

It pays to deliver water

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Indian policy makers, who have made it a priority to rapidly expand drinking water coverage in rural areas, could learn some useful lessons from the Chinese model

The ongoing comparisons between rapidly developing China and India are usually focused on themes like comparative political systems, GDP growth rates, infrastructure development, etc. One of the lesser-discussed areas of concern, however, is that of rural development. Increasing the rural poor's access to safe drinking water is one of the main pillars of the rural development strategy of both China and India, but there is a significant difference in the two countries' approach in terms of how to achieve this objective.

In India, despite recent sector reforms, rural water supply (RWS) is almost totally subsidised, whether delivered through state government agencies or gram panchayats. Since public resources are limited at central, state and local levels, financing of RWS schemes becomes a problem. In China, on the other hand, the emphasis is on financial self-sustainability of RWS, with negligible central and provincial subsidies to the sector. The end-users, typically low income rural households, are encouraged to pay for the water they consume.

The rural utility model in China works well for the delivery of piped water supply. Essentially, this model adopts the same approach as that of an urban water utility: it charges for services delivered in its network area. Typically, a small rural water utility (known as a water plant in China) will supply piped water to rural households in anywhere from 6 to 12 villages. Household connections are metered and each family has to pay a monthly water fee depending on the amount of water consumed. The tariff calculation is comprehensive and includes the cost of electricity, salaries, water source fee, depreciation, interest on debt, overheads and tax.

The number of water plant staff is kept to a minimum, with a typical unit having one manager and five or six other employees. While the plant manager is usually seconded from a local government department, the other workers are usually hired on a contract basis with their salaries linked to performance. For example, if the bill collectors do not

fully recover the monthly water dues from their respective zones, they get a cut in salary. The same principle applies to the plant manager, who is rewarded or punished depending on his performance. All the staff members, therefore, have a strong incentive to perform.

One key question which arises, from a consumer's point of view, concerns the water tariff. How affordable is it for the low income farmer? Typically, individual households pay about 2 yuan (1 yuan is about Rs 6) per cubic meter and consume on average three cubic metres a month, so a household ends up paying about 6 yuan (Rs 36) per month. This works out to roughly 3% to 5% of their annual income. It is generally accepted that spending of up to 5% of annual income for drinking water is affordable, even for low income families. It should be noted that, in addition to paying water fees, which finances the operation and maintenance of the water plant, the users also contribute labour for the construction of the water supply scheme and usually also pay a fee for taking a house connection.

Oversight of the functioning of the water plant is done by the local government, at the township or county level. The local government is accountable to the provincial government through the municipal administration for the performance of all the water plants in its jurisdiction. The local government is also responsible for repaying any loan made to it for constructing the water supply scheme from the provincial government, which in turn may have borrowed funds through the central government from external support agencies like the World Bank. If loan repayments are delayed at the county level, the provincial government can cut other funds sent down to the counties. Similarly, if the provincial government defaults on repayments to the central government, it could get a corresponding cut in funds from the centre. This tight system of monitoring and enforcing repayments from bottom to top ensures a "cascade of accountability" all the way from the centre to province to the local level.

One drawback of the rural utility model is that there is limited user involvement or community empowerment in the water supply schemes. In many new generation RWS projects in other developing countries, including India, the user communities or gram panchayats play a significant role in planning, implementation and operation of the RWS schemes. In the Chinese RWS programme, where the users are financing a significant proportion of the capital cost as well as the full operating cost, it is somewhat anomalous

that they have relatively little say in the planning, implementation and operation of the schemes.

It has to be admitted, however, that the Chinese model successfully addresses a major issue we are grappling with in India: mustering political will to charge for basic services like drinking water. Research around the world has shown that users, even low income ones, are willing to pay for safe water but policy makers are unwilling to charge for it, usually for political reasons. So how are the Chinese successful at charging rural households for water supply? There are three possible explanations: (i) Chinese politicians and policy makers genuinely believe that water is an economic good and are “willing to charge” for piped water supply; (ii) Chinese politicians are not required to seek a direct, popular vote and it is, therefore, easier to take “unpopular” decisions like charging for water in rural areas; and (iii) unlike countries like India, China has historically not heavily subsidised rural water supply, so having never been “spoiled” by subsidies in the past, rural communities are willing to pay for safe water. The answer probably lies in a combination of these three explanations.

What do these lessons mean for India? A large proportion of India’s villages could probably be served with piped water using the Chinese model. Local governments at Zila and Taluka level could set up rural utilities and oversee and regulate the functioning of water plants. On the issue of rural households paying water tariffs, studies have shown that rural households are already paying significant “coping costs” for drinking water, either through the opportunity cost of fetching it from long distances or buying water from tankers. With increasing incomes, most rural households will probably prefer to pay an affordable price for a reliable supply of piped water. Indian policy makers, who have made it a priority to rapidly expand drinking water coverage in rural areas, could learn some useful lessons from the Chinese model.