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# Why Water Utility Customers Don't Pay their Bills Promptly

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## Abstract

This paper examines the motivations of water utility customers when it comes to paying their water bills promptly. Through an exploratory study of five small urban water utilities in Uganda, we find evidence of a positive attitude towards regular and prompt paying of water bills among utility customers. However, what motivates a customer to settle an outstanding water bill seems to relate mainly to the overall quality of the service provided by the utility. Contrary to the usual explanation that low-incomes typical of small urban centers are responsible for low cost-recovery in those areas, we found evidence that supports the view that poor service quality (i.e. unreliable supply, poor customer relations, poor billing and collection systems, etc) is a key consideration for customer decision-making when it comes to paying water bills regularly and promptly. Implications for urban water utilities and their regulators in Uganda and elsewhere are discussed.

## 1. Introduction

Field studies carried out in many developing countries have shown that cost recovery is a key prerequisite for sustainable water services provision<sup>1,2</sup>. The chief means of recovering the costs of service provision is through user-payments for the services provided. As a result, a key determinant of overall cost recovery efficiency is the service provider's ability to recover payment, within a reasonable timeframe, for all the bills sent to customers. However, many water utilities, especially in Africa, are unable to even recover 50 percent of their total billed amounts in any billing cycle<sup>3</sup>. Customers struggle to pay up their bills, and eventually get disconnected, leading to accumulation of huge unpaid bills.

Moreover, it appears that this problem is not unique to less-developed countries. According to a study<sup>4</sup> commissioned by Ofwat (the economic regulator of the UK water industry), the levels of arrears, the amount of revenue written off, and the numbers of customers in water debt within the UK water industry have continued to rise since 1998-99 (the last full year in which disconnection of domestic water supplies was permitted for non-payment of water bills). The report estimates that the total household revenue outstanding for up to 48 months for the period 2002-03 stood at £781 million, an increase of £115 million (17%) since 1998-99<sup>4</sup>. Recent figures from Ofwat reveal that on average,

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UK water companies are chasing close to UK£763 million per year in outstanding revenue for up to 48 months, of which close to £100 million is eventually written off as bad debt.

Delayed bill payments and huge arrears can greatly undermine a utility's capacity to deliver water services. This is especially true for small water utilities in developing countries that depend on a constant stream of revenue from their customers in order to survive. If a utility is not able to collect in time, all the bills that are sent out, cash flow problems set in, which in turn, impacts on the ability to cover operating expenses and extend service coverage. Such a situation may result in low service coverage, and potentially, poor customer service – leading to customer dissatisfaction, which may breed more 'non-payers' and trigger a cycle of poor performance. Thus, minimizing the levels of 'bad debts' and increasing the rates of revenue collection is critical for sustainable service provision.

In order to respond to problems involving delayed or irregular payments, utility managers need to determine precisely why customers might not pay their water bills in time. Yet, little empirical research exists in the literature on the factors influencing customer decisions when it comes to paying water bills in time. As part of a wider research on bill payment behaviour in urban water utilities in Uganda (box 1), we examined customer attitudes towards paying water bills regularly and promptly, and explored what they perceive to be the facilitating factors and barriers to engaging in that behaviour. We also interviewed water utility managers in the study areas to compare their understanding of the reasons for irregular and delayed payments, and that of their customers. The current paper draws on this exploratory research to shed light on the motivations of water utility customers when it comes to paying for water promptly. Based on these insights, we identify possible ways in which urban water utilities could encourage prompt and regular payment of water bills.

#### **Box 1 – Study area and methods**

##### **Study area**

This article is based on a study conducted in five small urban centres (towns) in Uganda, with populations in the range of 5000 to 25000 inhabitants. The centres included Nkokonjeru, Kamuli, Kayunga, Ibanda and Rakai (see table). The study towns were randomly selected from a sampling frame of 32 towns with more than 10 percent inactive customer accounts in the 2004-2005 reporting period. Water services in Uganda's small urban centres are managed by private operators under management contracts with the local government water authority. Services in larger urban centres are provided by National Water and Sewerage Corporation (NWSC), the national utility. The sampling frame did not include these larger towns served by NWSC.

##### **Methods**

A combination of face-to-face interviews and focus group discussions was used. Between Nov and Dec 2005, a total of 10 interviews were conducted with utility managers in each of the towns. The interview with managers was designed to obtain, among others, basic information relating to customer accounts, tariff structures and revenue levels, billing and collection procedures, as well as their perceptions of the reasons why customers fail to pay water bills regularly and promptly. All the five water utilities require their customers to pay their water bills within 15 days after receiving the bills (which are distributed between 29<sup>th</sup> and 31<sup>st</sup> of every month). Focus group discussions with customers were based on the following questions:

- What do you believe are the advantages and disadvantages of paying your water bills within 15 days of receiving the bill?
- What factors or circumstances would enable you to pay your water bills at the utility office within 15 days of receiving the bill?
- What factors or circumstances would make it difficult or impossible for you to pay your water bills at the utility office within 15 days of receiving the bill?
- Are there any other issues that come to mind when you think about paying your water bills within 15 days of receiving the bill?

As is customary with qualitative research, analysis of the resulting information involved identifying important factors, themes and relationships and making sense of emerging meanings. To aid this process, a procedure was adopted in which emerging issues based on the above discussion questions were each given a count equal to the number of participants in the group. If a particular issue did not emerge from a group, it was given a count of zero for that group. The counts for each theme were summed across all the five groups to generate an aggregate count, which was used to rank the emerging issues and give an indication of the most commonly held perceptions.

## **Paying bills promptly: what customers perceive as the benefits and sacrifices**

Across all the five study towns, customers generally believed prompt payment behaviour has a lot more benefits than sacrifices (Box 2). They generally consider the water bill to be an essential bill that has to be paid in time, although many admitted to deliberately delaying payments, especially when the service is unreliable:

“It is very frustrating to pay in time and yet the water supply continues to be on- and off. I rather keep my money to pay the water vendors” [Nkokonjeru focus group]

Box 2 shows, in rank order, what most customers believe to be the benefits and sacrifices of paying water bills in time. The primary benefit of paying promptly seems to be the assurance of uninterrupted services – as it is the only way to avoid disconnection. This is not entirely surprising given the vigilance of the utilities in disconnecting non-paying customers.

### **Box 2: Abridged list of perceived benefits/sacrifices of paying water bills promptly**

#### **Perceived Benefits:**

1. Uninterrupted supply of water to my house (no disconnection)
2. Staff of the utility will have the necessary facilities, equipment and motivation to serve me better
3. Utility will be able to meet all operation and maintenance so I can continue to get a reliable water supply
4. Avoid accumulating big debts
5. Gives me a peace of mind

#### **Perceived Sacrifices:**

1. Unreliable service after paying your bills promptly
2. Foregoing other household needs and making water payment a first priority
3. Difficult to remain consistent

However, there are also indirect benefits that emerged across all groups. Many customers believed that when they pay their water bills promptly the utility will be in position to cover operational costs, and most importantly, utility staff will have the necessary facilities, equipment and motivation to serve them better. This finding demonstrates customer awareness of the importance of paying for water in time.

## **Paying bills promptly: what customers perceive as the barriers and facilitators**

In addition to assessing attitudes towards paying water bills promptly, we also inquired into the factors or circumstances that might facilitate or make it difficult for customers to engage in the behaviour. Boxes 3 and 4 show (in rank order) what most customers believe to be the main facilitators and barriers respectively. With the exception of the factors related to tariffs and whether or not a customer has a regular paying job, all the other top five barriers and facilitating factors that emerged relate to service delivery issues that are within the full control of the water utility.

<b>Box 3. Facilitating Factors/Circumstances</b>
1. Reduction in tariffs
2. Reliability of supply
3. Bills delivered in time
4. Having a regular paying job
5. Threat of disconnection
6. Selling water to neighbours
7. Reminder visits/radio announcement
8. Regular promotions/discounts to promote prompt payments
9. Quick responses to repair requests
10. Good water quality
11. Good customer care
12. Flexibility and choice in payment options
13. Presence of reconnection fees

<b>Box 4. Barriers to paying bills promptly</b>
1. Poor customer care/complaints not addressed in time
2. Incorrect bills and mistakes in reading meters
3. Unreliable service
4. Faulty meters
5. High water tariffs
6. Lack of money
7. Irregular income (especially during dry season)
8. Unexpected circumstances such as death or illness
9. Poor water quality
10. Failure to understand the bill
11. Presence of alternative water sources
12. Misappropriation of funds by authorities
13. Ignorance about government water policy

However, when asked what they considered to be the main factors preventing customers from paying their water bills promptly, the responses of utility managers differed significantly from what the customers perceived as the main barriers (see Box 5). In particular, all the 10 managers interviewed pointed to the low-incomes as the main barrier to paying water bills promptly, in contrast to their customers who pointed mainly to service delivery issues such as reliability, poor customer service, poor billing systems and delivery, and faulty meters.

<b>Box 5. Utility Manager's Perceptions</b>
<b>What do you consider to be the main factors preventing customers in your service area from paying their bills promptly?</b>
1. Low incomes
2. Customers not used to paying for water
3. Political interference
4. Intermittent supply
5. Low production
6. Water quality problems
7. High water consumption leading to high bills

Therefore, what motivates a customer to settle an outstanding water bill seems to relate mainly to the overall quality of the service provided. This has implications for water utilities and their regulators in terms of policy, operations, and incentive mechanisms for promoting prompt and regular payment of water bills. Basing on the qualitative insights obtained in this study, the next section briefly looks at managerial actions that can be implemented in the short to medium term to encourage prompt payments in the present context.

### **Encouraging prompt Payments: Lessons for Water Utility Managers**

The first step in seeking to respond to problems involving irregular or delayed payments is to determine why customers might not pay their bills. We attempted to gain insight into some of the reasons with a view of making some recommendations applicable to urban water services in Uganda and elsewhere. Obviously, it is difficult to make sound proposals for action considering the myriad of factors that

emerged<sup>2</sup>. However, by isolating those issues that are within the full control of a water utility, it is possible to identify strategies that can be implemented at the micro level to promote prompt and regular payment of water bills by customers.

Firstly, in the current context, ensuring reliability of supply – i.e. consistency and adequacy of supply as per the promised service level - seems to be the single most important action that managers can take to promote prompt bill payment. In the long term, this may require additional investment to increase production levels in areas such as Ibanda and Nkokonjeru, where there is a substantial supply deficit. Secondly, managers need to work on improving customer relations through appropriate and timely communications in case of service failure, quick response to customer complaints, payment reminder notices/visits, and generally improving the quality of service pertaining to the interaction process between customers and the organisational elements like staff and the service environment.

Thirdly, there is need to improve billing systems and procedures - ensuring minimal errors in billing, timely delivery of bills to customers and providing flexibility and choice in payment options. In line with this, utilities need to segment customers into categories based on how quickly they react to water bills. This would enable managers to design targeted strategies for debt management and recovery. For instance, those considered to be high risk would be flagged for personal follow-up immediately a payment is missed; those deemed low-risk would be sent a reminder letter and vulnerable customers, who are struggling to pay, can be offered additional help and advice. Adopting such a proactive customer-centric strategy has potential not only to transform revenue collection but also to increase customer satisfaction. Small urban water utilities need to take advantage of their relatively small number of customers by adopting a customised approach to debt management and recovery.

Fourthly, incentive mechanisms in the form of discounts or vouchers for prompt and regular payment could be explored, perhaps for a limited period of time. These could be designed to incentivise payment by customers who have found it difficult to pay their water bills, rather than reward those who can afford to pay. Lastly, although the disconnection strategy seems to be working well in the current context as a facilitator for prompt payment, it appears that in some instances this strategy is being implemented indiscriminately without due consideration to the particular circumstances of customers. For instance, it would be particularly inappropriate to disconnect customers who are facing short-term payment difficulties. Moreover, disconnection of service in these circumstances does not protect the utility against any future loss of revenue. Instead, it has the potential to affect customer relations and hence satisfaction levels, which might be damaging in the long term. The key message is that utility managers should adopt a customised approach when dealing with customers in arrears.

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<sup>2</sup> A key objective of our ongoing research on bill payment behaviour is to determine, using a suitable theoretical framework, the factors that significantly contribute to variations in prompt bill payment behaviour

## Conclusions

This article has provided some insight into the motivations of water utility customers when it comes to paying their water bills promptly. Based on an exploratory study in five small urban utilities in Uganda, we found evidence of a positive attitude towards regular and prompt paying of water bills among utility customers. However, what motivates a customer to settle an outstanding water bill seems to relate mainly to the overall quality of the service provided by the utility. Contrary to the usual explanation that low-income levels are responsible for the low cost recovery levels in developing countries, we found evidence that supports the view that poor service quality is a key consideration for customer decision-making when it comes to paying water bills regularly and promptly. This has implication for small urban water utilities and their regulators in Uganda and elsewhere. In particular, these findings suggest that cost recovery strategies that rely heavily on revenues from customers are unlikely to succeed if aspects relating to the service itself (such as service quality, reliability, operational costs/tariffs etc) are not addressed appropriately at both the micro and macro levels.

At the macro level, the key lesson for policy makers in the sector is to appreciate that cost recovery through customer payments is affected by a multitude of factors and different aspects of service design and operation, which are rarely fully acknowledged when implementing urban water projects. When cost recovery is viewed as the need to collect enough revenues from users to cover the cost of installed systems, the challenge of getting people to pay becomes apparent. Although there may be strategies that can be adopted at the operational level to promote payments (such as those discussed above), there are also long-term policy issues that need to be addressed, particularly those relating to tariff structures, technology and service level choices. Getting customers to cover the cost of services provided is a well established approach to improving cost recovery. But utilities and their regulators need to realise that changing the cost or the characteristics of those services can also contribute to improving cost recovery.

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