

Commentary

Comments on 'Financing water supply and sanitation under Agenda 21' by John Briscoe and Mike Garn

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 SANITATION (IRC)

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The arguments and analysis in the paper by John Briscoe and Mike Garn (*NRF*, February 1995 19 (1)) suggest a new view on financing which is primarily derived from 'World Bank water supply, sanitation and urban development projects over the past 30 years'. Greater cost recovery in the urban sector can go a long way towards providing the resources for the sector as a whole (Nigam and Ghosh, forthcoming). The authors' views should be fully supported if their effort is to make the urban water supply and sanitation sector management policy efficient. However, a holistic view, which is absent in the Briscoe-Garn paper, is essential for examining issues raised in the context of Agenda 21 of the United Nations Conference on Environment and Development, 1992. Let us take a few hypotheses or statements in the paper to elaborate this point.

Who benefits from public subsidies?

The justification for high levels of public financing for water and sanitation services in developing countries usually offered is the low ability of poor people to pay for services. In practice, however, it is the rich, not the poor, who virtually always benefit disproportionately from subsidized water and sanitation services.

The statement is true. However, a general conclusion of not subsidizing does not address the problem of capital mobilization for the projects in poorer areas. The fact that the poor are often better payers does not always mean that they are *able* to pay. Often the poor pay more for water but at a high opportunity cost in terms of other essential needs such as food, health, nutrition and education which

are sacrificed.¹ While the rich get a water meter, enforcement of collection of fees is poor.² The rich pay less and consume more, waste more and control the utilities. Even by paying more, the poor do not get the service and the poor do not enjoy full consumers' rights. The rich get subsidized not because of 'luck' but rather because it has become the prerogative of the rich and they regain control over the institutions. In part, the problem has been that the subsidies have been channelled through institutions which have provided financing priorities to service rich urban areas. The case for a blanket removal of subsidies to the poor on these grounds cannot be just, when no alternative financing mechanisms, access to capital, or appropriate institutional mechanisms are offered for the rural sector.

Indeed, the argument must be that subsidies may continue to be necessary for the poorer areas, but should be better targeted. People should get the services that they want, if they are willing to operate and maintain the facilities, for which they contribute in cash or kind based on their capabilities. Decisions about this service provision must rest with the communities. Community participation should therefore be encouraged in service delivery and operation and maintenance, without insisting on a blanket withdrawal of subsidies for the poor. Failure to take adequate account of these issues can result in urban bias which cannot lead to sustainable development.³

¹It is estimated that in some periurban areas in developing countries the poor are forced to pay as much as 35-40% of their income to buy water.

²The *World Development Report 1994 Infrastructure for Development* (p 47) notes that cost recovery in primarily urban water supply is only about 30% of the costs.

³In this regard most welcome concerns were expressed by Dr Ismail Serageldin, Vice President, The World Bank, in his speech to the Ministerial Conference on Drinking Water and Environmental Sanitation, March 1994, Noordwijk, The Netherlands: 'If subsidized services don't make sense, then does this mean "abandoning the poor"? The answer is a clear no.' In a review of a selection of World Bank staff appraisal reports in the 1990s, it was noted that in the financing for rural water supply the minimum contribution of the initial capital outlay by the communities is expected to be only 4-5%.

Towards a financially sustainable sector

This section argues that the 'old view' derives from the central planning model. The old model was actually based on the principles of improvement or removal of resource constraints, resource misallocation, resource mismanagement and inequitable distribution of resources, ie it was a model which argued for a more efficient and equitable allocation and utilization of resources by correcting for the market and institutional failures.⁴ It is clear that the new foundation for the 1990s had been laid much before the 'new view' came into existence. The Delhi declaration (New Delhi Consultation, September 1990) had actually argued that the government should be a *promoter and facilitator rather than provider of services*. The key role of coordination by the government cannot, however, be diluted.

The purpose of estimating the sector investment needs and available resources is primarily for advocacy for more resources to be allocated to the sector, particularly in Africa and in particular to the rural sector. These resources need not come from the governments and external sources alone. Alternative financing mechanisms which take account of the lessons learned from the International Drinking Water Supply and Sanitation Decade, 1981-90 (IDWSSD) should be examined, with emphasis on usage of services and on the criteria of quality, quantity, reliability and sustainability of services.

The macro calculations, which generally derive from low-cost approaches, enable an examination of choices and provide a minimum resource requirement estimate on the basis of a broad cost model to show (i) the huge gap; and (ii) the need for policy recommendations to reduce the gap as a matter of urgency, using a mix of financing strategies. In fact, merely increasing allocations to the sector will neither effectively extend coverage nor reduce the gap unless clear policy shifts take place at the national level. Interestingly, this has not been addressed at all in the paper. The primary reasons why the goals of the IDWSSD (1981-90) were not fully achieved are that: (i) the majority of governments did not take up the challenge and instead looked to donors for more support for the sector; and (ii) the community was not involved in planning, implementation and in operation and maintenance in most of the cases. (See Therkildsen (1988) for an excellent description of the confusion between the donors, agencies and government in Tanzania.) In the last decade, the majority of the investments were made in the urban areas which with

⁴The model was best explained in the recommendations of the Abidjan meeting organized by the African Development Bank before the Global Consultations (see African Development Bank, 1990).

low-cost recovery and huge water losses did not allow for financial viability of the sector.

Setting goals is an effective method for mobilizing actions and instituting a sense of urgency in order to meet the basic needs of water supply and sanitation. Social justice demands that this be regarded as a basic right to which people are entitled sooner rather than later. Goal setting helps to add the need for urgent actions to be taken in this regard but not at the expense of sustainability. Without setting goals there is a danger of 'business as usual'.

Clearly for meeting the water and sanitation challenges, a combination of financing strategies is called for and reliance on market forces alone will not suffice.⁵ Experiences of some progressive water boards in South Africa such as the Umgeni Water Board show important synergies in rural-urban provision of services which warranted an examination of costs and benefits on a broader basin management approach rather than the classic cost accounting approach to sector cost allocations. The more holistic approach to both the sector management and environmental considerations argues for water and sanitation to be seen as both an 'economic and social good'.⁶ For improved water resource management, cost allocation and cost recovery must be managed basin wide and fees must be based on the current costs of service provision and service extension and not on a project or historic cost of services. Such an approach provides sound criteria both for the improvement of services to urban areas, their extension to periurban and rural areas and for water conservation and pollution control within a longer-term perspective.

It has been argued in the Briscoe and Garn paper that additional funds can be mobilized through the private sector, governments and beneficiaries, which means that three times the amount spent in the last decade can be mobilized if services are to be provided within time bounds. This can only be possible if some of the broad recommendations pointed out by Nigam and Ghosh (forthcoming) are accepted by the governments and implemented. This would mean increased prices for urban services, a shift of capital from urban to

⁵In Water Resources Management, a World Bank Policy paper (1993), Appendix A, it is interesting that the authors base their financing model on the distinction between 'private' and 'public' goods in public finance theory. Water supply, it is argued, is principally a private good and so should be provided through user charges. Sanitation is a public good once the sewerage leaves the household. As a result public funds should be mobilized. This analysis is again primarily based on an analysis of urban provision and for operation and maintenance costs.

⁶It is noteworthy that the Rio Conference did not accept that water was only an economic good and that effective demand could be made only through effective pricing policy. Instead, the UN Conference said that water was both an economic and social good.

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periurban, reduction of costs of operation and maintenance with proper selection and choice of technology and a conscious attempt to reduce costs. The challenge is to design institutional structures which overcome the manifest problems of the past while at the same time ensuring that the rural areas and the poor are not forgotten. The paper recommends the opposite: (i) there be no definitive goal for achieving safe water and sanitation for all; and (ii) only bankable urban projects should be implemented in the sector with a trickle down to the rural areas and the poor. Even the successful urban examples quoted in the paper, ie Orangi and São Paulo, succeeded on their own and not with the support of external agencies. The success of those projects is due to the community based approach.

Financing implications of the so-called 'new view'

Unfortunately, the financing and operational implications of the so-called new view may not only simply result in 'business as usual', but in 'business as before the IDWSSD'. The authors conclude that 'the transition from public financing to long-term private financing is going to take time and ingenuity. And . . . because the investment costs are so large, cost recovery frequently has to be scheduled over a number of years'.

Such a conclusion not only bypasses the issues of resource constraint for the initial capital requirement, but simply means that the millions of people in rural and periurban areas so far deprived of even the basic level of services will continue to be deprived for a long time to come and will have to be left to use whatever source of water is available to them at immense cost to their health, energy and time for accessing safe sources of water. Indeed, the inequities in the provision of the basic levels of services will prevail unless the financing mechanisms proposed take account of service provision to rural areas. It will be an unfortunate financing strategy if rural and poorer urban areas are omitted. The financing strategy drives the choice of technology. If we are serious enough to aim at universal coverage and usage, the choice of appropriate and affordable technology will play a major role. Let us not allow the best to be the enemy of the poor.

How the African nations going through structural adjustment programmes will mobilize the additional capital has not been explained at all.⁷ After a decade of structural adjustment and increased incidence of poverty, this is not the time to cut subsidies. Failure to

consider such countries bypasses the resource crunch facing many developing countries.

With the proposed new view, the governments will not take any initiative, particularly in rural and periurban areas. Mobilizing the community within a financing mechanism in which the government has a role to play through subsidies or rural credit schemes poses the major challenge in this respect. This has not been addressed in the Briscoe-Garn paper at all. In this respect, rural credit schemes such as the Grameen Bank of Bangladesh may be useful areas for exploration.

'Some for all rather than more for some'

The arguments offered in the Briscoe-Garn paper cannot support the contention that the principle articulated at the New Delhi Consultation in 1990 has failed in practice. 'Some for all rather than more for some' argued for the following: (i) equity and conservation; (ii) resource redistribution through the prioritization of public funds; (iii) improved urban cost recovery, through improved service delivery and efficiency; and (iv) urban-rural cross-subsidy.

The intention should not be taken out of context. The four guiding principles of the New Delhi declaration as reendorsed at the Noordwijk Ministerial meeting in 1994 are as follows: protection of the environment and safeguarding of health; institutional reforms; community management of services; and sound financial practices. The guiding principles call for environmentally friendly management of resources and improved financial practices, not merely of the government. It would be unfortunate if these principles, which convey more than the slogan may suggest, are abandoned by sector professionals and the clock is turned back. Moreover, even the Dublin Statement (International Conference on Water and the Environment, Dublin, January 1992) called for water for all. In fact very often the important caveat of Dublin is not quoted: 'Within this principle, it is vital to recognize first the basic right of all human beings to have access to clean water and sanitation at an affordable price. . . .'

An impression has been created that everything was wrong in the old agenda. In fact, as we search for the answer from the agenda developed by UNDP/World Bank water supply and sanitation programmes during the IDWSSD and we look into the outstanding publication *Community Water Supply: The Handpump Option*, published by the World Bank in 1986, we see differently. That publication noted that 'The technology chosen should give the community the highest service level that it is willing to pay for, will benefit from, and has the institutional capacity to sustain.' The book notes that 'the technology [was] chosen to match the resources available to sustain it' and

⁷The recent paper by UNDP, UNESCO, UNFPA, UNICEF and WHO, 'The 20/20 initiative: achieving universal access to basic social services for sustainable human development' prepared for the World Social Summit, called for an increased allocation to basic social services to address this resource mobilization aspect in the sector.

... provision [was made] for full cost recovery with support of capital [construction] costs for poorer communities offset by full recovery where higher service levels [were] provided'.

In making its case, the Briscoe-Garn paper offers Kerala as an example of the low equilibrium trap. Kerala as a model is not representative of rural India. The entire Kerala State excluding the Palghat area is a large urban conglomerate. The Kerala Water Authority implements 80% of its schemes as piped water supply and only the most remote areas of Palghat implement handpump programmes. In fact, the policy of the government of India is still to provide water for the rural poor up to a minimum level of services to be supported by government funds, beyond which the community has to pay. The government of India still implements rural water supply programmes under the Ministry of Rural Development. Indeed, accelerated rural water supply programmes (ARWSP) and minimum needs programmes (MNP) of the state governments are still in operation. The claim made in the paper that the government of India now recognizes that these slogans are counterproductive and is in the process of abandoning them is, therefore, misleading as the reference is based on the policies developed by the government of India on urban water supply and finance policies. There is no change in the policy: the government of India has never in previous plans supported subsidized urban water supply. As there was never any government programme to subsidize water supply in urban areas, there has not been any policy shift.

The 'old' and the 'new' agenda

The Briscoe-Garn paper represents an attempt to return full circle to the pre-Mar del Plata view of sector management and financing. Before the UN Water Conference (Mar del Plata, 1977), water supply was dominated by large bulk water supply and urban water supply agencies. In the 1980s, because of the efforts of the United Nations and commitment of the national governments, the attention shifted, or rather, for the first time was given to the poor. The focus was on implementation of community based affordable projects and use of technologies such as handpumps, which had previously been unacceptable to the public health engineers. In the name of water resource management, an attempt is now being made to shift back to the large projects, major irrigation projects, large bulk water supply projects and a reversal of the trend which was started in the 1980s. The agenda of the 1980s is not yet complete. If the focus is now shifted from household water supply and sanitation, it means that a major linkage with health and economic impact of this sector is being taken out of the agenda. This is in contrast with the World Bank approach to the Health Sector articulated in the *World*

Development Report of 1993 and in *Better Health for Africa*, which recognizes the impact of water and sanitation on health and the environment.⁸

The challenge before us is not merely water resource management but managing water resources at the community level for improvement of quality of life. Micro watershed management is not a new invention, but has been practised traditionally. Moreover, NGOs are playing an increasingly important role in the capacity building exercise and empowerment of the communities in the true sense. The role of the NGO is increasingly and grudgingly recognized in water supply and particularly in the promotion of sanitation. The paper is silent on those initiatives.

Briscoe and Garn have initiated an interesting but inconclusive debate on the financing of the water supply and sanitation sector. Our objectives are similar. What is needed are policy instruments to meet these objectives. Indeed, the shift in emphasis that needs to be supported is precisely to look at the sector in a holistic manner, integrating issues of health and nutrition, micro watershed management, environment, drinking water supply, sanitation, waste disposal, water pollution, and the various other uses of fresh water. The fundamental principle of the need for financial sustainability of the sector must be supported. The financial sustainability of the entire sector under Agenda 21 cannot be addressed adequately unless the bulk consumers of water such as agriculture and industry pay the economic cost. Indeed, of the 10% consumption of total freshwater resources for drinking water, less than 1% is consumed by the poor. A holistic view requires not only a consideration of financing mechanisms but also building capacity and empowering communities, for which water is an ideal entry point.

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⁸Incidentally, both these documents estimate the cost of meeting health goals, which is then analysed in the context of resources already expended in the sector.