

Government Policy

If governance is both a core problem and part of a core solution, the transparency and implementation of government policies are the criteria against which governance can be measured. This chapter looks at what has happened to government policies in the past and then explores what should be addressed in government policies on water supply and sanitation in the urban context, who should be consulted during the policy formulation process, in what form policies can be communicated, and how policies should be monitored.

A. A Framework for the Policy

ADB's water policy notes that national water policies should address both resource management and service delivery aspects. Effective water policies will involve several reforms, including the development of a neutral sector apex body that can oversee the policy formulation and sector reform processes. ADB will provide support for the review and revision of legislation, particularly in water rights and allocation among competing uses, water quality standards, groundwater use, demand management, resource conservation, private participation, and institutional responsibilities for water sector functions at national, regional, or basin levels. ADB will continue to press for and support policies that provide the explicit participation of the poor in water and related projects. ADB recognizes that women are important water users, clients, and beneficiaries, as well as managers of water for family nutrition, hygiene, and health and community activities. Equally, women are development agents, professionals, and decision makers in water sector activities. ADB will therefore promote the integration of gender concerns in policies, plans, programs, and projects.

The following findings from ADB's Sector Synthesis of Post-Evaluation Findings in the Water Supply and Sanitation Sector (1994) indicate the areas of concern in the sector and some elements water supply and sanitation policies should be addressing.

- Political hesitancy related to regularly raising tariffs could possibly be overcome through a combination of (i) continued policy dialogue supported by

progressive privatization congruent with market values of water and (ii) direct ADB assistance aimed at supporting consumers' education and making them more aware of the value of water, the costs of treatment and supply, and the need for both conservation and further capacity expansion of the supply system.

- The extent to which benefits from water supply are likely to be sustained will depend upon greater recognition of the role that prices can play in managing water demand to expand supply and protect the environment.
- Focus should be on reducing water losses and wastage rather than investing in supply capacity expansion and new distribution systems.
- Rigorous socioeconomic research is required to provide a better understanding of the market for piped water and the response of consumers to different service standards, tariff levels, and pricing structures.
- Several new systems were reported to be underutilized. This was largely due to slower-than-expected growth in water demand, which resulted from unrealistic targets for users of public taps, declining household income, and increased water prices. Slow growth in demand was also in part due to the existence of alternative water supplies and the perceived difference between piped and natural supplies.

Extracts from a draft vision for Gujarat (India) appear in Box 14.1. These extracts could form the basis for preparing a more specific national or state policy.

B. Transparency and Policy

Why is government policy important? Governments have had policies in the past, and policy statements were agreed with development agencies as conditions for loans. Sadly, these policies too often did not translate into actions and were thwarted by the ad hoc involvement of elected officials in management and decision-making processes. The most telling part about these policies was their lack of transparency. In other words, the public did not know about them. Civil society,

Box 14.1 Draft Gujarat Vision for Water Supply and Sanitation, 2010

- **Human Rights**—*Access to safe water and sanitation is recognized as a human right and citizens are active partners and managers in water and sanitation services.*
- **Water Supply**—*Everyone has access through a connection to a regular, reliable, and affordable supply of adequately safe water through systems that are socially acceptable, environmentally sustainable, technologically and economically viable, and managed in a way that is centered on people. Every public tap gives potable water.*
- **Water Resources**—*Integrated water resources management is practiced at all levels.*
- **Sanitation**—*Everyone has access to latrines connected to waste disposal systems. All schools have latrines for boys and girls. Slum dwellers also have sanitation.*
- **Health and Hygiene**—*These are strongly promoted.*
- **Information, Education, and Communication** —*These are promoted.*
- **Equity**—*Gender, religion, class, caste, and community equity are attained. Slum settlements are integrated into urban water supply and sanitation systems. Women are involved in decision making for natural resources management. Instances of girls dropping out of school on account of water and sanitation are eliminated.*
- **Financial and Economic**—*Users are paying for services. They pay according to the level of service they want and are willing to pay for. O&M costs involve communities. Household contributions toward both capital and service costs, routed through communities, make the water supply system more sustainable. Community groups monitor service charges as well as maintenance. Water charges are raised at a progressive rate in urban areas. In urban areas pay-and-use sanitation systems are available.*
- **Water Technology**—*All urban structures have rainwater harvesting facilities. Local sources predominate in drinking water supply. Tanker supplies are reduced to a minimum. Research and development are promoted. Desalinization is introduced.*
- **Water Recycling**—*All high-rises and large structures have recycling facilities. At least 50% of water used is recycled. Storm water is used to recharge underground aquifers.*
- **Sanitation Technology**—*Water use is minimized. Manual handling of excreta is banished.*
- **State Institutions**—*Government monopoly is transformed into facilitation. The Gujarat Water Authority oversees the water sector and undertakes water accounting and auditing. Good governance, transparency, and accountability are practiced. Each district has its own water authority.*
- **Civil Society and Market Institutions**—*The Gujarat Water Authority, set up as an autonomous body with full stakeholder participation, is the apex organization in charge of regulating all water resources in Gujarat. Civil society is an active participant in it. Water committees are functional in every community. User groups have been trained. Local people's institutions are legally empowered. Thirty percent of larger schemes are maintained through private sector initiatives. Civil society in general and women in particular are involved in planning. A positive and synergistic partnership between communities, government, the private sector, and NGOs is established.*
- **Policy, Legislation, and Regulation**—*Policy framework toward decentralized control as well as responsibilities is centered on people and gives opportunity for employment creation, leading to greater self-sufficiency and sustainability of services. Gujarat has a water policy and legislation to back up its actions. Drinking water gets first claim on water supplies. A regulatory framework has been developed to encourage and control private operators of water and sanitation services. Recognition and incentives for drinking water and sanitation performance are given. Regional water supply schemes are adopted as a last resort or backup system. Industrial pollution is controlled. Conflict resolution mechanisms are put in place. (National Institute of Design, Gujarat, Jal-Disha, 2000)*

therefore, could not share in the policy making or monitor implementation. **What is needed first is stakeholder consultation, followed by policy statements for the public that are put up on walls, printed in newspapers, posted on the Internet, broadcast over the radio, etc., in the national language, for everyone to see or hear.** In some countries this might be enough. In other countries it may be necessary to introduce independent regulatory bodies to oversee implementation. If elected officials continue to influence management and decision making, the final line of defense would be private sector contracts for the development and management of water supplies. **If there are transparent policies, independent regulators, and operators with incentives to perform, the situation may change.** Because governments set the policies, there can be no advancing until policy statements have been agreed.

C. Scope of Water Supply and Sanitation Policy

Scope of Policy

It is best to start with those who have no piped water. Policies on new connections and on new investments and their locations and priorities are needed. Once these are established, those served with standpipes should be considered, as well as when and how these people are going to get direct connections. Next, intermittent water supply needs to be reviewed, to provide a policy on 24-hour supply. A policy on water quality is needed. Most of all, a clear policy on tariffs and subsidies and how subsidies may be phased out is needed. The financing policy must be spelled out. Where the funds will come from for investments must be decided. There need to be policies on demand management and water conservation. Certainly, policies on PSP need to be explained. Policies on competition for operating water supplies need to be defined. Decisions must be made in terms of who will be responsible for given water supplies—national water authorities, local authorities, or private operators. Policies covering the operations and investments of SSWPs should be created. Policies on incentives for water operators, designed to improve performance and benchmarking of that performance, are needed. Crosscutting policies on service to the urban poor are needed. Policies on watershed rehabilitation are needed. Policies on wastewater pollution and control, wastewater recycling, rainwater harvesting, and trading water rights should be considered. While these needs are mostly related to water supply, policies on sanitation are needed as well. These should cover service levels (sewerage, septic

tanks, and latrines), tariffs, and financing in particular. The question of who will have institutional responsibility must be answered, and the financing terms need to be defined.

Policies are dynamic and can change with time. But what is needed for formulating sound policies is good field data and appropriate analysis of data, which must be followed by discussions with stakeholders on the objectives, scope, and implementation of policies.



Community bathhouse—a matter of policy

New Investments

Considering those people living in urban areas not being served with piped water should be the starting point for investment policies. These are often the urban poor. Governments should first of all recognize the human right to water. Next, governments should address the issue of land tenure in relation to their policies of providing water to unauthorized settlements. In line with this, some questions need to be asked: What are the policies on the provision of water to new housing estates and industrial estates? What towns have the highest priority for new investments and why? What is the basis for declaring new investments financially viable? How do policies address natural and urban migration population growth? **What is the end game for development agency borrowing or government borrowing?** How can civil society monitor the implementation of investment policies? How are new investment policies linked with tariffs and subsidies policies? How do policies address the phasing out of standpipe supplies and the achievement of a 24-hour supply? What are the policies concerning the portion of the development budget going to water supply and sanitation? What portion will go to water supply versus sanitation?

New Connections

The policies on new connections, especially that part of them that relates to connection fees, should facilitate the urban poor obtaining direct connections. **In new developments, connection fees can be included in development cost financing. In existing developments, the fees can be paid over 2–5 years with the monthly tariff.**

Water Quality

Do governments have policies providing potable water at the tap in their piped water supplies? What are the standards of water quality that governments will be required to meet? What are the water quality monitoring policies that will safeguard the people from arsenic poisoning, bacterial contamination, or heavy metal toxicity? How does all this relate to intermittent supply? Finding the answers to these questions is the first step in determining the level of commitment of Asian governments to ensuring that the water being supplied is of acceptable quality.

Water Accountability

What are the policies on metering water production and consumption? If the job is worth doing, then surely it must be done well. With that in mind, what are the policies on meter replacement? What are the policies on reducing NRW, especially regarding illegal connections and leaks? In this age of information technology, administrative losses should be negligible.

Tariffs and Subsidies

Before these policies can be formulated, the existing subsidies should be clearly determined. The answers to the following questions will help in doing this. What are the policies on phasing out subsidies? What are the policies on national or scheme-specific tariffs? What are the cost recovery objectives? What about tariff structures? Should block tariffs be retained to give lifeline rates to the poor and penalty rates to high-volume consumers? **(In a city where household income varies from \$500 per year to \$50,000 per year, block tariffs are essential.)** Should those people receiving a 24-hour supply pay a higher tariff than those receiving intermittent supply? Should tariffs be raised in the dry season to introduce water conservation? What should be the ratio of industrial to domestic tariffs? What about the policy to reduce this ratio? To what extent should tariffs contribute directly to investments? **(One hundred percent of water supply investments in large**

cities can be funded out of tariffs.) Should tariff policies tie tariffs to a maximum of 5% of household income? Should tariffs include or exclude sewerage charges? What are the tariff policies on sewerage? Are they designed just to collect O&M costs? What then are the policies on phasing in future capital costs? Should tariff increases be matched by service improvements as a matter of policy? Is it good policy to increase tariffs a little every month to achieve objectives, or is it better to have heavy increases from time to time? Should any scheme be subsidized to cover O&M costs? Why?

Financing

When considering issues related to financing, it might be helpful to ask the following questions. What are the policies on financing urban water supplies? What are the policies on financing urban sanitation? What are the mixtures of loans and grants to cities or utilities? What are the policies for phasing out grants? What are the onlending terms? Where will governments get the funds? What proportion of funds should be from World Bank, ADB, Japan Bank for International Cooperation, bilaterals, etc.? What proportion of investments will be funded directly out of tariffs? What are the policies for increasing this to 100% over time? What about municipal or utility bond issues? What about private sector financing of investments? What about BOTs? **Most importantly, what is the end game for independence?** What about options concerning alternative technologies that alter the need for vast public financing of water infrastructure, such as rainwater harvesting and eco-sanitation? Will governments provide financing for household rainwater harvesting and eco-sanitation? Will policies support local financing, suppliers, contractors, and consultants in lieu of those from abroad, as is now being proposed by NGOs for the Karachi Sewerage Project?

Private Sector Participation

What are government policies on PSP? Do these just amount to outsourcing? Do they include management contracts, leases, concessions, and BOTs? Do they include public-private partnerships? To what extent are the limits of international involvement constrained? **Three steps in the development process appear to have been missed in much of Asia: (i) the creation of a public utility with a regulatory body, (ii) the addition of domestic PSP with a regulatory body, and (iii) the addition of international PSP with a regulatory body.** Instead, a number of Asian governments jumped straight to international PSP and regulation by contract, and this is not working. It would, for this reason, be good to

see many more instances where domestic PSP with a regulatory body is introduced. The domestic private sector can provide good human resources management and financial management expertise. Occasionally, the international private sector could contribute through consultancies in the water supply technical field. What do governments expect from the private sector? Are investment monies expected? Is expertise in providing efficiencies expected? Are contracts to ensure autonomy expected? What are government policies on competition for private sector contracts? Will they relax prequalification based on government policies and enact these policies with regulatory bodies in place? Or will governments sign private sector contracts that lead to regulation by contract without basing these on government policies? In government policies, what incentives are to be offered to private sector operators? Will public sector operators be allowed to compete with private sector operators on a level playing field? How will governments ensure level playing fields when negotiating with private sector operators? Will consultants be employed to manage the process of change? What are government policies on redundant staff in water utilities? What are government policies on service to the urban poor under private sector operators? Will governments consider output-based subsidies? All these must be considered when the subject of PSP is raised.

Small-Scale Water Providers

Again, before governments can formulate policies on this subject, they need good data from the field related to these people and who they are, how much money they make, how many jobs are involved, what the price of the water is at the source and to customers, what the source of water is, what water quality is like, how much water is being provided, and how the customers regard this service. Governments must consider registration. Governments must consider financial assistance to SSWPs. They must consider employment issues both now and in the future. The policies on SSWPs must be closely linked with policies and priorities concerning investments. **We should remember that the total revenue turnover from SSWPs in large cities is sometimes more than that of the formal water utilities.**

Performance Incentives

Government policies must recognize that it is not possible to run major water utilities with civil servant rules and civil servant salaries. Staff need incentives to

perform. Performance criteria must be set and staff held accountable for meeting these. Staff must be given training appropriate to their jobs. Policies on participation in national, regional, and international conferences help provide incentives to perform. Government policies that do not address this key issue of performance incentives will surely fail. Utilities must be required to report their performance on agreed performance indicators and show improvement over time. They should be required to compare themselves with others nationally, regionally, and internationally.

Water Conservation and Demand Management

Policies must be specific about how to effect water conservation. Will conservation efforts include watershed rehabilitation, reducing NRW, rainwater harvesting, wastewater recycling, and demand management through both public awareness and pricing? How will each one of these be implemented? Will implementation include working inside homes to eliminate leaks? Will it include extensive and continuous programs in schools? To what extent will the media be employed? How can implementation be monitored so that everyone can see the results? **Rainwater harvesting in cities through the regulation of building permits and provision of incentives to households; demand management by pricing; and reducing NRW will be the most significant developments in cities of developing countries in the next 10 years.** In addition, Asia cannot ignore the rehabilitation of its watersheds. Rehabilitation will not just happen. Government policies and a commitment to implementing them will be necessary.

Trading Water Rights

It should be remembered that around 90% of water is used for irrigation. With its rapid urbanization, Asia cannot ignore a comparison of the uses of water for irrigation and urban water supplies. **Only when the price of urban water is 10 times the price of irrigation water will there be the proper incentive to trade water rights on a win-win basis.** This is coming. The case of the Angat Dam in Manila is a good example. But first the legal ties dictating who owns the water must be loosened, and people must be prepared to trade or at least lease customary rights. Government policies on water supply and sanitation in cities must address this issue.



Can policy protect the poor?



After the meter—a matter of policy?

Wastewater and Sanitation

Government policies on water supply in cities cannot ignore the fact that first and foremost Asian countries need an integrated water resources management approach. This means especially that it is time for separate government agencies dealing with water resources, hydropower, irrigation, wastewater, and water supply to share information with one another and develop coordinated and integrated approaches to the development and management of water. Policies should refer to quality control on effluent discharged from industries. Policies should address the need for industries to treat effluents before discharge, the relocation of industries to industrial estates, and incentives offered to industries to either obtain good treatment or relocate. Policies should address the issue of combined or separate wastewater and domestic sewage treatment. And, policies should consider the issue of large or small sewerage schemes.

In terms of appropriate sanitation, policies should guide developers in the appropriate levels of service, such as conventional sewerage, small bore and/or condominium sewerage with local underground or landscaped sewage treatment, septic tanks, or latrines. Policies on septic tank desludging should be defined. Encouraging the use of eco-sanitation or other appropriate technology solutions should also be included in policies. **We should not collect our wastes to put them in someone else's backyard. We should deal with them in our own backyard.**

Institutions

Policies should define institutional responsibilities, since these overlap for many institutions in the water sector. Where reforms are taking place, policies should elaborate on the reforms and on who will be responsible for what. Do policies support decentralization or devolution of power to local authorities? If so, how will this be achieved? Have national water authorities become too big and inefficient, and will they need to be broken up and their work outsourced? Can regional centers that can run autonomously be created? These are all issues for government policies on water supply and sanitation. A checklist is provided in Box 14.2.

Box 14.2 Government Policy Checklist (Not Exclusive)

Policy statements for release to the public should at least address the following matters.

- Water supply service coverage
- Tariff policies and objectives
- Sewerage service coverage
- NRW
- Water availability (hours per day)
- Demand management
- Water quality
- Criteria for selecting investments
- Levels of service
- Accountability of utilities
- Service to the urban poor
- Accountability of water
- Water vending
- Accountability of finances
- Bottled water
- Public awareness
- Funding of source development
- Water pollution control
- Funding of capital investments
- Tariff structure
- Trading water rights
- Water extraction (groundwater)
- Subsidies and cross subsidies
- Watershed conservation
- Recovery of O&M costs of sewerage
- Private water supplies
- New connections
- Reselling water
- Operator performance
- PSP
- Operator incentives
- Regulation
- Staff numbers
- Illegal connections
- Wastewater and sanitation
- Institutional responsibilities

D. Policy, Regulation, and Civil Society

Governments have a right to formulate their own policies (preferably in consultation with stakeholders and civil society). But for governments to be held accountable for implementing those policies, these must be made available to the people—and this means those connected to piped water (the customer or consumer) and those not connected to piped water. NGOs and the media can play an important role in bringing this policy to the people and in monitoring its implementation.

Independent regulatory bodies will go a long way toward ensuring that there is a continuous focus on the implementation of government policies, whether the focus is on actions of government agencies or those of water utilities. This focus will also give civil society a focal point for gathering information and expressing people's views. **Without civil society and regulatory bodies keeping an eye on the implementation of government policies, nothing from the past will change**—and the chances of good governance and sustainable tariffs being achieved are low.

From the utility point of view, government policies on autonomy and tariffs are paramount. Utilities should be heartened when regulatory bodies and civil society monitor the implementation of those policies.

Government Policy in a Nutshell

- Obtain good field data and analyze them.
- Consult with stakeholders and civil society.
- Address governance and tariff issues.
- Address NRW, service levels, SSWPs, and the urban poor.
- Address PSP and public utility performance incentives.
- Address the roles of institutions in the sector.
- Civil society will monitor policy implementation.
- Regulatory bodies will monitor policy implementation.
- NGOs and the media will bring policies to the people.