
Reaching the poor in Mashhad City: from subsidising water to providing cash transfers in Iran

Jalal Attari

Power and Water University of Technology,
Hakimiyeh, Tehran, Iran
Email: j_attari@yahoo.com

Meine Pieter van Dijk*

International Institute of Social Studies,
Erasmus University,
3062PA Rotterdam, The Netherlands
Email: mpvandijk@iss.nl
*Corresponding author

Abstract: In 2011, the Iranian Government started paying cash transfers to compensate for higher prices of basic commodities and public services. The first phase of this reform is analysed. The effects of the reform with regard to domestic water consumption within the country and more specifically in the city of Mashhad, located in North West of Iran, have been examined. To do a policy impact study, we investigated the water bills of poor people residing in suburbs of Mashhad, and carried out a household survey. The overall water consumption has decreased in the entire city, but the decline was more significant in the suburbs which are predominately populated by poor residents. Paying the rebate directly to the consumers has been effective in terms of water demand management. This new approach has increased equity among consumers. However, macro-economic conditions have changed drastically and cash transfers are no longer substantial, given inflation and tariff increases.

Keywords: subsidy; cash transfers; drinking water; water tariffs; urban water consumption; pro-poor policies; Iran.

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Biographical notes: Jalal Attari works at the Shahid Beheshti University in Tehran, the capital of Iran. He is a Lecturer teaching in the Water and Electricity University of Iran.

Meine Pieter van Dijk is Emeritus Professor of Water Services Management at UNESCO-IHE, Institute for Water Education, Emeritus Professor of Urban Management at the International Institute of Social Studies (ISS) of Erasmus University, and Professor of Entrepreneurship at the Maastricht School of Management (MSM), all in The Netherlands.

1 Introduction

Universal provision of water services in cities and peri-urban areas is a challenge worldwide. Rapid urban population growth has placed increasing pressure on potable water supplies. Peri-urban areas face complex water and sanitation related problems due to sustained poverty, poor infrastructure and a lack of institutional frameworks and proper support (SWH, 2007).

There are two alternative ways of providing assistance to low-income households:

- 1 Transfers in kind involve providing merit goods or services (e.g., utility subsidies) at less than full market cost. Some forms of subsidies for utilities are widespread in developing countries (Blank, 2007). Policy makers perceive these subsidies as a way to help make utility service affordable for poor households and as an alternative mechanism for income distribution but are subject of much controversy.
- 2 Direct cash transfers (also known as income transfers) are considered as the best social protection instrument for addressing concerns about poverty and inequality (Komives et al., 2005). They respect consumer sovereignty thereby allowing beneficiary households to allocate the additional income they receive to goods or services representing the highest priority for the household. Moreover, cash transfers avoid distorting economic decisions in the relevant markets by artificially changing relative prices of goods. Although cash transfers are theoretically superior, their implementation requires a good administrative capacity for identifying the poorest for selection (targeting). Such systems are costly, prone to abuse, and often lacking in developing countries and they may be difficult to construct (Coady et al., 2004).

In Iran, water services used to be provided at heavily subsidised rates but from 2011, the government started paying cash transfers to compensate for higher prices of a bundle of basic commodities and public services. The objective of this paper is to analyse the experience of the subsidy reform in Iran with regard to urban water system. As a case study, initial effects of this reform on water services in the city of Mashhad, located in the North West of Iran, is examined. Special attention is given to implications of the new reform for the poor living in the suburbs of the city.

2 Pro-poor urban water policies

Definitions of poverty are broadly discussed in the literature in two categories:

- 1 Conventional economic definitions which use income or consumption levels.
- 2 Participatory definitions which expand for non-material deprivation and social differentiation. Each of these definitions has different uses, needs different information sets and has different implications for policy decisions (Wratten, 1995).

The economic definition of poverty has so far proved easier to measure and has provided a useful tool for understanding the general patterns of deprivation and to compare different groups or countries. This is essential for targeting of financial or water resources in the most effective way. Put another way, comparative measurement is essential in designing and monitoring re-distributive policies and safety nets (Wratten, 1995).

Two types of policies are distinguished to help the urban poor, welfare oriented policies and those focusing on creating more productive employment in the formal or urban informal sector. African Renewal (2011) concludes that experience so far suggests that anti-poverty measures that are not linked to local production systems, broader social policies and politics will have limited results. Economic, social and political policies and institutions need to be consciously coordinated to achieve the maximum effects.

The livelihood approach emphasises the complexity and household context of poverty (Chambers and Conway, 1992). A family has several sources of income and several types of expenditures. It has its own family dynamics, the number of children and grand parents play a role, just like expenditures for health and education. This approach, just like one emphasising the importance of the informal sector, builds on understanding the existing activities of the poor to improve their situation!

Poverty reduction strategies (PRS) papers have replaced the traditional conditionalities of the World Bank (2010) and IMF hoping governments would take the poverty issue more serious. The PRS are characterised by a participatory approach, but in practice the papers were often prepared by consultants and the strategies were sometimes not implemented. Evaluations are now available. Dijkstra and Komives (2011) show, however, that these strategies have put the ownership of these strategies with the receiving country.

The geographic distribution of poverty has become more important, just like the effects of global issues like climate change, energy and food prices, financial flows and migration. Poverty alleviation projects and programs of the last decennia have not really been very successful. The reaction has been: if all this does not work let us try cash transfers, for example the experiment to pay, with support from British development aid, income supplements to poor families in Zambia.

Access to basic infrastructure and services is important not only in addressing the 'quality of life' dimensions of poverty but also for the sustainability of household livelihoods. Adequate water supply and sanitation are of great importance to the health of people living in urban areas. For water infrastructure and services in these areas the main issues for poorer urban groups remain those of access and costs (Komives et al., 2005).

McIntosh (2003) analyses the reasons for poor performance of water utilities in Asia, proposes some solutions, and concludes that governance and tariffs are at the core of the problems and any possible solutions. In a review of good practice for better water and sanitation for urban poor in Africa, it was observed that within each country's context, the key to a successful strategy lies in the capacity of practitioners working in the water and sanitation sector to innovate and to adapt solutions to address local constraints and opportunities [Water Utility Partnership for Capacity Building (WUP) Africa, 2003].

2.1 Water utility subsidies

Properly designed water tariffs promote economic efficiency and equity, price transparency, and good quality of service. Tariff structure can be as important as tariff level from the view point of the poor (Brocklehurst et al., 2002). Bahl and Linn (1992) insist on using user charges for urban services, like water and sanitation. They use efficiency arguments for suggesting user charges and confront this approach with the inefficiency of pursuing social and political goals through water pricing policies. The basic rule of efficient pricing states that the price of a public service should be set equal

to the marginal cost of producing the service but in practice decision makers use different criteria to fix a tariff for drinking water services. Brandt (2005) defined conservation rates as rates that encourage efficient use of water resources. Conservation pricing attempts to influence customer demand in order to reduce overall water consumption.

The most common form for residential water utility subsidy is quantity-based such as those delivered through increasing block tariffs (IBT) whereby all consumers face higher unit prices on successive increments of consumption. Brandt (2005) summarised the advantages and disadvantages of this tariff structure. IBT is typically combined with general under pricing, so that all customers benefit from subsidies to varying degrees.

The underlying assumption for IBT tariff structure is that the low-income households consume less water than the wealthy households. According to some research water consumption is only weakly correlated with income and poverty. A comparison of water consumption in two cities in India showed that average water consumption by the non-poor households is only about 20% more than that by poor households (Foster et al., 2003). The lack of strong, consistent correlation between water consumption and household income severely restricts the scope for quantity targeting. Low levels of coverage and metering severely limit the effectiveness of consumption subsidy schemes to reach the poor. Although use of IBTs is often justified on social grounds, the available evidence suggests that they are rarely much more effective at targeting resources to the poor than a straightforward, subsidised, linear volumetric tariff would be (Komives et al., 2006).

In the context of water utilities, geographically-targeted or means-tested subsidies do better than consumption-based subsidies but large numbers of poor households remain excluded (Komives et al., 2005). Alternative consumption and connection subsidy mechanisms show more promise, especially when combined with complementary non-price approaches to making utility services accessible and affordable to poor households (Komives et al., 2005). We will present evidence from Iran on this debate.

2.2 Cash transfers

Governments may transfer the subsidies directly as a cash payment to the beneficiary household, as is the case with the burden limit subsidies common in the countries of the former Soviet Union. Alternatively, the government may make a cash payment to the utility against proof that a subsidy was provided to a specific consumer, as is the case in the Chilean water supply sector. Such payments are the cleanest approach to funding subsidies with government transfers, because the money flows directly to the intended beneficiary (Komives et al., 2005).

Targeting describes a range of mechanisms for identifying households or individuals who are defined as eligible for resource transfers, and simultaneously screening out those who are defined as ineligible (Sabates-Wheeler et al., 2014). There are different mechanisms for targeting such as means testing, proxy means testing, community-based methods, geographic targeting, demographic targeting, and self-targeting, moving from the most information-intensive to the less-information intensive methods. A comprehensive review of targeting outcomes on over 100 social transfer programs found that no single targeting mechanism performs best in all contexts (Coady et al., 2004). It was concluded that diversity in practice and outcomes within targeting methods implies that further work is needed to deal with issues of implementation and cost effectiveness.

Direct cash transfers are considered as the best instrument for addressing concerns about poverty and inequality (e.g., Komives et al., 2005). Those are preferred to transfers in kind because they respect the principle of consumer sovereignty, thereby allowing beneficiary households to allocate the additional income they receive to the good or service representing the highest priority for the household.

3 The targeted subsidy reform in Iran

Iran is a country located in the Middle East region with an area of 1,648,195 km² and current population of more than 75 million and a nominal GDP of 5,193\$ per capita. In January 2010, the parliament of Islamic Republic of Iran approved a landmark targeted subsidies reform act which envisaged replacement of product subsidies with targeted cash transfers to the population, some assistance to Iranian companies and the government. The act stipulated that households would receive at least 50% of the increase in revenues derived from the reform.

In December 2010, the Government of Iran started implementation of the first phase of the reform act which is considered the most sweeping economic ‘surgery’ in the country’s modern history. Iran is the first major energy producing and exporting country to cut drastically massive indirect subsidies to energy products and replace them with across the board energy dividend transfers to the population. At the first stage of this process, 70 million individuals (more than 90% of Iran’s total population of about 75 million) were granted access to compensatory payments (455,000 Rials/person/month) that had been deposited in specially-created bank accounts. Instead, new price structures with higher amounts for liquid fuels, natural gas, electricity, and water tariffs were set and became effective (Guillaume et al., 2011).

Implementation of second phase of the subsidy reform plan was halted by the parliament of Iran in October 2012 because of a high inflation rate exacerbated by the sanctions against Iran. This task was delayed until election of the new government in mid 2013. In the framework of the annual budget, the parliament approved to resume the second phase of the plan from April 2014 but with some modifications. Within this budget, the government has been ordered not to pay the income supplements to the wealthy people who do not really need the benefits and instead allocate some resources for a national health improvement program as well as financial support for industry to increase their production efficiency. Furthermore, the government has been allowed to increase prices of liquid fuel, natural gas, electricity and water but with a smooth growth rate.

From April 2014, the new government started implementation of the second phase of the plan. To target the transfers towards the poorer segments of the society, government officials encouraged the richest households to refrain their application for the subsidies voluntarily, but only about 2.5 million people did so to date. Despite the high inflation rate, the government has not been able to increase the amount of monthly payments so far. According to the budget bill, the mentioned prices were increased; among them the highest rate belonged to liquid fuel which is about 70%. However, the revenue generated by the price increase is not enough to pay for the income transfers to all of the registered households as well as supporting the health and industry programs. To compensate, the

government is currently checking the recently up-dated household data and will rightfully be forced to cut the income supplements of the wealthy people.

4 Urban drinking water services in Iran

4.1 Urban water services in Iran

The urban population in Iran is currently more than 48 million (71% of the total population) with an annual growth rate of 2.1% (SCI, 2011). Comparing this figure with the average population growth rate of 1.3% for the entire country and negative growth rate (-0.6%) in rural areas, shows that the urban population increase is mostly due to migration of people to cities and transformation of some villages to towns.

Iran is characterised by water scarcity. This country with about 1% of the world's population has access to only 0.2% of the world's fresh water resources. The share of drinking water in urban and rural areas is about 6% of the total water demand (IWRMC, 2009).

Currently 99.1% of the people living in Iranian cities have 24-hours access to clean water supply (NWWEC, 2012). Water consumption in urban areas varies in different areas of the vast country with different climatic conditions but on average it is about 250 litres/capita/day (NWWEC, 2012). The increasing water demand, coupled with the high rate of non-revenue water of about 27%, complicates provision of water services for the growing urban population. To address this issue, implementation of a comprehensive program for reduction of drinking water losses in Iran has been started in recent years.

Following a parliamentary act, the National Water and Wastewater Engineering Company (NWWEC) was established in 1990 as a governmental holding company with a general mandate of strategic management, supervision and technical support of its subsidiary water and wastewater companies (WWCs) in provision of water and wastewater services.

Currently there are 35 urban WWCs, which operate in 31 provinces of Iran and some large cities such as Mashhad which have their own independent companies (NWWEC, 2012). These publicly-owned WWCs should in principle operate as non-profitable private companies but they still receive governmental loans and aids as full cost recovery is not possible due to imposed low tariffs.

In Iran, urban water services used to be provided at tariffs imposed by the government which were much lower than the actual cost. Publically-owned utilities were compensated for their deficits by the government by different means. The heavily subsidised rates were financed by the country's oil revenue. This system was found to be financially un-sustainable and also inefficient with regard to conservation in a water scarce country. Institutional reforms in water sector were recommended to be necessary towards full-cost recovery and private sector involvement (Hashemi et al., 2007).

4.2 Domestic water subsidy reform

In the water subsidy reform act (Section 3), water and wastewater collection issues have been specifically addressed. Article 3 of the act states that:

“the government is authorized to adjust the price of water and the fee for sewage collection and disposal, in accordance with the provisions of this law. Average price of water for different uses will be adjusted gradually until the end of the 5th five year development plan, up to a level which shall be equal to the cost price, considering the quality and the manner of purification.”

Furthermore, Article 8 requires the government to spend for increasing energy and water efficiency as well as compensating part of losses of utility companies incurred as a result of implementing the law. From 2010, the Ministry of Energy of Iran and the NWWEC played a pivotal role in making policies, setting tariff structures and implementation of the subsidy reform act regarding urban water services (Bakshaiesh, 2011).

After implementation of the first phase of the reform, the revenue generated by the WWCs has increased, but in practice the companies did not receive their full share from the price increase (Ghazani and Siedzadeh, 2014). The higher production cost due to increased energy cost and the high rate of inflation, put the water utilities in an even more difficult financial position than before the reform. However, it is hoped that the newly elected government (2013) will change this situation by paying the full share.

5 Pro-poor water study in Mashhad

Mashhad, the second largest city in Iran, is the capital of Razavi Khorasan province. The city is located in the north east of the country close to the borders of Afghanistan and Turkmenistan. It is 850 km far from Tehran, the capital of Iran. The city features a steppe climate with hot summers and cool winters. Mashhad only sees about 250 mm of precipitation per year, some of which occasionally falls in the form of snow. The summers are typically hot and dry, with high temperatures sometimes exceeding 35°C. The winters are typically cool to cold with temperature as low as -15°C.

The area of the Mashhad City is 850 km² and has population of over 2.8 million. Every year over 20 millions of pilgrims visit the Imam Reza shrine in the holy city of Mashhad. From 1996 to 2006, the population of Mashhad has increased at a rate of 2.54% per year. The growth rate was only 1.82% from 2006 to 2008. The vast majority of the Mashhadi people are ethnic Persians who form over 95% of the city's population. Other ethnic groups include Kurdish and Turkmen people who have migrated recently to the city from the North Khorasan province. Among the non-Iranians, Afghan immigrants live in several neighbourhoods around the city.

Mashhad Water and Wastewater Company (MWWC) is in charge of ground water supply, treatment and distribution of potable water to urban dwellers in the city of Mashhad. The company is also responsible for wastewater collection, treatment and disposal within the city.

MWWC is publically owned and exceptionally, like four very large cities, directly operates under general directions of NWWEC with a degree of autonomy similar to the provincial WWCs. To manage day-to-day operations, MWWC has divided the city into five zones and assigned a directorate responsible for each. Table 1 depicts water services in the Mashhad City and its suburbs.

Table 1 Water services in Mashhad City and its suburbs

<i>City of Mashhad</i>		<i>Suburbs of Mashhad City</i>	
Total population	2.85 million	Total population	0.9 million
Population covered	2.82 million	Population covered by MWWC	0.2 million
Ratio of population coverage	99%	Coverage ratio by MWWC	29%
No. of connections	860,000	Population living at outskirts	0.7 million
Water production	200 MCM/Yr	Population served in the outskirts	0.2 million

Source: Mashhad Water and Wastewater Company (MWWC, 2012)

It should be noted from Table 1 that the ‘rest of population’ (71%) residing in the suburbs have also access to relatively good water services (e.g., local networks supplied by water wells, rural water supply, illegal connections, etc.) but are not customers of MWWC yet.

Following an initial survey and consultation with national experts, Mashhad was selected as the most appropriate city within Iran for research in the framework of the PROBE (pro-poor benchmarking of water services) project. The ratio of people living in the suburbs of this city (30%) is the highest in the country and water services provision needs improvement in areas where mostly poor people reside.

To assess status of water and wastewater services in Mashhad, some field investigation and structured interviews were conducted with the MWWC managers. More information including water consumption data in the entire city, classified in five operational zones, was collected from the well organised database of the MWWC and subsequently analysed with statistical software.

Following a rapid assessment of the areas of informal settlements in Mashhad, Shahid Rajaiee town was selected for field investigation. Further to basic data collection, structured interviews using a questionnaire were conducted with 100 households (about 8% of the total).

To compare water consumption by the poor and the wealthy in Mashhad, two pilot study areas were selected on two sides of spectrum. In Shahid Rajaiee town, located at the suburbs of the city, most of the people have low income whereas in Sajad county, located in downtown Mashhad, mostly rich people live (Table 2). Samples of equal number of water bills, stored in the MWWC database, were used to compare the water consumption in the pilot areas.

Table 2 Specification of two pilot study areas in Mashhad City and its suburbs

<i>Study area</i>	<i>Shahid Rajaiee town</i>	<i>Sajad county</i>
Location	Suburb	Downtown
Household income level	Low	High
Population	61,664	45,455

6 Results

6.1 Water bills results

To grasp effect of the subsidy reform on domestic water consumption in Iran, it is first necessary to compare average prices for one cubic metre of water in typical cities before and after the reform (Table 3).

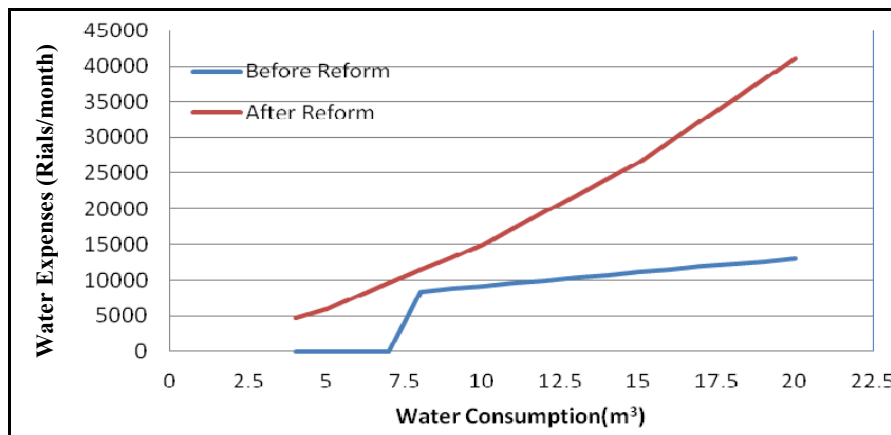
Table 3 Average prices for urban domestic water use in Iran

Location (city or province)	Before reform (Rials/m ³)	After reform (Rials/m ³)	Increase rate (%)
Mashhad City	1,481	3,109	110
Tehran City	1,473	2,932	99
N. Khorasan Province	1,531	1,678	10 (min.)
Lorestan Province	956	2,449	156 (max.)
Country	1,385	2,504	81 (avg.)

Note: Before and after the first phase reform.

Water bills in Iran have been calculated on the basis of metered consumption within a bi-monthly period using the Increased Block Tariff system. In addition to elimination of the first free block (7 m³ per household), the rate was sharply increased after the reform. As an example, water bills for domestic water use in a typical city are compared before and after the reform (Figure 1).

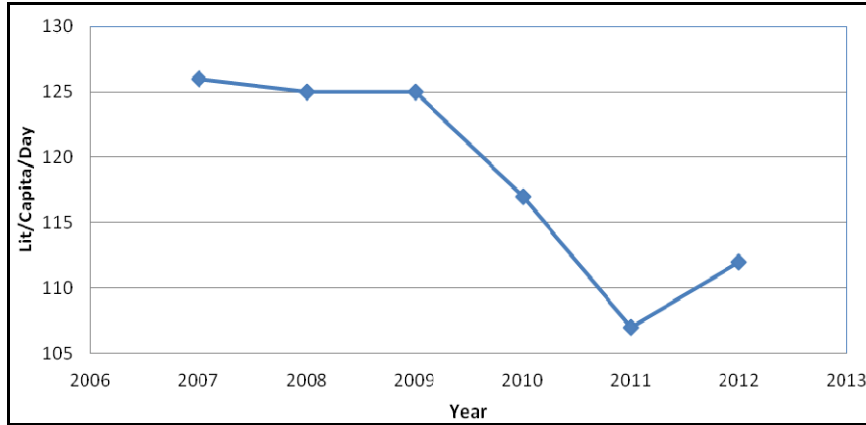
Figure 1 Comparison of typical water bills for households in Iran (see online version for colours)



Note: Before and after the reform.

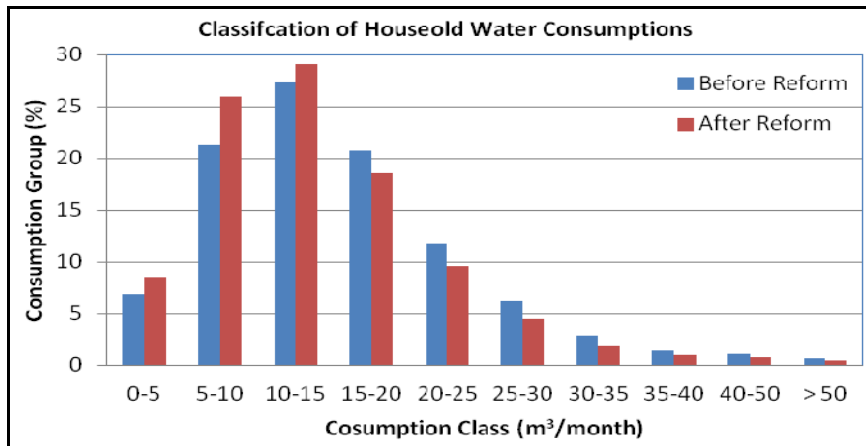
Figure 2 compares water consumption before and after implementation of the first phase of subsidy reform in Mashhad. This figure shows that overall consumption has decreased by about 6% in the entire city which is better than the country average.

Figure 2 Comparison of average water consumption in entire Mashhad City (2006–2012) (see online version for colours)



An examination of data given in Figure 3, depicts that the consumption class shifted one block in the entire city due to the reform. As a result, percentage of customers who consume less water per month has increased. This reveals that the pricing policy has been an effective tool in water demand management.

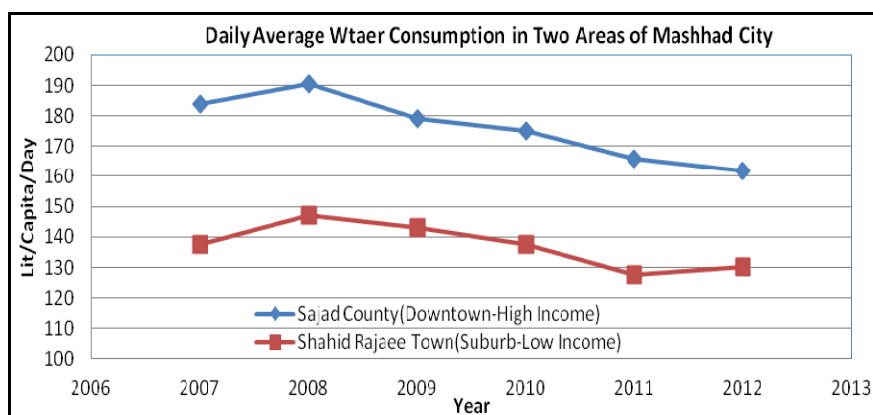
Figure 3 Water consumption for different classes in Mashhad (see online version for colours)



Note: Before and after the first phase reform.

Histories of water consumption in the two pilot areas of Mashhad are compared in Figure 4. As mentioned before, in Shahid Rajaei town, located in the suburbs, mostly people with low income live. In contrast, people living in the Sajad county, located in downtown Mashhad, are mostly wealthy. Results showed that the consumption decreased in both areas after the reform. Moreover, the daily water consumption per capita in the Shahid Rajaei town where mostly poor people reside was found to be at least about 20% lower than the Sajad county.

Figure 4 Comparison of daily average water consumption in the two pilot areas of Mashhad (see online version for colours)



6.2 Survey results

On the basis of the household survey and field observations (Rajbzadeh, 2012), the following results were observations were drawn:

- From the MWWC perspective, the most important reason to provide water services for the informal settlement the suburb of Mashhad was the legal obligations and prevention of social conflicts. This situation cannot be financially stable in the future as there are no special governmental funds specially dedicated for the low-income household.
- More than 95% of the respondents in the Rajajiee county which mostly have low income expressed that the water services prices are affordable. Even if the prices were not relatively cheap, no other alternative exists and they want to use the services. They also expressed their willingness to pay for the water services so that they can have access to the system. This might also be related to legitimatising their illegal housing status.
- About 50% of the households in the Shahid Rajiee town were unhappy with the quality of the water, supplied from ground resources. In fact, it is not as good as the central part of the city which is mostly supplied from surface water. However, this is not because of any discrimination related to the income level of people but due to the fact that the ground water resources is of a lower quality everywhere in Mashhad. On the other hand, the pressure of the water network in the suburbs of Mashhad City is 'not bad' despite technical problems associated with expansion of the system in un-planned areas.
- As far as income is concerned, about 24% of the households in Shahid Rajiee town received one to two million Rials per month and nearly 35% a monthly amount of two to three million Rials. Considering the average of about 4.2 people in each household, they have received roughly about two million Rials as subsidy cash transfers which is in the order of the full income of a poor family. On the other hand, the extra charges for water and electricity bills have been less than 10%.

7 Discussion and conclusions

The new subsidy reform implemented in Iran means that cash is paid directly to households instead of subsidising public services provided by the government. We examined the, initial effects of the first phase of the subsidy reform on urban water services in Iran and more specifically in the city of Mashhad and the poor living in its suburbs. As a result of the first phase of the subsidy reform, overall water consumption decreased at least by about 5% on average in Iran during the study period. In the city of Mashhad, the consumption decreased by about 6% within the entire city but the decline was more in the low-income areas. It was noticed that the consumption rate by the metered poor households in the suburb was slightly less than the non-poor in the Mashhad centre. In fact, the cash transfer mechanism has been effective for water demand management in a water scarce country.

The water tariffs level and structure need to be modified in accordance with the progress of the subsidy reform. The current tariffs level covers only about 20% of the full costs of the services. If the tariffs are not high enough the consumers will, considering the high inflation rate, lose their motivation to conserve water. The unstable financial situation of WWCs in Iran after the first phase of reform can have a negative effect on providing the services for the poor living in the suburbs. It is hoped, however, that the new government will pay their full share to the companies from now on so that they would be able to maintain their service for the poor. The reform is considered to be a step towards cost recovery at least at the operation and maintenance level and will help the companies to be more efficient and less dependent to governmental funds in the long run.

Understanding how households allocated their income supplements was not an objective of the present study. However, it seems that the low-income families can manage to save some money from the dividend. The poor households usually have no car and few electrical appliances in their home so they were relatively little affected by the higher energy prices. As a result, the compensation represented a large share of the poor family income which can be further used for buying other goods and services. This is more pronounced for large poor families as they are now receiving more financial support without paying a lot more for their water bill due to their relatively low level of consumption. Unfortunately, the cost of basic goods has tremendously increased due to inflation. If this could have been kept constant at a low rate, the situation would have been favourable for the poor but the high inflation rate (especially in the year before election) jeopardised the effect of cash transfers.

The first phase of the subsidy reform in Iran was meant to be 'targeted' but in practice it can be categorised as a 'universal' and 'unconditional' cash transfer. With all of its deficiencies, implementation of this phase without any political protest is considered a major step towards more sustainable resources management in Iran. Moreover, Iran has created a system which can be used for excluding the richer people from cash transfers. With some modifications (e.g., controlling for inflation and tariff modifications), paying direct cash transfers instead of subsidising water services can increase social equity and low-income people are projected to receive much more support in the long term.

8 Conclusions

Our policy impact analysis replaces what a benchmarking system would do normally, it assesses what current policies mean for the poor. It is probably more appropriate in case of important reforms, which can be studied in more detail with a specific set of variables, rather than using a standard set as suggested in a benchmarking system.

In this paper the initial effects of implementation of the subsidy reform act on water consumption in Iran and more specifically in the city of Mashhad have been examined. On the basis of the results, the following conclusions can be drawn: the overall domestic water consumption has decreased at least by about 5% on average in Iran. In the city of Mashhad, the consumption has decreased by about 6% for the entire city but the decline rate was more in the less wealthy areas.

According to 'Monavar Khalaj: Tehran rethinks cash handouts in effort to tackle deficit' (*Financial Times*, 22-10-12), the cut in subsidies on energy and basic commodities has been of the magnitude of 100 billion US dollar. The cuts were introduced December 2010 and were considered a much-needed reform of the country's state-dominated economy. However 60 out of 75 million people are receiving compensation for the resulting rise in prices of basic goods. They receive an average of ten dollars per person per month ('Our correspondent: an update on Iran', *Financial Times*, 1-4-2014). The previous president was criticised for spending heavily on public welfare payments, which in turn has led to high inflation (90% since 2011; 'Our correspondent: an update on Iran', *Financial Times*, 1-4-2014). These developments also led to a fall in the value of the Rial, the local currency, which lost 50% of its value in the first ten months of 2012 ('Monavar Khalaj: Tehran rethinks cash handouts in effort to tackle deficit', *Financial Times*, 22-10-12). According to the 'Monavar Khalaj: Tehran rethinks cash handouts in effort to tackle deficit', *Financial Times*, 22-10-12, the government decided to give almost all the money saved from the subsidy cuts (and not half as was required by the law) back to the public in the form of cash compensation payments, which has led to a budget deficit. The newly elected president managed to bring down inflation to about 30%, but youth unemployment remains almost 25% ('Najmeh Bozorgmehr: Ahmadi-Nejad seeks reform to offset impact of sanctions', *Financial Times*, 31-5-14). In October 2014 inflation was 21% ('Najmeh Bozorgmehr and Monavar Khalaj: Iranians find free food offer hard to digest', *Financial Times*, 23-10-14), but the economy contracted by 5.8% and 1.9% respectively in the last two fiscal years. It is clear that under these macro economic conditions the positive effects of the reform will disappear.

The latest news is that the new government has launched a poverty alleviation program by distributing free food to protect millions of low-income families ('Najmeh Bozorgmehr and Monavar Khalaj: Iranians find free food offer hard to digest', *Financial Times*, 5-2-2014). It is meant to protect them from the rising consumer prices due to high inflation and economic stagnation. An Iranian woman is quoted that "This distribution of cheap Indian rice and smelly chicken and oil is preparation for cutting our monthly cash [to compensate for cut in subsidies]". The paper adds that the payment of cash costs the state more than twice what it saves from the subsidy cut. If all this is true it shows the vulnerability of this approach to changing macro economic conditions and new governments.

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