



## **Successful WSS Programmes: It's Not About the Money**

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*Standard economics begins with the assumption that we behave rationally and in our own interests. We seek to maximise utility, which is often equated with maximising monetary gain. Behavioural economists challenge this by identifying areas where observed behaviour does not correspond to the standard predictions.*

*In this viewpoint, we look beyond the standard monetary incentives in the water sector and draw key lessons from behavioural economics, which policymakers should be aware of.*

### **Pro-social work**

Activities that the individual perceives to benefit others can positively influence utility. An employee might work harder if they know their efforts affect the welfare of others. A minister for the water sector in a country with low access rates may have this experience. This is referred to as an *intrinsic incentive*.

Studies indicate that certain pay arrangements can erode this incentive. Gneezy and Rustichini<sup>1</sup> found that high-school students, randomly and covertly assigned into paid or unpaid categories, performed worse in a fund-raising activity for a charitable cause when paid. Their conclusion was that, on a limited budget, it can be more damaging to pay (pro-

social) workers a little than to pay them nothing at all.

The pay of workers in water institutions in countries with low access rates should therefore carefully be considered. Performance-related pay is an important incentive to work. However, if the bottom end of this pay scale is set too low, the weak monetary incentive to work could be exacerbated by an additional erosion of the intrinsic incentive.

### **Identity**

Akerlof and Kranton<sup>2</sup> describe identity as an individual's social category and self-image. A person's utility can be boosted by conforming with the norms of a desirable social category with which they wish to self-identify. Embedding identity into water programmes could therefore have merit.

An example of this in practice is the Community Led Total Sanitation (CLTS) programme in Bangladesh. Achieving 'open defecation free' (ODF) status became a badge of honour for villages in Bangladesh. During this programme, open defecation fell from 42% in 2003 at the onset to 1% in 2016 across the country.

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<sup>1</sup> Gneezy, U., and Rustichini, A., 2000. *Pay Enough or Don't Pay at All*. Quarterly Journal of Economics, 115(3), p.791

<sup>2</sup> Akerlof, G. and Kranton, R., 2005. *Identity and the Economics of Organizations*. Journal of Economic Perspectives, 19(1), p.9

## Loss aversion

Tversky and Kahneman<sup>3</sup> argue we are impacted more from a loss than an equivalent gain. The design of incentives should therefore consider perceived probabilities of loss and gain.

There have been cases where loss aversion has disincentivised public-sector officials from implementing inherently-risky reforms. Officials are often unwilling to gamble risky but vital reforms if they face potentially large losses, such as a career or national respect, in response to a 'mistake'. Workers with less to lose will be relatively less demotivated to take these risks.

Raballand and Rajaram<sup>4</sup> provide an example from World Bank projects in Cameroon. In one project, worth \$15 million, 'mistakes' led to the dismissal of staff, given the volume of money injected into the programme. The authors note a general resistance to reform and limited project success. In a separate project worth \$300,000, perhaps due to the relatively small level of funds, the main sanction

was the removal of the responsible person from their post or a demotion to an office with smaller earning potential. This project had relatively more success in reforming the sector.

## Short-termism

In standard economics, individuals are assumed to substitute consumption and leisure inter temporally in a constant, rational manner, deriving the same utility whether consuming today or tomorrow. Behavioural economists note an innate tendency for individuals to discount the future and past. The technical description is 'time-inconsistent discounting', which often manifests in 'short-termism'.

The effect of short-termism on public services is often associated with elected officials. Though cliché, we should remember that unpopular but necessary programmes should, if possible, be timed early in a politician's term. This will prevent voters (who heavily discount the past) from punishing responsible leaders by voting for populists (who heavily discount the future).

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<sup>3</sup> Tversky, A. and Kahneman, D., 1981. *The Framing of Decisions and the Psychology of Choice*. Science, 211, p.453

<sup>4</sup> Raballand, G. and Rajaram, A., 2013. *Behavioural Economics and Public Sector Reform: An Accidental Experiment and Lessons from Cameroon*. [pdf] Policy Research Working Paper 6595. Washington D.C.: World Bank.