

# USER CHARGES AND RURAL WATER SUPPLY DELIVERY

## A Counter-Intuitive View from South India

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## ABSTRACT

The conventional wisdom is that (higher) user charges leads to greater efficiency of service delivery, hence better collection, and consequently greater proportion of operation and management (O&M) charges covered by collection the overall greater user satisfaction. This has led to the policy that rural communities have to pay 100% of O&M costs of water supply systems. The Tamil Nadu Rural Water Supply Project(TNRWSP) sought to test this assumption in 145 village panchayats(455 villages) where rural water supply engineers were given intensive Change Management training and asked to implement demand-driven and community-based water supply improvements in all 145 village panchayats (VPs) since January 2004. The 145 target VPs were randomly assigned user charge collection targets of 0%, 25% and 100% of the O&M costs of their water supply systems, and the impacts on water supply system performance were assessed by an independent organization.

The key assessment findings of the independent assessment of the impact of user charges in 105 habitations spread across 29 out of 30 districts of the Indian state of Tamil Nadu are that (1) water consumption per capita reduced in VPs with no revenue collection target but increased for VPs with revenue collection targets; (2) average monthly O&M costs reduced the most for VPs with no targets; (3) user charge collections increased more in VPs with no targets; (4) user charge collections for HSCs was highest (97% of potential) in VPs assigned no revenue collection targets;(5) more than 90% of households surveyed in VPs of all three categories reported greater user satisfaction after user charge targets were introduced; and (6) more VPs with no revenue targets voluntarily imposed a tariff for public stand posts *after* the drive for improved collection began. Since VPs with higher targets have not realized higher user charge collections or lower O&M costs, it is apparent that the conventional wisdom is not working, i.e., the imposition of (higher) targets for user charge collection leads to improved performance on the ground.

The alternative explanation is that when communities understand the value of water as a resource, there is greater participation in conservation and management and consequently greater responsibility and ownership over the water supply system and decisions concerning the use of water as a scarce resource requiring conservation. Performance and service delivery improve as a *consequence*. This turns the conventional hypothesis on its head: a greater community desire for more efficient and cost-effective operations may *lead* to the imposition (or increase) of tariffs and improved collection.

The major policy implications of this pilot are (1) structural measures of community participation (such as imposition of user charges, forming Village Water Committees and handing over responsibility to communities) do not work on their own, and need to be actively supplemented by 'non-structural' measures such as community mobilization, participation (especially by women) and capacity building, in order to build community ownership and responsibility for water service delivery; (2) there is little rationale to impose 100% collection of O&M costs by rural communities, as in all government and donor-assisted programmes currently, and instead it is better to start flexibly with a target decided by the local community based on their understanding of need to preserve the common resource and(3) Governments and Utilities should adopt a non-prescriptive

# 1. INTRODUCTION

One of the four Dublin Principles of 1992 states that water should be recognized as an economic good as it has an economic value in all its competing uses (ICWE, 1992; Box 1).

## Box 1: The Four Dublin Principles

1. Water is a finite, vulnerable and essential resource which should be managed in an integrated manner.
2. Water resources development and management should be based on a participatory approach, involving all relevant stakeholders.
3. Women play a central role in the provision, management and safe guarding of water.
4. Water has an economic value and should be recognized as an economic good, taking into account affordability and equity criteria.

*Source:* ICWE, 1992

However, by the turn of the century, the *Economist* carried an article stating that much of the world's fresh water were being wasted as governments were shying away from the answer, which was to 'price this valuable resource correctly'. (*Economist* March 23, 2000)

The wide implementation of adequately-priced user charges has been seen as the panacea needed 'to improve cost recovery, to facilitate adequate maintenance and expansion of water supply system and to provide incentives for conservation & reuse' (UN, 2006, p. 36).

A key paper presented at the Copenhagen Consensus of 2004 stated that "users that pay for the water services that they use have an incentive to use the resource wisely and demand quality services' and that 'the more users are removed from paying for service .... the higher the risk that service quality is low, users refuse to pay the fees or charges, services don't recover their costs, funding O & M falls short etc.'" (Rijsberman, 2004).

In a similar vein, a World Bank report on the on the state of water resources in India argued that user charges being are negligible, resulting in lack of accountability and insufficient generation of revenue even for operation and maintenance (World Bank, 2005). This implicit and unquestioned linkage between the imposition of user charges for water and improved sectoral performance has been endorsed by several national governments, including India.

There have been rapid policy changes in rural water supply in India since the late 1990s, with the introduction of demand-driven community-based water supply management, first through the Sector Reform Project in selected districts in 1999 and then the national

Swajaldhara programme in 2002.<sup>1</sup> Underlying much of the policy discussion, however, is a certain conventional wisdom, reflected mainly in World Bank documents and project such as the Swajal project in Uttar Pradesh and the World Bank and Government of India review of India's water sector (World Bank, 1999), concerning user charges. The Swajal Project, in particular, took pride in the fact that 'in addition to contributing towards the capital costs, the communities undertook full responsibility for operation and maintenance (O&M) of the water supply system, including paying all costs... [and to] accomplish this, they levied user charges at differential tariff rates from both household connection holders and public tap stand users' (Padiyar and Verma, p. 9). Subsequently, the Tenth Five Year Plan (2002 - 2007) document and the National Water Policy of 2002 have accepted, rather unquestioningly, the dictum that the community must pay 100% of the operation and maintenance costs of the rural water supply scheme (see Box 2).<sup>2</sup>

**Box 2: Policy on user charges**

The National Water Policy 2002 on user charges states: "There is a need to ensure that water charges for various uses should be fixed in such a way that they cover at least the operation and maintenance charges of providing the service initially and a part of the capital costs subsequently. These rates should be linked directly to the quality of service provided. The subsidy on water rates to the disadvantaged and the poorer sections of the society should be well targeted and transparent."

*Source:* National Water Policy, Ministry of Water Resources, Government of India, 2002

Despite these official pronouncements and policies, however, however, no state, however, has formulated 'a well-designed user charges policy aimed at: (1) sustainability of investment and water sources tapped, (2) limiting wastage and (3) extension and improvement of water supply terms of coverage, access, use and service level' (MGP,



O&M costs, the various constituents of O&M costs, methods of reducing O&M costs, and the benefits of reduced O&M costs.

A randomization experiment was initiated in November 2005 with the 145 pilot VPs being randomly assigned house service connection (HSC) user charge collection targets fixed at 0%, 25% and 100% of O&M costs. The Government of Tamil Nadu had already issued an order in 2004 specifying that all households with HSCs had to pay Rs.30 per month to continue enjoying this facility from state-sponsored rural water supply schemes, but had not fixed any revenue collection targets.

After nearly two years of the Change Management process, and three months after the randomized imposition of user charges, the TWAD Board appointed an independent consulting firm to review the impact of imposing revenue collection targets for user charges from rural communities on the water usage and on water management practices. The assessment was conducted in 105 Village Panchayats in 26 out of the 28 districts in the state (excluding Chennai and Nilgiris). The analysis focuses on the impacts of user charges on these three groups of VPs regarding three parameters: (1) the amount of water used at household level; (2) the amount of water pumped through the system; and (3) the extent of O&M cost recovery.

### **3. METHODOLOGY AND SAMPLE**

Seven field formats were developed in consultation with Poverty Lab of the Massachusetts

in case households in the original list were unavailable. The assessment was carried out in 1,234 households in 105 Village Panchayats (VPs) during February - March 2006. Three strategies were used to minimise biases in capturing perceptions from the field: (1) repeated and intensive field staff training; (2) thorough review of field formats by TWAD engineers with field teams, and (3) verification of the field situation by TWAD Executive Engineers on the ground.

## 4. MAIN FINDINGS

The six key findings from the study are detailed below.

### 4.1 O&M COSTS

The O&M costs of a typical village water supply system comprise electricity charges, operator salary, bleaching powder charges, cleaning charges and minor repairs. Over the period November 2005 to February 2006 average O&M costs per month decreased by 26% for VPs with no revenue targets, while it reduced by 23% for VPs with 100% targets and by 21% for VPs with 25% targets (Table 1 and Figure 1).<sup>4</sup> The lowest monthly O&M costs were for VPs with a 25% target (Rs. 9,331 in February 2006), followed by VPs with 100% target (Rs. 11,319).

Table 1: Impact on average monthly O&M costs per VP

VP User Charge Collection Targets (% of O&M costs)	Average monthly O&M costs per VP (Rs.)			
	November 05	December 05	January 06	February 06
0%	12,019	15,255	15,631	13,896
25%	9,383	9,915	9,719	9,331
100%	15,393	12,507	11,692	11,319
<i>Percentage change</i>	November - December 05	December 05 - January 06	January - February 06	November 05 - February 06
0%	-10%	-2%	-16%	-26%
25%	2%	-3%	-20%	-21%
100%	-2%	-6%	-16%	-23%

The major component of O&M costs in all VPs is electricity, followed by operator salary and minor repairs. O&M costs fell from November 2005 to February 2006 for all groups of VPs but electricity was still around 60% of monthly O&M costs (Table 2).

Table 2: Relative Contribution of O&M Cost Components of O&M Costs

<b>0% collection target VPs</b>	November 05	December 05	January 06	February 06
Electricity Charges	66%	63%	63%	60%
Operator Salary	12%	12%	12%	13%
Bleaching Powder Costs	2%	2%	2%	2%



25%	300,246	281,515	311,640
100%	523,355	487,674	429,249
	Total Collection to Total O&M Expenditure		
	November 05	December 05	January 06
0%	28%	34%	44%
25%	22%	25%	27%
100%	17%	27%	29%

The performance on collection of mandatory

### **4.3 SATISFACTION WITH WATER SUPPLY DELIVERY**

The satisfaction levels of the community with the water supply were more or less same irrespective of the user charges. In particular, user satisfaction levels did not suffer for want of user charge imposition in the villages with no revenue collection target, as the existing literature would have us believe. Nearly 80% of households across all 3 VP categories reported that they were more sa

<i>Percentages to all households in VPs</i>	Total	Yes	Store less at home	Use waste water for gardening or cattle	Report/fix leaky taps	Use other water sources
0%	100%	48%	48%	17%	18%	20%
25%	100%	54%	54%	15%	17%	20%
100%	100%	48%	48%	12%	15%	22%
<b>% to Total</b>	<b>100%*</b>	<b>50%</b>	<b>50%</b>	<b>15%</b>	<b>17%</b>	<b>21%</b>

*\* Percentages add to more than 100% as households take more than one action to conserve water.*

The data shows that VPs with higher collection targets do not have more households conserving water: The proportion of household

## **4.6 OVERALL**

There does not appear to be any straightforward statistical relationship between the O&M collection targets randomly assigned to VPs and the performance of the water supply system in the villages, either in terms of service quality, water conservation or user satisfaction. There is a striking improvement across all three groups of VPs in the proportion of user charges collected, but the performance is consistently higher in VPs with no revenue collection targets. Further, nearly 100% of HSC charges are being collected in VPs with no collection targets, although the proportion in the other VPs is also high at around 60-65%. There thus seems to be a better performance of the VPs with a no revenue collection targets, not only in terms of decreasing water wastage, reducing O&M expenditure and increasing user charge collection to over O&M expenditure, but also in terms of voluntary payments of user charges for the hitherto freely-supplied public fountains.

These results are contrary to the conventional wisdom which relies on user charges for improved sectoral performance and service delivery, although there is some recent acknowledgement that “water shortages can be addressed by modifying water demand and usage through increased awareness, education & water policy reforms’ (UN 2006, p.44)

## **5. CONCLUSIONS AND WAYS FORWARD**

### **5.1 TESTING CONVENTIONAL WISDOM ON USER CHARGES AND SERVICE DELIVERY**

The randomization experiment, where VPs were randomly divided into three groups and assigned a collection target based on the proportion of O&M costs to be covered, tested the conventional wisdom that (higher) user charges leads to greater efficiency of service delivery, hence better collection, and consequently greater proportion of O&M expenditure gets covered by collection, and overall greater user satisfaction. The findings of the study, however, show that the fixing of hither user charges based collection targets has not induced either greater collection of user charges or greater declines of O&M costs. It is therefore apparent that the conventional wisdom is not working in this present case, i.e., the imposition of (higher) revenue collection targets for user charge collection will lead to improved performance on the ground. Clearly, there are some other factors at work.

## 5.2 ALTERNATIVE HYPOTHESIS: COMMUNITY INVOLVEMENT AND USER CHARGES

The alternative view is that when the community understands the importance of water as a resource, there is greater participation in conservation and management and consequently greater responsibility and ownership over the water supply system and decisions concerning the use of water as a scarce resource requiring conservation. As a consequence, performance and service delivery improves. This turns the conventional hypothesis on its head: a greater community desire for more efficient and cost-effective operations may also *lead* to the imposition (or increase) of tariffs. The study shows that, *after* the drive for improved collection began, 12 out of 30 (or 40%) VPs with no revenue collection targets voluntarily imposed a tariff for public fountains (PFs), while the corresponding proportion for VPs with 25% targets was 32% (10 out of 31) and only 28% (8 out of 29) for VPs with 100% targets.

## 5.3 POLICY IMPLICATIONS

The critical finding of the study is that the key to successful community participation in water supply management is to make the community understand the value of water resources and invite them to participate in managing this scarce resource. There is no reason to believe that simply imposing user charges will result in better service delivery quality and better coverage of O&M costs. In fact there is a large body of evidence from the health sector that the imposition of user charges has resulted social exclusion, while the provision of health equity funds (to pay for in some reports of sharp and sustained drops in utilization rates, and widespread while the provision of health care payments (to pay service providers on behalf of the poor) have resulted in significant improvements in utilization rates (Noirhomme et al., 2007; Creese, 1991). While not going so far as to say that user charges should not be collected from rural communities, the study does show that the policy approach to user charges for water supply provision has to be considerably more nuanced.

Specifically, there are three major policy implications of the findings of this study.

1. **Focus on community management for better service delivery:** Structural measures of community participation (such as imposition of user charges, forming Village Water Committees and handing over responsibility to communities) do not work on their own, and need to be actively supplemented by 'non-structural' measures such as community mobilization, participation (especially by women) and capacity building, in order to build community ownership and responsibility for water service delivery. Only when field-level

and other officers of government water supply departments understand this difference clearly will there be better and sustained service delivery. Policy support for the sensitization and training of line department staff to enable them to understand and carry out this important and difficult facilitating role is, therefore, vital. How is this borne out by the Study? Which date is pointing to this?

2. **Fixed versus flexible O&M collection targets:** There is little rationale for the imposition of a target of 100% collection of O&M costs from the outset as is done in all government and donor-assisted programmes. It is perhaps better to fix tariff flexibly with a target decided by the local community and to provide incentives (e.g., phased matching grants from government) to increase collection to cover annual O&M costs. The key message of the pilot study is that the best way to improve management and conservation, is not to approach it as a financial problem requiring user charges, but as a water resource scarcity problem that requires community awareness, management and hence involvement for its resolution. Charges imposed and collected by the community, out of its understanding of the scarcity problem and the need to improve financial performance, will lead to efficient utilization. Collecting user charges to cover O&M costs are only a means of supple. omms i(e)1(ma5C im)--5(Colle)

and effort. The TWAD pilot, carried out in the context of a larger Change Management programme underway within the organization, shows that rural water supply engineers can indeed mobilize effective community action, and now policy support is vital to replicate these lessons across the country.

The study shows that rural water supply engineers can indeed mobilize effective community action, that existing policies need to be more flexible and that policy support is necessary to replicate the lessons from this innovative rural water supply experimental pilot project elsewhere in the country and beyond.

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