

Dissertation Abstract

Title: Determinants of 'willingness to charge' for municipal services: A study of urban water services in Karnataka

Urban water supply service is a critical urban infrastructure service whose importance for growth and poverty alleviation is self-evident. By its very nature it is a service that displays the twin characteristics associated with

- ❖ a local public good &
- ❖ a network based infrastructure service

Public goods display differing degrees of non-rivalry and non-excludability which has implications for consumer preference revelation and hence its provision. Urban water supply service is usually classified as a local public good based on its benefit incidence whose provision is best done by an elected urban local body (ULB). Most infrastructure services including urban water supply are *natural monopolies* rendering it difficult to generate *competition in the market*. They also have significant health and social external economies. Being necessities they have low price elasticity of demand and hence their private provision could result in exploitative pricing unless prices are strongly regulated. Most of these require heavy capital investment, which has been a big deterrent for private sector entry in a big way in the past.

The net result of all this is the fact that the provision of urban water supply in India (& Karnataka) is almost entirely a monopoly of the state and its agencies (including ULBs). Given the political economy of the organization of this sector and the essential nature of the service, effectively there is no hard budget constraint on ULBs in Karnataka when it comes to providing this service. The consequence has been fiscally disastrous for both the state government (which provides the bulk of the capital resources) and the ULBs (which are legally responsible for the service and are in control of the O&M of the service in most urban areas).

There is considerable evidence on the one hand from willingness to pay studies in India that there is a high degree of willingness to pay for this service and indeed that people are

actually paying a high monetary price for the service. On the other hand that there is a lot of lament in Indian public economics literature and popular writings about the low willingness to charge (WTC) on the part of the authorities who provide this service. This dissertation sets out to examine two questions namely

1. What is the empirical evidence on WTC on the part of ULBs for urban water supply services in Karnataka? This first led the researcher to operationalise WTC in a measurable way and actually go out and measure it.
2. What explains the observed phenomenon?

Based on data that is available and a detailed primary data collection, this research found that

- ❖ contrary to popular belief WTC on the part of ULBs in Karnataka for this service is not uniformly low but there is considerable differential in WTC
- ❖ this differential is based on a pattern and the determinants of this differential can be identified

The research after detailed examination and econometric analysis of the data in respect of 205 ULBs (the entire population of ULBs) in Karnataka concludes that

- ❖ the major explanatory variable for the differential WTC is the effectiveness of the service provided by the ULB. In the absence of a direct measure of effectiveness of the service it was found that accepted proxies for effectiveness offer significant explanations for the differential WTC
- ❖ the other major explanatory variable is the nature and type of the ULB. Large type ULBs with considerable human and other capacity to potentially provide the service effectively tend to display significantly higher WTC than medium and small ones that do not potentially have this capacity or have it in significantly less measure

The research findings have important policy implications for many issues in the urban water and municipal sector.