

Willingness to Charge and Willingness to Pay: China Rural Water Supply and Sanitation Program

In 1985, the World Bank started its assistance to the Rural Water Supply and Sanitation (RWS) in China, which was a high priority for the Government. The RWS program consisted of four successive projects that lasted over the last 17 years. The total World Bank investment in these four projects was US\$ 628 million. The program succeeded at serving about 25 million people in 18 provinces and developed a very effective cost recovery policy where the users finance up to 75% of the capital investment as well as the full operation and maintenance (O&M) cost.

RURAL WATER SUPPLY AND SANITATION PROGRAM

With the World Bank assistance, the RWS programs were designed to increase rural access to safe drinking water and improved sanitation. The first project was not specifically targeted at the poor or based completely in rural areas, but both these policies changed in succeeding projects.

Within the selected counties, denser areas were chosen to make the cost of supplying piped water economically viable, and within the selected villages, the network aimed to cover all economic sections of the community. For the more remote and less densely populated areas of the project provinces, the approach was to provide hand pumps, rainwater collection systems and small tube wells.

A SUPPORTIVE CONTEXT FOR COST RECOVERY

China differs significantly from most developing countries in that there is little history of the central government providing large subsidies for the financ-

ing of rural water supply. Instead, there was greater emphasis on cost sharing by provincial and county governments and communities. This proved to be the ideal context for the World Bank to develop a significant cost recovery model in its RWSS lending program, where the IDA credit/IBRD loan was to be repaid by the end-user, the rural beneficiary.

FINANCING ARRANGEMENT

The World Bank financed about half of the capital cost of piped water supply systems installed through the project. For the remaining upfront costs, the provincial and county governments jointly financed 25% and the users contribute 25%, usually in the form of cash and labor contributions. Since the users also serviced the debt through payment of water tariffs, they effectively financed 75% of the overall investment cost.

As for consumers of the non-piped water supply schemes, debt servicing was not passed on to them. However, they contributed to the full cost of labor and were responsible for operating and maintaining the schemes.

TARIFF SETTING AND COLLECTION

Water tariffs were set by the plant management/ County Price Bureaus and, where possible, were raised to cover increased operating costs. The tariff calculation was comprehensive and included the cost of electricity, salaries, water source fee, depreciation, debt servicing, interest on debt, overheads and tax.

At the township water plant level, collection of tariffs was taken very seriously. A strong incentive system existed by which the salaries of the plant

CHINA AT A GLANCE

Population: 1296.5 million (World Bank, 2004) — urban 38%; rural 62%; 0.6% annual growth rate

Life expectancy: 70.8 years

Area: 9598,100 Km²

GNI per capita: US\$ 1,290

Below the basic needs poverty line: 4.6% (UN, 1998)

Human Development Index: 85 out of 177 (UNDP, 2005)

% of improved water service: 77% (UN, 2002)

% of improved sanitation services: 92% (UN, 2002)

MORE INFORMATION

Willingness to charge and Willingness to Pay: The World Bank-assisted China Rural Water Supply and Sanitation Program, Water and Sanitation Program, Field Note, August 2002.



manager and staff were tied to their success in collecting monthly payments from users. Salary deductions were made if collections were short of established targets; bonuses were paid if targets were reached within established time frames. Compliance of payment was usually over 90% and in the rare cases of non-payment, household taps were disconnected. Cross-subsidization for both connection fees and tariffs also occurred in communities where poor individuals could not afford to pay. When existing tariffs were not sufficient to cover operating costs, efforts were made to raise them.

THE REGULATORY SYSTEM

Once the proposed tariff was calculated at the water plant level, it was sent through the County Project Office (CPO) to the County Price Bureau for approval. The County Price Bureau would review the calculation, hold discussions at the water plant and CPO level, visit the concerned villages and hold public hearings with the consumers to determine the affordability of the new tariff. In some cases, the Price Bureau would ask the water plant to revise its tariff. If the County Price Bureau was satisfied with the proposed tariff level, it would recommend it for approval to the County's Standing Committee, headed by the County Magistrate, which would take the final decision and the new tariff would be enforced.

SOCIAL AND ECONOMIC DEVELOPMENT

The improvements achieved as a result of this project have had significant effects on the quality of life and health of rural residents, and on the promotion of rural social and economic development.

By the end of 2005, safe water supply had been provided to a total of 24.4 million beneficiaries through the RWS projects. This was achieved by supplying a total of 6,042 piped water supply systems, 65,772 non-piped water supply systems as well as 64,500 sanitary latrines.

Cost sharing by users promoted financial sustainability of the water supply system. It created a cascade of accountability and responsibility for results, from projects managers, who have collected the levies, down to beneficiaries, who had to pay for them.

POLITICAL AND SOCIAL COMMITMENT

The scaling up and achievement of rural water supply and sanitation in China were closely linked to the country's stable political situation, rapid economic growth, and the strong leadership's determination and commitments not only on the national level, but also at provincial and local levels.

The Chinese culture, more in the rural areas, was generally one of compliance with the law and, as long as the tariff levels were perceived to be appropriate and affordable, the cost recovery policy was unlikely to be challenged.

CONSUMER VOICE

Despite the fact the consumers played the major role in financing this project, their involvement in the project activities was somewhat limited. The fifth Bank-assisted rural water supply and sanitation project in China, which is currently under preparation, is using the lessons learned from the earlier projects to promote a more participatory approach to service delivery.

RELEVANT PROJECTS

Rural Water Supply Project

Project ID P003438

National Rural Supply Project

Project ID P003587

National Water Supply and Sanitation

Project ID P003637

Forth Rural Water and Sanitation Project

Project ID P057352

