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**REGIONAL CONFERENCE ON WATER
SUPPLY AND SANITATION**

**Evaluation of the International Drinking
Water Supply and Sanitation Decade
and Projections towards the Year 2000**

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**Financial and Resources
Mobilization Policy for the Water
and Sanitation Sector and
Considerations for the 1990s**

***FINANCIAL AND RESOURCES MOBILIZATION
POLICY FOR THE WATER AND SANITATION
SECTOR AND CONSIDERATIONS FOR THE 1990S***

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I. BACKGROUND

The initiatives taken by the countries of Latin America and the Caribbean to provide their populations with water services and adequate sanitation have always run into severe financial constraints. These constraints were significant at the beginning of the International Drinking Water Supply and Sanitation Decade: documents of the time clearly warned against what would happen if the governments failed to generate enough resources to meet the commitments they were assuming. It was known that the share corresponding to external credit was declining sharply and that the economic crisis would make it difficult to mobilize internal resources.

This situation did not change during the course of the Decade. The economic crisis continued, with its problems of public deficits, inflation, balance of payments, etc., leading many of the governments to cut back on their investments, including their share of contributions to the Decade, and making it difficult to apply rates that would make it possible to recover costs.

In spite of this situation, some of the countries have managed to achieve results, although large sectors of the population, mainly in the urban fringe and rural areas, are still without adequate water supply and sanitation services. The challenge of the Decade may therefore be expected to continue in the 1990s, probably along with the same financial constraints that have existed so far.

II. PURPOSE

This document attempts to present an overall analysis of the financing policies and resource mobilization mechanisms being used by the countries of the Region in the Water and Sanitation Sector, with a view to promoting a debate that will lead to their improvement.

III. CHARACTERISTICS OF THE WATER SUPPLY AND SANITATION SERVICES

The drinking water supply and sanitation systems may be seen as industrial processes that capture raw water at the source, treat and distribute it, collect the wastewater, and, finally, return it to the environment under conditions that do not degrade it.

There are specific characteristics related to the promotion, planning, construction, and operation of these systems that vary depending on the size and degree of development of the populations to be served. These characteristics include the financing schemes.

With a view to facilitating the present analysis, the water supply and sanitation systems have been classified into three groups, based on whether they are associated with:

3.1 Organized Urban Areas

Organized urban area is understood to mean one that follows a scheme of planned development and which enjoys the basic public services. It usually corresponds to the upper income population.

The water supply and sanitation systems in these areas are conventional systems that can become very complex and require heavy investments.

Promotion of the services is done by the social groups that live in these areas, through ordinary governmental and urban planning mechanisms.

These areas are usually the first to be served.

3.2 Marginal Urban Areas

These areas get established around the periphery of the organized urban areas. They crop up without any plan, often in unsuitable areas which afterwards are very hard to provide with water supply and sanitation services. The families that live there have very low incomes.

Many of these areas have water services but few have adequate sanitation. The systems that are built are sometimes conventional, but the tendency is to use simpler solutions, with the participation and contribution of the community and a strong component of health education.

Construction of the services is usually promoted and requested by neighborhood associations whose members have been trained in these marginal urban areas and know how to enlist the regular government mechanisms.

The people's demands in these areas are not always met, and this is one of the major problems that the Sector faces. The rural-to-urban migration process that the countries of the Region have been experiencing for several decades gives reason to believe that these marginal urban areas will continue to grow and that the problem will get worse.

3.3 Rural Areas

Usually these areas correspond to settlements of less than 5,000 inhabitants and to scattered population groups living in rural areas.

Efforts are being made in several of the countries to serve these areas, and although at first more emphasis was placed on water services, today there is already a trend toward including sanitation as well. The systems that are built are simple, and there is constantly more awareness of the indispensable role of community participation and health education, since, among other reasons, it is the community itself which almost always assumes responsibility for the operation and management of the services.

Construction of the services is promoted in almost all cases by the public institution responsible for that function, which attempts to involve the community in the decision to build the system and in its planning, execution, operation, and management.

There is still a very serious deficit in services for these areas.

IV. ANALYSIS OF CURRENT FINANCING POLICIES AND RESOURCE MOBILIZATION MECHANISMS

4.1 Organized Urban Areas

The goal being pursued for the financing of services in these areas is to create a financing mechanism that will guarantee a steady flow of resources both for the construction of the systems and for their operation.

The Sanitation Financing System, instituted by Brazil in 1968, is a typical example of this kind of initiative. This system, presented schematically in Figure 1, has created the institutions and procedures that have made it possible to:

- plan the development of the Sector;
- plan the investments of the Sector;
- set rates that will make the systems financially viable at the state level;
- create revolving funds for water supply and sanitation;
- mobilize internal and external resources.

The System continues to function to this day, and, despite the economic crisis of the 1980s, it has managed to maintain a good rate of investments and to contribute decisively to attainment of the goals of the Decade. There is no question that it faces problems, some of them very difficult ones, but it appears to be solidly institutionalized in the country.

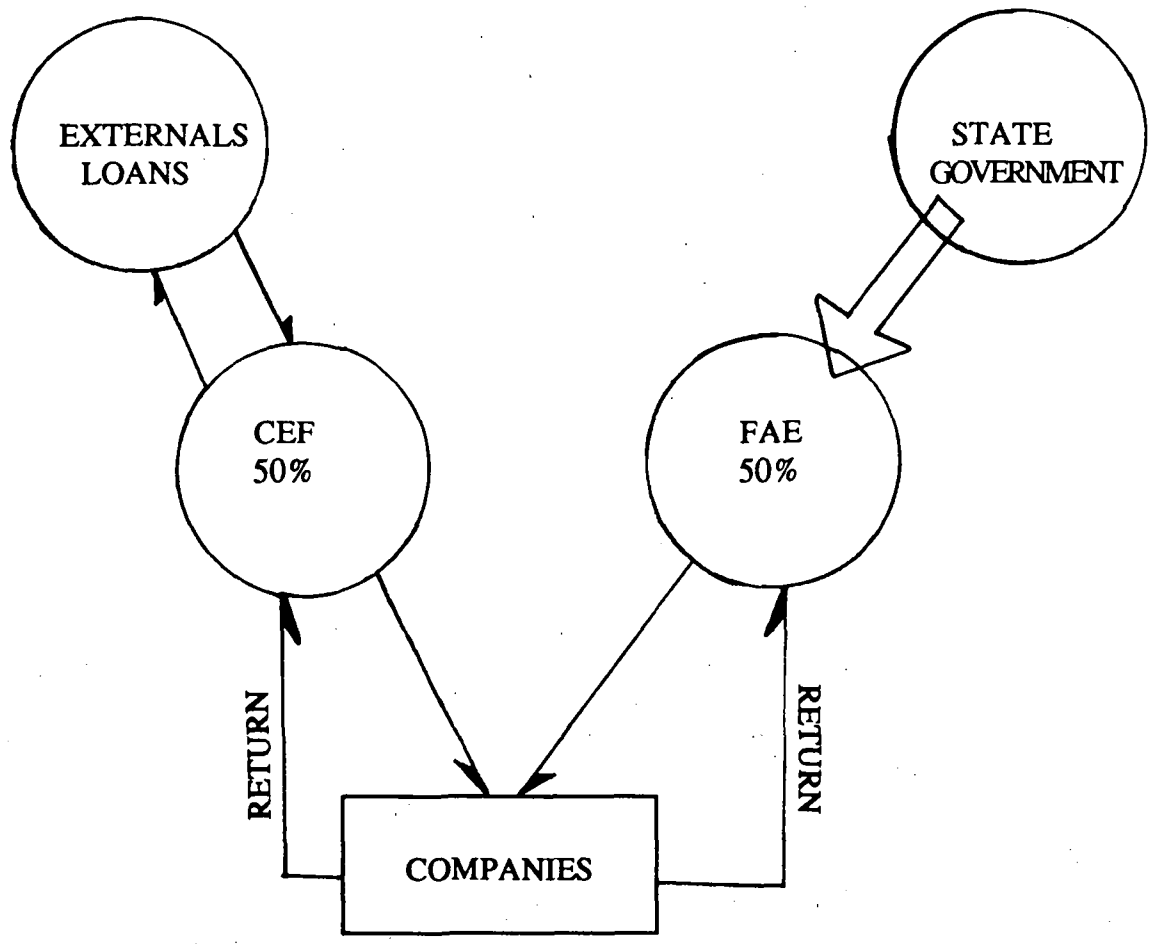
Among its chief problems are: the need to adapt it to the reorganization of the Sanitation Sector (beginning with establishment of the National Secretariat for Sanitation within the Ministry of Social Action), to reactivate the revolving funds, and to recover past due loans.

Other countries--Ecuador, Mexico, and Colombia--have also created revolving funds, but we understand that they are still in the process of becoming institutionalized.

A criterion widely applied in the countries is to finance investments in the areas in question through resources obtained from the Sector's own institutions and the public treasury, which are utilized as counterparts for obtaining external credit. The commitments that the country assumes with the international lending agencies guarantee regularity of allocations for the institutions and in the public budget.

**FIGURE 1
SANITATION FINANCING SYSTEM**

Brazil



There is no question that, to the extent that the Sector is organized and plans its actions, sets priorities, and prepares good projects, it is in an advantageous position to ask for resources from the public budget and to negotiate loans.

Financing for the operation of services in this area is usually sought through the rates. The policy is that the rates should not only recover costs but also subsidize the marginal urban areas and, in some cases, even rural areas.

Implementation of this policy is being held back for two reasons. On one hand, the unfavorable economic situations that the Sector's institutions so often have to face are preventing the rates from being raised to realistic levels. On the other hand, the widespread lack of sound management practices in these institutions leads to waste and lowered productivity. Recently several governments, as part of their economic recovery plans, have been revising their rates and taking steps to upgrade the performance of the public institutions, including through privatization.

4.2 Marginal Urban Areas

These areas are served through the same financial mechanisms used for the organized urban areas, although different criteria are applied, which facilitate the financing. Technologies are encouraged that reduce the cost of investment, maintenance, and operation; simplified construction methods and processes are used that take advantage of materials and labor available locally and in the region; and community participation is enlisted whenever possible in the execution of the works.

The financing of investments that meet these criteria comes from: the resources of the Sector's own agencies; contributions from the government that may become subsidies; recoverable loans; and contributions from the community in the form of materials, labor, or money.

The operation of the services is financed through the rates, which may be subsidized by the users in the organized urban areas.

The financial resources for serving these areas are obtained with a great deal of difficulty because when they are regarded as subsidies they have to compete with the demands being placed on all social programs and when they are recoverable they are very expensive for these communities.

Special programs can be created to systematically promote the expansion of coverage in this area. That is what Brazil has been doing: within the Sanitation Financing System it has created the Sanitation Program for Low-Income Populations (PROSANEAR). Although philosophically the Program allows for the use of subsidies, in practice this is not happening.

4.3 Rural Areas

These areas are also served through the financial mechanisms created for the organized urban areas, and the criteria applied are similar to those indicated for the marginal urban areas, which facilitates the financing.

For the investments, it is expected that the community will contribute a percentage of the cost of the works and that there will be a government contribution, usually in the form of a subsidy. There can also be loans.

For financing the operation of the services, when they are linked to one of the institutions of the Sector there are payments from the community plus, whenever possible, rate subsidies from the organized urban areas. In the case of autonomous systems, their operation is financed with community contributions and some form of subsidy from nearby urban areas.

V. CONSIDERATIONS FOR THE 1990s

A balance sheet showing the coverage of the water supply and sanitation services in the countries of the Region might lead us to conclude that, on the whole, the organized urban areas are being served but that there are significant deficits in the marginal urban and rural areas and that, in the urban fringe areas, this deficit is tending to increase as result of urbanization. Certainly the challenge for the Sector in the 1990s will be to overcome these deficits.

From the financial viewpoint, this implies yet another challenge, in addition to the efforts being made by the countries to establish financing schemes that will guarantee a regular flow of resources for the Sector, because it is a question now of serving the lower-income sectors of the population on a priority basis. These efforts may be facilitated by the importance that is being given to them in the social programs within the countries' economic recovery plans.

In this regard, the following considerations are important:

5.1 Sanitation Financing Systems

Up to now, this appears to be the most adequate mechanism for creating a regular flow of financial resources within the Sector. It has been seen that they facilitate the financial planning of the Sector, the adoption of policies on investments and rates, the creation of revolving funds, and the mobilization of resources in general.

The countries which already have these systems should strengthen them, and where they do not exist it would be desirable to establish them.

It is very important, within these systems, to give special attention to the revolving funds and ensure that the resources which the governments have assigned in their budgets for Sector investments are channeled toward them. Loans should also be channeled toward these revolving funds. As the revolving funds are strengthened, the Sanitation Financing System will take on increasing autonomy.

The Sanitation Financing System needs to be supported by the Sector Planning System, and for this reason, it ends up helping to strengthen the latter.

5.2 Utilization of Internal Resources

The Sector's financing policies should promote maximum utilization of the country's internal resources in the financing of investments; it is hoped that the resources mobilized in this way may be used for revolving funds.

Implementation of these policies will be facilitated once the tax-related reforms provided for in the countries' economic recovery plans are in place, and once public financing is on a solid footing.

At the same time, a regular flow of internal resources will facilitate even the obtaining of external credit.

5.3 Recovery of Investments

Given the limited resources available for financing Sector investments, the soundest policy would be to recover everything that has been invested through the rates. In this case there should be no exceptions for the organized urban areas, although for the marginal urban areas and the rural areas criteria could be applied that would make it possible to subsidize a given percentage of the investments.

5.4 Recovery of Operating Costs

Also in this case the soundest financial policy is to recover all operating costs through the rates. Subsidies may be used, but from the consumers in the organized urban areas for those in the marginal urban areas or, as appropriate, those in rural areas.

5.5 Optimization of Investments

Optimization of investments has a strong reflex in Sector financing. If every step is taken to see that the investments are made on a timely basis and, from the engineering standpoint,

under all the appropriate conditions, this will prevent resources from being applied ahead of time and unnecessary installations from being established.

5.6 Optimization of Operations

Also, the quality of the operation has a strong effect on financing of the Sector. Abandoned installations, high volumes of unmetered water, excessive staff, etc., will undermine any financing scheme.

The improvement of management in the Sector's institutions continues to be a crucial issue.