

Development Policies & Practices

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Urban Services for All: fair sharing of financial efforts

It is one of the priorities on the 2015-2030 world agenda: access to drinking water and sanitation for all is the 6th Sustainable Development Goal (SDG) and now sustainability and equity have been included as key principles. To meet this requirement, governments in developing countries face funding challenges: investment deficits, insufficient financial flows, non-optimal use of available resources... these difficulties are exacerbated in cities because of the rapid pace of urban growth. Achieving the change of scale and the qualitative leap promoted by the SDGs will therefore inevitably involve new ways of providing and funding urban services. Above all, it will require negotiating social compromises for a fairer distribution of financial efforts.

Under-funded requirements, despite proven benefits

Because of their fundamental role in the fabric of cities, drinking water, sanitation and waste management are at the heart of urban development issues. However, it is estimated that 1.5 billion city-dwellers in the world do not yet have hygienic toilets, 800 million consume contaminated water and 1.5 billion do not benefit from any waste collection/treatment. The health, environmental and economic consequences are, sadly, all too well known.

Faced with poorly managed urban dynamics, those governing towns and cities must devote increased means of funding to extend collective infrastructures and public networks to areas that as yet have none, while strengthening maintenance of the existing heritage. They must also

take into account the dual requirement of adapting to the consequences of climate change and reducing greenhouse gas emissions.

Providing a town with safe water, treating its wastewater and managing the solid waste it produces require substantial investments, mostly fixed investments that depreciate over the long term. In addition, these costly infrastructures cannot be redeployed for uses other than those for which they are initially designed. Lastly, the cost of replacing these infrastructures, calculated based on their theoretic lifespan, generates a high level of financial uncertainty.

Funding requirements for collective infrastructures and urban public networks over the next 15 years are estimated at 180 billion dollars per year for sustainable universal coverage in terms of water and sanitation (Hutton and Varughese, 2016) and at 150 billion dollars for optimal management of domestic solid waste in developing countries (Hoorweg and Bhada-Tata, 2012). These figures, evaluated against the cumulative amounts allocated by Official Development Assistance (ODA), national budgetary allocations or private funds show a significant deficit in resources for the sector, especially in fragile countries where requirements can be 10 times greater than available funding.

However, providing water, sanitation and waste management services offers advantages to local authorities in much higher proportions than the financial costs involved. In 2008, the World Health Organisation estimated that reaching the MDGs in terms of water and sanitation would produce positive impacts with a cost-benefit ratio of almost 7. For the main part, these advantages consist of saving time, with people no longer

Founded in 1976, GRET is an international development NGO that has been actively fighting poverty and inequalities on all levels and in a broad range of subjects.

Its professionals provide lasting, innovative solutions for fair development in the field and work to positively influence policy.

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having to travel long distances to procure water, and a decrease in diseases. This figure is probably underestimated, as it is extremely difficult to attribute economic value to all the benefits generated by these services.

Action levers for fairer funding of services

For a long time, policies favoured direct funding of public bodies. As a result of inefficient management and chronic under-investment in infrastructures this model was abandoned in the 1980s, opening the way to public-private partnerships with a view to making the sector professional while providing extra capital. In the 2000s, private management was also called into question, because it was not delivering on its promises. After three decades of anti-State rhetoric, public management has been restored. Participation of the private sector has not disappeared but the deciders are more measured as to the potential funding of services by the latter.

★ From full recovery to sustainable recovery of costs

Whatever management model is put forward (public or private), the question of funding arises in terms of evaluation of cost coverage, an accounting approach that confronts funding “amounts” and “requirements”. The most striking development in recent years is the abandonment of the principle of “total recovery of costs” via pricing alone, in favour of “sustainable recovery of costs”. Public authorities are now encouraged to strategically adjust the various sources of funding, in order to include the issue of affordability of services in the process.

It is with a view to this that the “3T” (tariffs, taxes, transfers) framework was adopted in the middle of the 2000s, following work by the World Panel on Financing Water Infrastructure. In order to analyse the flow of funds generated by services, the grid distinguishes between three different sources of income, each of which refers to a type of payer: users via prices, taxpayers via levies and taxes, and donors via transfers. Other mechanisms can also be mobilised: private funds, bank loans, bonds, etc. But this funding must be reimbursed by users or taxpayers over time, with mark-ups for interest, dividends and bonuses. Rather than meeting a funding requirement, they make it possible to stagger payment over time.

★ Diversifying and maximizing financial resources

Public authorities can increase and improve their mobilisation of the various funding instruments that exist, by being aware that no single model is valid for all countries or all types of services. The increase of self-funding via tariffs, which is inevitable in many cases to cover a larger portion of recurrent costs, is not sufficient to meet requirements. To maintain prices at reasonable levels, higher mobilisation of tax revenue and an inventive search for national or international transfers are necessary. Deciders can explore existing possibilities (eco-taxation, harvesting of gains in land value, etc.) without excluding adjustments with profitable market sectors such as telecommunications or the financial industry.

No policy to develop the sector should be founded solely on debt or private investment. The opportunity to use market-based funding must be examined on a case-by-case basis.



ENCOURAGING PARTICIPATION OF LOCAL BANKS

In many countries, small and medium drinking water companies have difficulty accessing local financial markets. Bankers have a certain risk aversion and are reticent to give these companies long term loans for sums that are considered too low, for business that is reputed to have low profits.

In Cambodia, a programme funded by the European Union and the *Agence française de développement* is attempting to remove these obstacles: by making several financial instruments

available for a Cambodian bank, including a credit line and a portfolio guarantee, it succeeded in persuading the bank to grant companies subsidized loans over periods ranging from 5 to 10 years. This system is complemented by technical assistance to the bank and the businesses in order to reduce technico-financial risks associated with investment projects.

GRET is coordinating this programme and supporting businesses with their funding requests and company management (CBRS project).

Rather than staking everything on private funds from abroad, governments should favour local capital and savings markets with a view to long-term investment. Tools exist to stimulate these markets and cover part of the risks taken by financial institutions and investors.

★ **Optimising costs and rethinking supply models**

Many towns can reduce costs relating to the development and supply of basic services without cutting corners on performance and quality. Substantial efficiency gains can be made via reinforced planning systems, standards that are better adapted to local socio-economic conditions and more effective operation methods. For example, improved maintenance of equipment or more stringent commercial practices greatly minimize waste.

Similarly, **alternative supply models** based on local initiatives, such as mini-utilities or off-grid systems generate savings. Managed by local entrepreneurs, independently of large traditional networks, they are well suited to the specific conditions of urban planning in developing countries. By diversifying access standards, these offers contribute to the inclusion of city-dwellers who were previously deprived of sanitation, waste management and drinking water systems. The potential resources that can be generated could be reinvested in the sector.

Recommendations for fairer funding of urban services

In a context of rapid urbanisation, development of services for all in cities in developing countries requires:

- ★ **For local authorities and operators:** management of development costs and provision of urban services by encouraging public authority project owners and their operators to optimise performance and by adapting supply models and standards to the specific contexts of urban territories with no supply.
- ★ **For States with support from international cooperation players:** increase financial flows for the sector by exploring all options, including resources generated by local taxation and cross-funding, as well as by increased use of savings and local capital markets. This involves developing regulatory frameworks to remove obstacles currently blocking mobilisation of funding.

INNOVATING WITH A VIEW TO INTRODUCING SYSTEMS THAT GENERATE SAVINGS

In Antananarivo (Madagascar), GRET has been working on the entire non-collective sanitation value chain since 2012, proposing solutions that are suited to conditions in peri-urban districts. Local operators are supported in the implementation of sanimarkets, places to promote and sell hygienic toilets. Installation and marketing costs are shared between the project and the sanimarket operators. Latrine emptiers are supported in an approach to promote recognition of their work by public authorities and they are provided with support to professionalise their work. Lastly, GRET promotes decentralised treatment technology requiring little space and enabling emptiers to minimize their transport costs.

These service offers provide a pragmatic response to people living in the districts and complement the network system with a range of more localised services (Miasa Project).

In a more structural manner, funding urban services networks requires:

- ★ **Jointly defined sectoral policies and multi-stakeholder dialogue incorporating objectives with a view to inclusion and participation.** Reform processes should no longer be exclusively driven by efficiency of services and financial autonomy of the sector, they must also be driven by ambitious objectives in terms of participation and fairness. External stakeholders (donors, experts, NGOs) should give increased consideration to conditions of institutional change within development projects.
- ★ **Socio-political compromises focusing on a shared vision of services and relationships based on solidarity.** Ensuring sustainable access to services for all is not a question of institutional engineering. As the services are at the intersection of the market economy and the socio-political arena, they feature objectives that are difficult to reconcile. Reaching the first objective necessitates management and funding of costs. The second requires



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that the service be of benefit to all, independently of what it costs society. Moving beyond this contradiction means establishing social compromises focusing on a shared notion of services and highlighting interdependent relationships: between affluent and poor users, between well serviced areas and areas with no supply, between sectors with excess capacity and deficient sectors, etc.

- ★ **Political determination and public debates open to all on redistribution and general interest issues.** The socio-political conditions necessary to solve the financial equation of urban services will not happen spontaneously, but can be obtained by modifying the power relationships at work in societies. Progressive stakeholder coalitions supported by committed, determined political leaders can provide these conditions and thereby facilitate an increase in financial efforts by the economic elite and the urban middle classes via redistributive taxes or prices, for the public interest and social responsibility. ●

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