The Maladies of the Water Situation
Democratising and Demystifying The Conundrum

by
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One major problem confronting citizens groups and civil society organizations when they seek greater involvement in water management issues is over the issue of how they can ever hope to raise the huge resources and investments which are said to be required to ensure supply of water to all. At every turn in the water debate, the issue always put forward has been that the requirement of funds is so great that most countries of the third world cannot raise funds by themselves and will have to invite the private sector to invest the required funds. While there has been a major debate over the issue of support or opposition to privatization of water supply, there has been little effort to explore the issue of assessing whether the projected amount of investment said to be required to meet the Millennium Development Goals in so far as water in concerned are correctly calculated and whether these amounts are actually required. Not considered is whether technology choices are absolute or there are alternatives to scale down the so called investment.

The difficulty for citizens groups is that the issue seems to be in the domain of water technologists, technocrats and economists. However as the ongoing experience of reform within a state level water utility in Tamil Nadu state in India shows, at least in the area of rural water supply, there are immense possibilities of reassessing and actually scaling down project requirements of capital investment by involving the community and stakeholders along with local democratic bodies in the management of water supply, maintenance and administration. This paper seeks to briefly highlight the issues involved, in the form of brief discussion points.

I Scenario: Context for Increased Investment.

1. Two out of 10 people in the developed world lack access to safe water; with parts of Asia and Africa lagging even further. In sheer numbers about 1.1 billion people lack access to safe and adequate drinking water, 2.3 billion suffer from water related diseases and 4 billion do not have access to adequate sanitation facilities.

2. Investments made in infrastructure water projects in the last 2 decades have not been sustainable and are not in a position to cater to the needs of the poor on a sustainable basis.

3. One school of thought advocates that there is a need for very large investments which are beyond existing allocations by Governments. In fact the World Panel on Financing Water Infrastructure has projected that annual investment in water and sanitation would require to be tripled from the annual US $ 30 billion to US $ 80-90 billion.

4. Public utilities have not only failed to provide water to the people but are also plagued with corruption, inefficiency and ineffectiveness. Moreover they are not only seen to be unaccountable to anyone but also lack transparency and sensitivity to the public at large, particularly the poor, marginalized and excluded communities.

II Private Sector and Efficient Water Management! Building the Myth of the Water Saviours

1. In the above context, private sectors are seen as the only parties who have the ability to generate and bring in the much needed extra investment. Here again, what is glossed over is the fact that it is not the local private players but the global water multinationals who are seen as the most dependable groups to raise the investment required.

2. The private water companies are said to be willing to introduce new technology, improve efficiency, cut red tape, be performance focused and give performance incentives to staff. In short the private sector is contrasted on all parameters to the inefficient public utility thereby performing better.

3. This will assist in pricing water leading to cost recovery for O&M purpose as well as putting a value to water leading to economic efficiency in its usage thereby contributing to conservation of water and sustainability of managing water systems.

4. Involving the private sector will also result in increased efficiency in the use of financial resource which will then help to refinance and reinvest in water improvement programmes.

5. Since the private sector has to compete in the market, they will be more transparent and responsible and will hence short circuit the lack-of-accountability chain plaguing the public utilities.

III State Responses to Private Sector triggers

1. Most often, the private sector players are brought into the water sector by way of agreements signed between local, regional or national governments and private sector companies with international lending institutions playing a facilitating role. These terms of these agreements are rarely made public, often signed in secrecy and seldom made after public discussion. The following things happen:
2. Handing over of either **ownership** or **management** of water resource to the private body.

3. Enter into contracts promising assured returns irrespective of quantities actually supplied.

4. Fix or increase tariffs to make it remunerative for the private company with clauses for both escalation and periodic revision to match international currency prices.

5. Dismantle existing structures and organizations and dispense with existing manpower in the name of redundancy to create space for the new private entity.

6. Reduce budgetary support to existing public utilities and institutions leading to further withering away.

7. Creation of new Pressure groups interested in the continuance of the new Private entity irrespective of Real benefits.

IV The Reality of Financing Water: Some basic issues

1. Drinking water is considered a priority social sector worldwide. Therefore government borrowings with sovereign guarantees will entitle

availability of funds at lower rate of interest as contrasted to cost of funds raised by private sector.

2. Cost of private investment is always costs of funds + operating costs + profit margin. Basic economic sense dictates that the choice of a government divesting its responsibilities to the private sector would be worthwhile only if improvement in operating efficiencies (resultant savings) is more than the proposed profit margin for the private companies. Anything less is not just bad financial planning but amounts to unacceptable social irresponsibility by the government.

3. The private sector has two objectives (1) increasing profits (2) keeping the owner/shareholder happy. This leads to profit maximizing behaviour through revenue increases and cost reductions. A natural corollary would be to serve bulk consumer rather than small and scattered ones on grounds of economies of scale and cost efficiency, disinterest in reaching water to unreached areas and people on account of economic unviability for the private firm and repatriation of profits to the parent multinational company rather than reinvestment in the water sector itself to meet future needs.

4. Additionally there is accountability only to the Board of Directors of the Company and the shareholder. Direct chain of accountability to the consumer/client, especially the poor and marginalized, is a myth.

   For eg. In the Coke-Pesticide controversy in India where are the coalitions of enlightened shareholders formed holding the company responsible and taking Coke to Courts or consumer fora asking for damages? In fact it was the indirect chain of accountability which worked i.e. the elected representatives (MPs) who demanded parliamentary debate on the issue first raised by an NGO. When such was the response of the company to a product which is essentially a rich man product then to expect poor to be able to demand accountability from an MNC is a tall order.

5. **Lack Of Choice:** Water supply is a monopolistic business. Whoever owns the pipes owns the customer and alternatives when any consumer chooses to leave a scheme are not just very costly but impossible to find without having to reinvest in infrastructure all over again (unlike changing residence, bottled water etc.). So how does a poor community make the private entity accountable? And why will the entity be responsive ?

6. Companies are known to renege on their promises of extra investments. Moreover it is an issue of public policy how to prioritise Government expenditure, how to raise necessary resources, whom and how to tax ? The choice of financing model to follow, whether through direct recoveries by costing the service or from indirect sources or revenue pool should emerge from a public dialogue.

A typical example of financing choices in public policy is in school education sector in India there has been a persistent demand from practitioners and academics to increase spending in Education to 6% of GDP. The nation also decided to make the right to elementary education a fundamental right. This required new Schools, buildings and Teachers. Rather than prescribe a fees for the Education services so as to raise resources etc. (which by the way was found counterproductive in Africa) the State choose to put a surcharge of 2% (education cess) on the direct tax being levied.

7. Post Dublin, pricing water or imposing user charges is taken as a silver bullet for ensuring better water management. But this will not happen till either there is an tax on the outputs based on the quantity of water consumed or it is priced so high that it becomes a very expensive commodity. In fact rationing could well be a better method. Anyway there are no field studies associating user charges with better water management and proving charges as an instrument of choice for environmental efficiency, over other options.

V. Going back to Basics: Asking the First Questions

1. It is usually argued that one of the more important reasons for bringing in the private sector is the fact that they will bring in the massive investments required. We have already seen the difficulties and contradictions abounding in permitting the private sector to control the water sector. However a more fundamental question needs to be asked: Is the assessment of money required for investment correctly calculated? What are the factors to be examined to assess the actual requirement of investments? Three issues arise.

2. **Choice of technology:** The calculation of cost is based on the choice of technology to be introduced as part of the water supply system. A crucial question is over the extent of technological intervention required. At least in the context of rural water supply, there is the possibility of adopting low cost, local technology based community managed systems. The reality that technology options are also dictated by industry driven policies one that is

admitted within the sector but seldom publicized. An example is the decision of going in for a strategy of exploiting ground water as a solution for the drinking water demands in the seventies, eighties and nineties without a concomitant look at conservation and recharge. It is now acknowledged that one of the driving forces behind adoption of this technology strategy was the drillers lobby which lobbied majorly within governments to push such a strategy.

What is important to recognize is that the choice of technology is a major factor impacting sustainability of service as well as in the requirement of capital investment and recurring expenditure. In turn the choice of technology itself is a political choice since every upgradation in technology increases the barriers between the community and the resource. The majority not knowing how to operate, maintain or manage the system leaves the control in the hands of the few who have either the literacy/knowledge or the finances o access those who have this knowledge. This creates a new elite based on technical knowledge and skills. The community should therefore be taken into confidence and be provided all information for the community to come to a conclusion about the nature of technology and extent of funds required.

3. Deciding on New Interventions after Revisiting Old Investments

It was the strategy of the Bretton Woods Institutions and Government led policy in the seventies and eighties to concentrate on building infrastructure in the water sector. Much of this practice continues though in changed manner in the nineties. A little noticed aspect of existing practice in the water sector has been the impact of `Project Based Investment Paradigm whereby at periodic intervals new water schemes would be initiated from time to time ostensibly focused on covering the gaps in reaching water. In practice what has occurred is that new schemes have been introduced in places without verifying about the extent of completion of previously introduced projects in the same place. This has resulted in the blocking of huge amounts of capital and repetition of schemes in the same place.

In the Democratisation experiment introduced in Tamil Nadu, the water engineers evolved a new paradigm of operation as a guideline before adoption of a new scheme. This came to be known as the ***`Maraimalainagar Declaration'***

The Maraimalai Nagar Declaration

We will evaluate the existing schemes and ensure that the schemes are put into optimal use first.
Then rehabilitation will be undertaken wherever necessary along with revival of traditional sources.
This will be taken up before taking up any new schemes in the block.
We will all aim at 10 % increase in coverage with the same budget.

In a period of a year between 2004-05, major savings were achieved by adopting the strategy of first completing all pre-implemented schemes, taking recourse to local, alternate and traditional water sources and mopping up unutilized and/or locked up funds. Working on a pilot change projects it was found that the average cost per HH (household) in SRP (Sector Reforms Project) schemes was about Rs.4,436/-(on habitation basis) whereas in the Pilot Batch the average cost came to about only Rs.1,555/-(on village basis) . In real terms this means possibility of additional coverage of 400,000 households every year, within the same budget.

5. **Searching for alternate funding sources**: As already remarked earlier, it is not as though only the private sector can bring in funds. If the scale of funds required for ensuring adequate water supply to all is correctly calculated, it will be found that the total requirement is not so scary a figure. Apart from this, drinking water being in the priority social sector, it is possible for sovereign states to obtain loans at lower rates than market rates. There are also newer ways of raising capital costs as for example imposing a special cess on consumption of consumer goods.
6. In India this has been tried out in the context of raising money to ensure that free elementary education can be provided to all children throughout the country. The government instead of taking recourse to imposing tuition fees has imposed a national cess to raise the additional sums required to ensure reach of education to all.
7. Nothing therefore prevents governments from other similar innovative ways of raising capital costs. What is required is the political vision and will to ensure that this most vital of natural resource is not completely destroyed by our generation.

Conclusion:

It is important to locate the water debate appropriately. The value assigned to water and its subsequent treatment is not a financial issue alone but rather in the realm of public policy. The state, the executive and civil society in

each country has to debate and discuss the importance it gives to availability of drinking water and how it would go about providing it. Each society will have a unique path with its own matrix of choices and trade offs. For sustainable development there cannot be an externally prescribed single fit solution for the whole world. The experience of TWAD Board in India clearly indicates that the issue of democratizing the water sector are beyond the narrow confine of financial considerations alone. Given the space and opportunity, public service delivery organizations can transform and deliver on their responsibilities towards their disadvantaged fellow citizens. Therefore the million dollar question is: are we willing to work with and reinvest faith in our public institutions ?

The Challenge before us all perhaps then is to start from the basics and create a new strategy to ensure that water remains in public trust and will remain available for all future generations of beings on this planet.

As Mahatma Gandhi said,

"What does it matter if people look upon us as dreamers".

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About the Authors

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