic and Sector Work) and, in any event, aspects of the PE assessment which are included in the ORAF may be subject to the Bank’s disclosure policies because several sections of the ORAF are disclosed to the Board and more broadly. In the four sections of the ORAF, there are ten risk assessments (excluding a further ‘other’ category). The following guidance indicates which elements of a PE assessment might be incorporated into the ORAF template, and which ORAF risk assessments are subject to access to information policies (Table 6). Further guidance on how PE analysis can be incorporated into the ORAF is under preparation by the Social Development department.

Table 6: ORAF risk categories and personal economy aspects

<table>
<thead>
<tr>
<th>Category of Risks in ORAF</th>
<th>Description of Risk Assessment</th>
<th>Subject to Bank’s disclosure policies</th>
<th>What PE aspects might be a useful input</th>
</tr>
</thead>
</table>
| 1. Project Stakeholder Risks | 1.1 Stakeholder Risk: Risk to the Bank’s relations with borrowers, donors, and other key stakeholders that can affect the achievement of project development objectives (PDO). | Disclosed to Board and more broadly | • Analysis of transparency and accountability, e.g. whether there is a reliable champion, whether the government (including local government) appears ready for the project.  
• Aspects around demand-side involvement, e.g. whether there is a survey of the beneficiary, whether CSOs have been involved, whether the project can use CSOs for monitoring and evaluation, and for implementation. |
| 2. Operating Environment Risks | 2.1 Country Risk—assessed by the CMU and provided to the Project Team: Systemic country-wide or sub-national-entity wide—if relevant—risk, including that of fraud and corruption, posed by a country’s politics and governance, societal and security issues, framework for environmental protection, civil society capacity, and economic/fiscal management. | Not disclosed | Could add some of the more sensitive aspects which may be included in the PE assessment, e.g. around:  
• Political stability and the level of sensitivity around the proposed reform  
• Issues around political and other stakeholders’ commitment to reform  
• Issues around patronage  
• Substantial and undue political interference in sector/agency activities  
• Anything about barriers to organization of CSOs  
• CSO/NGO opposition to reforms  
• Political sensitivities around reform proposals—e.g. opposition to privatization, tariff increases or subsidy reductions  
• Fiduciary risks around the financial sustainability of the sector/agency  
• Issues about bribes, coercion, rent distribution or elite capture  
• Issues about conflict of interest  
• Identification of the actors and how they will be affected by the project (including winners and the losers from the reform, vested interests) |
|                           | 2.2 Sector and multi-sector risk—assessed by the Sector Team and provided to the Project Team: Risk that institutions related to this project across the sector(s) involved lack adequate ownership and commitment to a shared strategy; clarity of roles and responsibilities; effective coordination mechanisms and/or fraud and corruption controls. | Not disclosed | |

(continued on next page)
<table>
<thead>
<tr>
<th>Category of Risks in ORAF</th>
<th>Description of Risk Assessment</th>
<th>Subject to Bank's disclosure policies</th>
<th>What PE aspects might be a useful input</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. Implementing Agency (IA) Risks including fiduciary</td>
<td>3.1 Capacity Risk: Risk that the lead IA(s) lack adequate resources, processes and/or systems to allow for efficient program/project management and successful achievement of the results envisaged by the project.</td>
<td>Disclosed (except for the section on fraud and corruption risks)</td>
<td>Could include aspects which consider capacity of the implementing agency, and any plans for improving capacity, e.g. around:</td>
</tr>
<tr>
<td></td>
<td>3.2 Governance Risk: Risk related to the project IA(s) lacking ownership, appropriate decision making, accountability, and/or the prevalence of mismanagement and malpractice that leads to fraud and corruption in the IA(s).</td>
<td>Disclosed</td>
<td>• How the agency’s staff are selected (including the role of patronage)</td>
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<td></td>
<td>3.3 Fraud and Corruption Risk (sub-category of Governance): Prevalence of mismanagement, malpractice in the IA(s) that may lead or has led to fraud and corruption, and adequacy and transparency of IA(s) fraud and corruption controls.</td>
<td>Not disclosed</td>
<td>• Whether the agency’s management allows technical staff adequate opportunity to influence decision making (e.g. by consulting specialists or allowing middle managers to take initiatives)?</td>
</tr>
<tr>
<td></td>
<td>4. Project Risks</td>
<td>4.1 Design Risk: Risk posed by the project design in terms of its technical complexity, scope/coverage, and implementation arrangements, rigidity.</td>
<td>Disclosed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.2 Social and Environmental Risks: Risk that (i) environmental and social issues are not evaluated with due diligence, and/or (ii) environmental and social risk mitigation including safeguards is not applied properly, not funded or staffed adequately by the IA.</td>
<td>Disclosed</td>
</tr>
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<td></td>
<td></td>
<td>4.3 Program and Donor Risk: Risk posed by critical dependencies of the project on other projects/activities or other development partners (donors, private sector, etc) in the same Program.</td>
<td>Disclosed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4.4 Delivery Monitoring and Sustainability Risk: Risk associated with the ability to deliver and monitor project implementation and sustain the efforts beyond project execution.</td>
<td>Disclosed</td>
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<td></td>
<td></td>
<td>4.5 Other Risks: Risks other than the above, with significant linkage to PDO achievement.</td>
<td>Disclosed</td>
</tr>
<tr>
<td></td>
<td>4. Project Risks</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

References


Harris, D., M. Kooy and G.Jalloh. Unpublished. The Political Economy of Water Pricing in Sierra Leone


Poole, A. 2011. HOW-TO NOTES: Political Economy Assessments at Sector and Project Levels. World Bank.


UNICEF and World Health Organization, Progress on Drinking Water and Sanitation, 2012 Update.


Water and Sanitation Program. 2011. The Political Economy of Sanitation: How can we increase investment and improve sanitation for the poor? Operational experiences from case studies in Brazil, India, Indonesia, and Senegal. WSP & World Bank
Annex 1: Helpful Resources

Internal Bank Resources:
- World Bank Water Program website: www.worldbank.org/water
- Water and Sanitation Program website: www.wsp.org
- External link: http://go.worldbank.org/M80379YRI0
- PE social collaboration space (on Scoop) allows internal Bank staff to share thoughts, articles, and draft documents in a secure but informal space: http://community.worldbank.org/groups/political-economy-community-of-practice

External Resources:
- Governance and Social Development Resource Center (GSDRC), a knowledge-platform consortium initiative, has a selection of PE cases from DFID and other organizations: http://www.gsdrc.org/go/topic-guides/political-economy-analysis

Sample cases:
Annex 2: Sample Terms of Reference (ToR) for Political Economy and governance analysis in urban water

Short Term Consultant Political Economy and Governance in the Water Sector in [XX country]

Background

[XX – add in country team, or sector] aims to conduct political economy and governance analysis to assist the sector and local country team in their understanding of opportunities for Bank-sponsored reform efforts in the urban water sector in [XX – country/region].

The political economy and governance analysis should support the [XX – country/sector] team systematically to evaluate various sector stakeholders’ positions and incentives, the role of formal and information institutions and to assess structural challenges in the sector. The analysis should assess the feasibility of measures designed to improve sustainability and equity of service provision, and suggest appropriate prioritization to enhance the Bank’s strategic engagement in the urban water sector in [XX – add country/region].

[Add in several paragraphs explaining particular context—e.g.

i. Previous and current Bank projects in the water sector in the country/region.
ii. Brief summary of urban water sector in that country.
iii. Why the study is commissioned at this time—e.g. to help shape a sector strategy/ to review under-performing projects/ to learn from success stories.

Objective

The objective is to understand the political economy and governance in the urban water sector in [XX country/region] and to provide recommendations to the sector and task teams on how to proceed. The intent is to uncover politically feasible approaches to deliver Bank operations and analyze potential solutions rather than only focusing on existing obstacles.

[Add several paragraphs of context on the specific aspects of urban water that need to be addressed—e.g. management of demand-side measures, pricing policies, the regulatory framework, targeted subsidies, cost recovery. If the problem is known, be specific. Or pose some possible hypotheses of what the problem may be and potential causes of it.]

The political economy and governance analysis should provide an analysis of structure, institutions and stakeholders that influence urban water sector performance. The case studies should each describe:

i. Definition of the problem or opportunity.
ii. Country and sector context.
iii. Mapping of informal and formal institutional arrangements including relevant institutions, laws and regulations, policy process and analysis of corruption.
iv. Political economy drivers including stakeholder analysis, rents and rent distribution, historical legacies and previous reform experiences, social trends and forces.
v. Dynamics of reform.
vi. Recommended actions for sector/country team to enhance Bank engagement including timing, tailoring and sequencing of proposed work; key messages.
vii. Proposals for next steps.

[Note if it is likely that the study is to be disseminated and, if so, whether it will be disseminated internally to the Bank or externally, and whether the output is intended more as a formal document (e.g. Economic and Sector Work (ESW) or a more informal input to Bank deliberations.)]

Tasks

The consultant will form part of the [XX (sector/project)] team. Specific tasks will include:

a. Review of Bank and other literature on the urban water sector in [add XX country/region.]

i. Particular Bank projects etc.

b. Engage with Bank sector and country teams to ensure that the Bank context is thoroughly understood and any local sensitivity managed.

c. Conduct a political economy and governance assessment including review of problem or reform; mapping of institutional arrangements; analysis of political economy drivers; and proposal of recommendations (including timing, tailoring and sequencing of proposed work; key messages).

d. Interview key stakeholders to identify their roles, influence, and views on the specific problem/reform opportunity. Stakeholders can include: mayors, regulators, utility staff, government counterparts in relevant ministries/ agencies, other donors, CSOs, consultants, com-
munity leaders, international groups, academics, and journalists.

e. Write draft report of no more than [XX] pages, which includes a summary of the findings and a draft set of recommendations.

f. Write final report after consultation with Bank and other designated colleagues/counterparts, incorporating suggestions and agreed alterations.

g. Other related tasks may be assigned.

Outputs

e. **Interim report** – including findings of sector-specific and country-level drivers that shape incentives; past and existing challenges concerning reform in the sector; stakeholder analysis; and draft recommendations for Bank strategic and operational engagement.

f. **Final report** – incorporating feedback from task team and other Bank staff.

i. **Other outputs** – [e.g. action plan, presentation, facilitation of a workshop etc.]

[Add in deadlines for each output, and also confirm if the outputs are for internal or for external dissemination.]

Remuneration and Timeframe

The consultant will receive a daily fee to be determined based on the World Bank fee scale for Short Term Consultants according to his/her qualifications and experience. The contract will be for [XX] days between [XX and XX – date]. Any travel to [XX – country/region] for the purposes of this assignment will be compensated according to World Bank travel policies.

**Required Qualifications**

The consultant must fulfill the following criteria:

i. Advanced degree in Political or Social Science, Public Policy, Business Administration, Economics, or related discipline.

ii. Strong understanding of political economy issues and proven background in conducting political economy and governance assessments.

iii. At least 8 years of experience related to the urban water sector. [May want to add specific other expertise here – e.g. understanding of price recovery, regulation, utility management]

iv. Prior experience of [XX – add in specific region/country experience.]

v. Understanding of World Bank engagement and its role in the sector. Prior experience working with Bank teams is preferred.

vi. Ability to liaise with teams in a constructive manner.

vii. Excellent analytical, writing and general communication skills.

viii. Pro-active, able to undertake tasks without detailed guidance, and ability to develop high quality deliverables.

ix. Fluency in [XX – add language if appropriate] would be desirable.
Annex 3: Sector Value Chain for Urban Water – use as a PE tool

Another tool that has been used to consider different challenges across a sector is the Sector Value Chain: these are used in a variety of sectors, including water. The value chain approach can be used in a different sense from the one most readers will be familiar with by considering political economy and governance aspects at each stage. Although the value chain tool will need to be used in conjunction with other PE tools, and incorporate other PE concepts, the value is that it can be used systematically to consider PE and governance challenges through each step of the process, from upstream policy-making to downstream service delivery and quality improvements.

The Sector Value Chain is commonly used as a tool to analyze inefficiencies in the process of delivering services and/or products. The Value Chain incorporates analysis of six components, ranging from the upstream policy and enabling environment, planning and tendering stages, to the downstream through construction/installation/supply, service delivery and expansion. The analysis can be used to identify critical or problem areas—identifying risks, vulnerabilities or weaknesses—as well as opportunities. The Value Chain analytical approach championed by GAC-in-Infrastructure and by GAC-in-Projects primarily considered the governance angles in each of the components, including promoting accountability and effective government regulation. This report suggests that the methodological approach can be taken further, by including political economy as well as governance elements at each component of the value chain. Typical political economy challenges to look for at each stage of the value chain are noted in the table below.

Policy and Enabling Environment

Most countries have the explicit or implicit sector goal of “providing water services to the entire population in an efficient and sustainable manner.” To meet this goal, responsibilities of policy setting, regulation and service delivery need to be defined and delivered upon. In practice, roles are rarely clearly defined and responsibilities overlap with no independent oversight, political interference in day-to-day operations and opaque decision-making. For example, positions in the urban utility change with every election and managers report to political leaders, not customers. Often politicians are unwilling to increase tariff rates or to alter subsidies that favor the politically powerful and connected households. The end results a service provider unable to borrow and finance real improvements that would improve financial sustainability and equity.

The country’s success in reaching goals of efficiency, sustainability and equity would need to be monitored through answering a number of sector specific questions, underlying all of which have political economy drivers and implications:

- What is the coverage of water supply and sanitation services?
  - Water Supply (house connection; public tap; private well or source, street vendor, other)
  - Wastewater treatment (primary, secondary)
- What is the quality of such services in terms of safety and convenient water?
  - Hours of service
  - Water quality (water minimum/maximum pressure)
- What is the efficiency of use of resources in capital expenditure (CAPEX)?

Figure A1: The Value Chain for the Water Sector
Approaches to Conducting Political Economy Analysis in the Urban Water Sector

- Investment per capita (water; sanitation; wastewater treatment) in urban areas
- Procurement and tendering rules
- Construction, installation and supply
- What is the efficiency of use of resources in operational expenditure (OPEX)?
  - Pipes breaks/100 km/year
  - Non-revenue water (as a percentage and as m3/day/km of distribution pipes)
- What is the sustainability of services?
  - Governance (policy, price/quality regulation, operational responsibilities)
  - Cost recovery
- What is the effect on social equity from the pattern of CAPEX and OPEX?
  - Improving access (water and sanitation) to poor people
  - Cost of services for the poor (as a percentage of family income)
    - Affordability of services provided
    - Cost of new connection (water/sewerage)
- What is the fiscal impact from the policies of CAPEX and OPEX?
  - Subsidies to the sector as a percentage of total government deficit

Planning, Budgeting and Finance

Central governments typically channel finance (grants, loans, proceeds of bond issues) for capital spending on water and sanitation to local authorities or public water utilities. Central governments may provide finance to local governments to fund locally-managed water and sanitation sector investments and may also provide guarantees to sub-national agencies to assist their financing. Financial sustainability is a challenge and the role of government transfers is significant where user tariffs do not cover operational and maintenance and/or capital costs. Tariff revenue from the provision of water services may be retained by the local water undertaking or may be returned to the central government treasury. Subsidies and investments are often delivered without accountability or conditions, often to cover recurrent costs, further reinforcing an unsustainable financial situation. The fiscal impact is closely related to the pricing policies practiced, and many countries fail to recover CAPEX in the water supply sector.

Characteristic political economy aspects noted in relation to planning, budgeting and finance include political interference in planning processes. Short-term political vision may trump longer-term views around maintenance, expansion, and investment in infrastructure. Budgeting and finance can be heavily affected by historical legacies, including expectations around tariff levels, subsidies and past efforts at privatization.

Tendering and Procurement

In many contexts, tendering and procurement procedures are overly complicated, lack transparency and contain limited monitoring or oversight—from a political economy lens, there can be political substantial interference in tendering and procurement because it entails distribution of rents. For example, preferential treatment of bidders who are connected by family/ethnic/political ties; there can be conflict of interest where ministers/mayors have personal business interests in the companies bidding for contracts. There can also be limited government and/or independent monitoring over tendering and procurement, which can be because of lack of capacity and/or because opaqueness suits various interested parties.

Construction, Installation and Supply

It is common to see poorly-designed and badly-built construction projects, where there is a lack of independence and competence in supervision. Corruption issues—for example, around installation and supply—can be very difficult to tackle because of elite bargains around rent distribution, which may involve turning a blind eye to corrupt activities. Occasionally, politicians (including government ministers, mayors) have business interests in the construction or installation providers, which also limit the likelihood of pressing for delivery on time and to budget. Apart from corruption, there can also be politicization of installation choices and timing—for example, providing better and quicker connections where there is political support; limiting access or delaying the timing of provision to geographic areas where an opponent has the upper hand; or using the possibility of quicker provision as an overt election tool, rather than based on assessed need.

Service Delivery, Operations and Maintenance

In practice, many utilities lack performance plans and adequate service standards. There is limited monitoring of performance, and often any form of regulatory oversight is lacking. Without monitoring of performance, the service
provider is unresponsive to customers. Utilities lack consumer redress policies or, where they exist, they are of no consequence. The poor performance and unresponsiveness leads to users unwilling to pay for service provision, even where tariffs are low. This contributes to the circle of unsustainable budget support to keep the utility afloat opening the utility to continued political pressures.

**Attempts at cost-recovery rarely succeed.** Typically, there are political aspects behind this—i.e. given that water is a basic human need, and for other reasons, it is politically costly to increase the price of water—even though many poor, peri-urban households typically pay very high prices for water. Service delivery often benefits better off/influential rather than the poor, and they consume more water per capita. Attempts at realigning cost with water usage can negatively affect these politically better-connected citizens. Given the sensitivities around adjusting tariff levels, operations and maintenance budgets are often inadequate, with negative implications for services both now and in the future.

**Expansion and Quality Improvements**

Expansion and quality development planning should be targeted on need, be transparent and involve participation of multiple stakeholders to determine best fit of improvements. Yet, characteristically, expansion and quality improvements are made in an opaque or ad-hoc process focused more around political targeting of preferential regions, or vocal customer/business groups rather than equity or sustainability.

**This annex suggests key questions that underpin analysis of PE drivers in urban water in each stage.** Some governance and political economy assessments might incorporate each of the six components of the Value Chain for urban water, but they would not all need to do so, depending on the scope of the study. Questions suggested under each section of the chain therefore contain some overlap, and focus on the role and function of formal and informal institutions, relevant policy processes and the relationships and incentives of stakeholders. Uncovering past successes or failures will assist in understanding path dependency and how this may shape or direct policy options to improve service delivery. The specific relevance and application will vary depending on specific countries or projects and can be tailored accordingly—e.g. one or two components may be of greater relevance depending on the scope of the study and/or some areas may need to be reviewed in much greater depth, or comparatively across different cities/countries.

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### Table 7: PE questions for each component of the Value Chain, applied to urban water

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Political economy and governance questions</th>
</tr>
</thead>
</table>
| **Separation of policy, regulation, service delivery** | • Does sector policy radically and regularly change pre- or post- elections?  
• How are key responsibilities for policy, regulation and service delivery distributed between the different institutions? Are responsibilities established by law and/or contractual obligations?  
• What is the *de facto* relationship between the key institutions—e.g. the Ministry of Finance, local municipality, utility?  
• What are the implications of current sector organization? (e.g. do mandates overlap?)  
• Are there conflicts of interest, or insufficient separation of private and public spheres? (e.g. between the private sector and the leading political/executive/judicial actors?)  
• What is the *de facto* relationship between the key institutions?  
• What is the legacy of recent or historical reform efforts? What has been the key factors determining reform success/failure?  
• Do sector stakeholders have adequate authority and power to perform the mission of the urban water sector? If not, why not? If so, how is this achieved?  
• What are key stakeholder positions within the sector and how influential are these stakeholders? What veto points or sources of influence do they have? Are any groups excluded from influence in the sector? How has the relative influence shifted over time and why?  
• What are stakeholder incentives for change? Who benefits from the status quo and how do they benefit?  
• Are subsidies decided openly or opaquely, and how politicized are they? |
| **Policy objectives** | • What are the policy objectives of the different institutions? Do they differ for different institutions? (e.g. MoF concerned about cost recovery over access etc.)  
• Are there specific challenges around the history, climate or geography of the country that need to be addressed in terms of the policy environment? (e.g. mountainous areas/conflict areas/colonial legacies)  
• How do policy objectives, or lack thereof, constrain operations in the sector?  
• How effective are service providers in delivering on policy objectives?  
• What is the level of political interference? (e.g. ministers/agency heads having family/social/political links to the sector) What are the implications of political interference? How do elections and political campaigning impact sector operations? |
| **Transparency, accountability, participation** | • Which sector processes are open to participation? (Regulation, policy etc.)  
• What level of participation is available (information sharing, dialogue, consultations, collaboration or partnerships)  
• Who can effectively participate in sector processes? Who appears to be excluded and why? (Identify barriers, e.g. language, cost, excluded groups) Is access, or lack of it, contentious?  
• What sector documents are widely available to the public? (e.g. policies, standards) and how is information made available? (e.g. through websites, newspapers, utility payment points etc.)  
• Who provides monitoring and oversight on sector performance? In practice, where do lines of accountability lie, e.g. to ministries/ powerful individuals etc.?  
• How are utility accounts prepared, presented and reported? What is the quality of the financial utility audits? How are financial statements of the utility audited?  
• What are estimations of corruption in the sector, and at what level do they occur—e.g. large-scale corruption at a procurement level, and/or corruption at the petty level of collectors?  
• How is the corruption linked into political or business elites? (e.g. are there payments made to campaign contributions, or personal/family/tribe links which factor in?) |

(continued on next page)
### Table 7: PE questions for each component of the Value Chain, applied to urban water (continued)

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Political economy and governance questions</th>
</tr>
</thead>
</table>
| **Planning and budgeting process** | How much political interference is there in the planning process and in which institutions does it particularly occur?  
Who participates in sector planning and budgeting prioritization?  
What are stakeholders’ *de jure* and *de facto* different levels of influence? What explains large differences between the way things ought to be done in law/paper and how they are actually done?  
What is the level of participation (e.g. information sharing, dialogue, consultations, and collaboration)? What is the level of engagement from non-traditional actors (e.g. CSOs)?  
What is the level of patronage over appointments in planning agencies?  
Are there specific challenges around the history, climate or geography of the country that need to be addressed in terms of the planning and budgeting? (e.g. negative experiences of privatization)  
Is the water sector budget made available to the public? If so, is it accessible and is it updated frequently? How do the procedures in the sector compare with other major investments in the area/region/country?  
Who provides the investment in the sector (government budgets, loans from national or international banks, donors, bonds or commercial banks)? How do investors influence planning and budgeting? |                                                                                                                                                                                                 |
| **Performance measures**     | What—if any—performance measures are set out in legislation or by contract? Are there any political ramifications if the measures are not met?  
Who is responsible for implementing development plans (i.e. infrastructure expansion, water resource protection)?  
Who owns and/or manages the infrastructure assets? Is this contentious?  
How is implementing agency/utility organized? Is the water utility ring-fenced or incorporated? Operated as a for-profit or not-for-profit? Is any of this contentious?  
How are budgets and finance choices influenced by previous historical legacies and expectations around tariff and subsidy levels—e.g. are service providers allowed/prohibited from entering into public-private partnerships (PPP) to implement either some or all of its tasks?  
How are subsidies allocated in the sector? (e.g. capital investments, pro-poor programs)? What conditions apply and how are they enforced? How politically sensitive are the subsidies? How is this manifested?  
Are sector staff subject to strict rules when it comes to the payment of ‘gratuities’ of all kind and conflicts of interest? Are they enforced? (e.g. have there been examples of regulatory staff being punished or removed if they are caught being corrupt?)  
How is the CEO/manager of the utility appointed and what is the process for appointment? Who can exercise pressures during the recruitment process? Are management positions are open for ‘bidding’ by those who eventually make decisions?  
Are performance targets set in the managers’ contracts? Is there a reward if they are met? Is there any sanction if they are not met?  
Where utility boards exist, who sits on the board and how are board members appointed?  
Are staffing levels at the utility adequate? What degree of ability does management have to hire and fire staff? How does the utility recruit qualified staff for open positions? Or is patronage a major factor? How does the electoral cycle or other political changes influence staff appointment and turnover?  
What staff conflicts or strikes have affected the utility in the past? What is the cause of staff conflicts?  
Who are informal water providers? (NGOs, individuals, small contractors etc.) What role do they play? How influential are they? |
### Table 7: PE questions for each component of the Value Chain, applied to urban water (continued)

#### 3. Tendering & procurement (continued)

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Political economy and governance questions</th>
</tr>
</thead>
</table>
| Tendering guidelines                           | • How much political interference is evident or suspected in the tendering process and where does it occur?  
  • Are there specific challenges around the history, climate or geography of the country that need to be addressed in terms of the tendering and procurement? (e.g. higher cost of providing in remote areas/ previous experience of politicians personally enriching themselves via procurement?)  
  • Which individuals or organizations are advantaged/ disadvantaged under current procurement rules? How are they connected to the political and economic elites through family/business/ethnic/political ties?  
  • Are politicians personally benefiting from procurement decisions, either through pay-offs, or through having private interest in service providers?  
  • Are procurement guidelines well understood or complicated and burdensome? How are tender and procurement guidelines perceived by stakeholders (e.g. perceived as being an impediment to efficient operations?)  
  • What level of accountability is embedded in procurement guidelines?  
  • How are remuneration schemes designed (e.g. conducive to seeking the least cost solution)?  
  • What are perceptions of/ evidence of corruption? (e.g. evidence or public perception of systematic differences between prices obtained by private developers and public WSS infrastructure developers for comparable works?) |
| Tendering & procurement monitoring             | • How are tender and procurement rules enforced and adhered to? Does the government or any other agency provide tendering and procurement oversight? Is it reliable?  
  • What level of transparency is required in tender and procurement?  
  • How are tender and procurement guidelines made available?  
  • How are tenders and awards publicized?  
  • Are tendering conflicts of interests raised and/or managed? If so, how? If not, why not?  
  • What, if any, are demands for less or more transparency in the procurement process?  
  • Who participates in bid evaluation and makes final recommendations? Is there conflict of interest?  
  • How effectively do contracts set up clear guidelines for expected delivery, deadlines, penalties and benchmarks? |

#### 4. Construction, installation and supply

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Political economy and governance questions</th>
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</table>
| Supervision and quality assurance              | • Is there politicization of the choices of location and/or timing for installation choices?  
  • Are corruption issues difficult to tackle because of personal connections/ elite bargains around rent distribution?  
  • Has the construction and supply of water been a cause of tension/ fragility in the country? If so, how has that manifested itself? (e.g. different ethnic groups/ regions being unfairly favored)? What is being done about it? If nothing, why not?  
  • Are there specific challenges around the history, climate or geography of the country that need to be addressed in terms of construction, installation and supply? (e.g. inequity in terms of water allowances or quality levels?)  
  • What is the level of patronage over appointments for construction supervision and quality assurance?  
  • How do government agencies ensure that there is mutual and clear understanding of contract obligations?  
  • How are contract benchmarks and delivery deadlines enforced?  
  • How do agencies ensure that projects are delivered within budget and in a timely manner?  
  • How are disputes dealt with?  
  • How does the agency deal with feedback?  
  • Is the project progress publicized and, if so, how? |

(continued on next page)
### Table 7: PE questions for each component of the Value Chain, applied to urban water (continued)

#### 4. Construction, installation and supply (continued)

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Political economy and governance questions</th>
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</table>
| Project monitoring | • Who providers monitoring and oversight on project implementation? Are any outside, informal parties involved in project monitoring in a formal or informal manner, and, if so, how independent are they? (e.g. CSOs)  
• What is the evidence (or suspicion) of existence of cartels of contractors to limit competition and maintain prices artificially high?  
• What is the evidence (or suspicion) of attempts to favor particular suppliers, contractors and service providers? Is this tackled by the relevant agency or is it politically difficult to do so?  
• What is the evidence (or suspicion) of collusion between contractors and construction supervisors to reduce the quality of goods and works?  
• If applicable, does the utility have a credible plan to eradicate or limit corruption associated with infrastructure development? |

#### 5. Service delivery, operations & maintenance

<table>
<thead>
<tr>
<th>Key issues</th>
<th>Political economy and governance questions</th>
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</table>
| Service provider performance and standards | • Does service delivery benefit the better off/ influential customers rather than the poorer?  
• How does the utility report on indicators to measure the quality of the service and the performance of its operations? Does non-performance have any consequence? Does it affect political incumbents — e.g. Mayors — negatively?  
• How sensitive are tariff levels? Can they be adjusted regularly to cover operations and maintenance costs? If not, why not?  
• Has lack of service delivery been a cause of tension/ fragility in the country? If so, how has that been manifested (e.g. different ethnic groups/ regions being unfairly favored)? What is being done about it?  
• Are there specific challenges around the history, climate or geography of the country that need to be addressed in terms of service delivery? (e.g. negative experiences of privatization)  
• What is the level of patronage over appointments in service provider agencies?  
• What operations manuals and procedures are used by the agency (water production, water distribution, wastewater collection and wastewater treatment facilities)? Are they adhered to? If not, do different agencies know and/or seem to care?  
• What programs are developed and used aimed at increasing efficiency (leaks and non-revenue water reductions, illegal connection, reduction of energy and chemical consumption etc.)?  
• How are asset management plans developed and implemented? Is this contentious?  
• How adequate is the utility budget for preventive maintenance, replacement of equipment and works?  
• What are the direct impacts of lack of service/treatment? How do different groups compensate — e.g. through their own storage mechanisms/ having to buy from informal providers?  
• What are the improvement plans? Which population groups are affected by lack of treatment and are their concerns heard?  
• What are the different services standards? Which population groups receive different type of service? How politicized is this? |

| Performance monitoring and reporting | • How are performance measures monitored by the utility? How does monitoring of performance measures improve performance?  
• What percentage of production is non-revenue water (NRW)? What explanations are given for the high/low level of NRW and does that accurately reflect the real reasons? What are the actual reasons?  
• What is the percentage of connections is metered? Which segments of the customers are metered? (e.g. government, wealthy neighborhoods) How sensitive is this?  
• What is the suspected level of gaming in the monitoring water consumption? (e.g. ability to lower the meter reading/ bribery/ petty corruption)  
• Which types of unregistered (illegal) connections exist? How are unregistered connections targeted? (aggressively or tolerated?) Why is this the case?  
• What is the cumulative impact of illegal connections on the overall system (e.g. increasing number of illegal connections, loss of water pressure)?  
• What is the pricing structure for water volume (block rate, flat rate, other)? What subsidies are applied to consumption (e.g. to specific groups)? Are these sensitive? |

(continued on next page)
### Table 7: PE questions for each component of the Value Chain, applied to urban water (continued)

#### 5. Service delivery, operations & maintenance (continued)

<table>
<thead>
<tr>
<th>Key issues</th>
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<tbody>
<tr>
<td><strong>Service standards</strong></td>
<td>• Who benefits/losses from the current pricing structure? Who is excluded from service and why (price policy, lack of investment)? What are the alternative costs for those who are not connected?</td>
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<td>• How are connection charges structured for water and sewerage services? What subsidies are provided to increase connections? (e.g. only in low income neighborhoods)</td>
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<td>• How can the utility, under current law, extend services to informal settlements and slums? (e.g. is the utility required to provide bulk supply at the boundaries of such settlements?) Is there any incentive for it to do so?</td>
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<td>• How does the utility consult with representatives of informal settlements to design and implement service options that meet their demand and ability to pay?</td>
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<td>• Are all customers expected to pay, or are some excused? (e.g. government agencies, politically well-connected customers)</td>
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<td>• What is the disconnection policy (i.e. if bill not paid within XX weeks, customer is disconnected)? Is the disconnection policy applied? Is this a contentious issue?</td>
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<td><strong>Financial sustainability</strong></td>
<td>• Are the service provider’s resources sufficient to operate, maintain and improve/expand service? If not, why not?</td>
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<td>• Who influences tariff setting? (e.g. through automatic indexation or political influence) What is the history of tariff increases? How politically charged is cost-recovery, and why?</td>
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<td>• What is the level of predictability of the instruments used to support financial decisions? Does this hold over time?</td>
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<td><strong>Consumer accountability and redress mechanisms</strong></td>
<td>• What complaint mechanisms are available? How are complaints addressed? (e.g. ensure impartiality and fairness) How does the utility ensure that customer service is accessible? Are all customers treated as equally important</td>
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<td>• How long does it take for an ordinary customer to get attention at in-person service centers/utility office? How can others bypass that—e.g. through bribes or connections?</td>
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<td>• How does the utility assess customer service satisfaction? (Identify any existing surveys that include public opinion on water service delivery, newspaper editorial and general coverage of the sector, key stakeholder opinions etc.)</td>
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#### 6. Expansion, quality & improvements

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<th>Key issues</th>
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<tr>
<td><strong>Expansion planning</strong></td>
<td>• How are decisions made to expand service delivery? (e.g. is it a particular emphasis around election times/ targeted towards key voters?)</td>
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<td>• Has quality of water service or expansion plans been a cause of tension/ fragility in the country? If so, how has that manifested itself? (e.g. different ethnic groups/ regions being unfairly favored) What is being done about it?</td>
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<td>• Are expansion plans addressing issues of legitimacy—e.g. are key stakeholders involved during development of expansion plans? What level of participation is available to stakeholders during the planning process (information sharing, dialogue, consultations, collaboration or partnerships)?</td>
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<td>• Are there specific challenges around the history, climate or geography of the country that need to be addressed in terms of expansion? (e.g. mountainous areas/conflict areas/ colonial legacies)</td>
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<td>• Who can effectively participate in the process? (Identify barriers, e.g. language, cost)</td>
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<td>• How are social or environmental concerns included in expansion planning? (e.g. equity)</td>
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<td>• Who makes the decisions on expansion? (e.g. expansion targeted to gain voter support/ political favors etc.)</td>
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<td>• How is provision of water for human consumption prioritized versus competing needs for agricultural or industrial uses?</td>
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<td>• How do mechanisms for allocating water entitlements (and pollution rights) work?</td>
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<td>• How is the use of bulk water sources taxed and what is the basis for calculating the tax?</td>
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<td>• How does the country organize the monitoring of the capacity, water quality of aquifers and surface water bodies work?</td>
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<td>• Which remedies exist in case of non-compliance with abstraction rights and quality standards? Can these be bypassed, and, if so, how?</td>
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*Source: Authors*
Annex 4: Further Information on Methodology

The Water Anchor received requests from World Bank teams engaged in urban water to support a political economy analysis for a project under preparation, during implementation or to uncover strategic avenues for new engagement. The Water Anchor chose cases to provide geographical representation of Bank project support, cover a variety of urban water governance structures and coverage of responsibilities, and focus of reforms. The case studies were therefore selected to:

- Present a mix of governance challenges or reform efforts.
- Represent a geographical spread of Bank activities in the urban water sector.
- Prioritize case studies that are not currently well documented in order to promote new learning.
- Focus on areas with active Bank engagement or potential for operational activity to ensure maximum operational relevance and impact.
- Respond to expressed interest from Bank teams to engage in political economy analysis process as part of project preparation.
- Avoid overlap with other ongoing governance and political economy research.

At the identification stage, each requesting team was asked to identify a specific focus, often a roadblock or challenge to successful engagement such as lack of financial sustainability or utility governance. This could also be a window of opportunity, perhaps through a crisis promoting new impetus for reform, or through the emergence/consolidation of reform-minded stakeholders. The identification would usually take place prior to the engagement of the consultant. While several issues listed may be related, the analysis was not expected to uncover every issue, but to stay focused on the selected key issue. Consultants were selected at this stage, on an individual basis for each study, rather than employing a firm to conduct all of the studies. The core task team conducted the contractual and oversight process. The consultants deployed included international and local consultants, as well as people with water expertise and political economy expertise. Where practical given budget and time constraints, a combined team of water and PE experts was deployed.

The next step in the process was the preparatory stage. The requesting Bank team and the Water Anchor shared relevant documents for consultant’s initial preparatory work. The consultant was expected to make use of the World Bank’s body of political economy guidance and to review available literature, news coverage, and public opinion.
reports regarding the urban water sector in the specific country under analysis. At this stage, consultants were tasked to analyze country and sector structures, relevant institutions and stakeholders, laws and regulation, policy choices and historical legacies. The desktop preparatory work also fed into an identification of key institutions and stakeholders.

Most case studies involved fieldwork in the form of a mission during which the consultant/s held structured and semi-structured interviews with stakeholders. During this time, initial institution and stakeholder mapping were revisited, as well as consideration of the political economy drivers interacting with the more formalized, de jure structures. For a few case studies—e.g. Chile—which retrospectively reviewed Bank engagement in the urban water sector, a different approach was engaged. For these cases, an experienced, retired Bank staff member with water sector expertise was tasked to conduct the case study, which typically involved interviews with past/present Bank team members as well as a review of the literature, rather than conducting primary research.

The main deliverable expected for each case was a written case study, some of which would be intended for internal use while others would also be suitable for external use. Each case study was to include an assessment of institutional structures, governance arrangements, historical legacies, and formal and informal rules. The cases also included a brief analysis of sector-specific and country level drivers that shape incentives, past and existing challenges and critiques of reform in the sector, and power brokers and opinion shapers in their relation to the water sector. Recommendations for potential next steps, in the form of possibilities regarding timing, sequencing, and reform coalitions were also included where possible.