

Water crisis is a crisis of governance



Professor Michael Porter, Research Professor of Public Policy, Centre for Regional and Rural Futures, Deakin University, Australia has had leadership roles in universities, a think tank in Department of Prime Minister and Cabinet (DPM&C), central banking, and international institutions as well as in the private sector, specializing in advancing economic reform agendas. His focus has been on bridging the gaps between advances in economic thinking and government implementation of economic policy and institutional reforms, both in Australia and internationally.

Meenakshi Dwivedi caught up with him at the India Water Forum 2013 in New Delhi where he spoke about policy and governance framework and institutional arrangements for water efficiency.

Globally 1.1–3.2 billion people will suffer from water stress by 2050, of which 0.2 –1 billion will be from Asia? What have been the challenges faced in formulating an effective strategy?

Well the challenge is that all the key issues come under water governance — having incentives to produce and consume safe water. Governments think that they are doing people a favour by making water virtually free. They defend this intervention because they want water to be available to low income people. But if the utilities catch and treat water and then distribute it, but, in return receive no income for those services because their charges are insignificant, they can't afford to connect villages. Water is free from nature; but not freely delivered or safe for consumption.

The water crisis is a crisis of governance — not a shortage of water but a shortage

of sound government, corporate structures, and administrative rules for water. I have been visiting India for 50 years — and the issue is very clear — there is a shortage of sound government and management.

The first thing that needs to be done is to vest water sources, make them responsibly owned by parties — they could be local bodies, cooperatives, villages, and catchment authorities. These parties then need to start by looking after the water source, making sure that animals and businesses do not pollute water sources; they need to be made accountable for everything. Price incentives and penalties should be used rather than command and control techniques till violations occur, which should then lead to cancellation of water licenses. All these governance processes cost money and require organization and price incentives. There is also a need to separate regulation and

performance monitoring from both the utilities and ministers/politicians. If the regulator indicates unsatisfactory services and prices (too low or too high) then they need to be protected under law from political intervention.

Where there is poverty — as a source of incapacity to purchase water — they should be assisted directly, not by suppressing prices, which helps the vast number of water consumers who are not poor. So while the first ten litres or so might be very cheap or nearly free, everybody should contribute towards access and user charges to fund, as it happens with mobile phones and movie theatres. Everybody should pay for water, with a special category who can apply for a rebate if they are very poor. There is a need to create capacity to invest, lay and maintain pipelines to villages, have safe water treatment, subsidize for people who are demonstrably not able to pay their

bills in that period. Water is, in fact, a fairly simple industry to reform. The role of the regulator is to make sure water reaches people, the pipes are at a standard mark, and the charges are adequate to enable supply. The problem is that politicians praise themselves for having made the product water uneconomic. The politicians should be punished not praised for such water vandalism.

The incentives in water are all wrong in many countries in Asia, but most significantly in India. China is starting to get things right gradually by charging almost 20 times of what is being charged in India. The charges in China are quite high because the value of safe water is high. It is investing in the order of \$40–50 billion a year for water and wastewater treatment, whereas India is investing about \$4 billion.

The illusion of abundant water from wells has vanished — as the aquifers have been destroyed. Fundamentally, the countries with lowest priced water have the biggest water shortage and the lowest quality water supplies. You can't have a quality business if you don't have a scarcity price that funds the quality service.

It is widely known that people at the level of the local communities need to be involved so that they can conserve, develop, and manage the water resource. Do you think bringing about a change in the organizational structures would be of any help?

Absolutely. We need water sources to be managed by decision units that are accountable, and that have interests in safe and abundant water, as allowed by the pricing of water treatment, services, and delivery by utilities. These should have corporate structures with legally accountable independent boards that report openly and transparently to communities on services — water and wastewater — as well as prices and charges for drainage, sanitation, and potable water.

This means having fewer, ideally zero politicians in charge, but with management in local vested entities, which could be cooperatives or companies, registered under the relevant Company's Act. This

means water business utilities become owned by the community, with delegated legal authorities to private and responsible boards. There can be stakes in such entities — shares of water resources which are tradeable. That's one effective way of doing it.

Alternatively you can have a government-owned entity but where the politicians are not allowed to set the tariffs. This could be a state-owned legal structure that obliges the responsible boards to supply safe water, at a price. The constitution of the water utility would say that the utility must charge full cost, and recover investment outlays so as to finance expanded investments and connections. Utilities — public, private, or mixed — could buy a treatment or desalination plant, if they are near the ocean or if the well water is brackish. They could put rainwater harvesting systems and recycling plants in place. There are a lot of things you can do if you have money. The most reliable way of not having the money is to make water virtually free for the community.

While some parts of the world are bringing water services back into the public realm due to negative experiences with privatization, India's water policy is heading in the opposite direction by suggesting that the state should function as a regulator or facilitator, and that service delivery should be handed over to local communities or private sector. Do you think this model would be effective in India?

Water policy is a matter for public policy. But you cannot privatize water because water in all its randomness is under the charge of nature. Rainfall comes from sky — sometimes too much, sometimes too little — and too late. When we pay for water, what we pay is for catchments, treatments, pipelines, and pumping. What we need is to contract the best parties to deliver and provide the right water services.

For water supply to be sustainable it needs to be a commercially reliable product. The government must tender competitively for water treatment and continue that for 5,



10, or 20 year contracts with the utilities. And if the utility does not deliver quality, connectivity, and extension of services, they lose the contract to a competitor with a better business plan. There may also be penalties. This model has been a success in many countries, and the good firms deserve to be encouraged financially.

Reclaiming wastewater may be necessary to bridge the water deficit, in the absence of strong regulations to limit polluting activities; these incentives to polluters might work as a perverse incentive to pollute more? What do you have to say about this?

You need enforcement and environment protection agencies for setting standards for recycling and treating wastewater. What they should do, particularly for all industrial users, is put a charge on discharge into drains and aquifers; a price for discharge. So the incentive is to pollute less, with (waste) water re-entering the market as safe, potable water. So if you are a paint or leather company, or even a chemical factory, there's a price you pay per cubic metre to discharge wastewater, or to have your wastewater treated. You are inspected and charged for discharges. And that discharge price should be a profitable price and that business can be private.

The basic model is that the local government and EPA (Environment Protection Agency) can call for tenders for safe water supply. For example, we want a wastewater management facility in Andhra Pradesh or Delhi to be run as a sound commercial business on sound environmental principles and prices; we have to allow charging for the right to discharge. We are again going to have a competitive tender model across water and wastewater, catchment, management, and treatment. So maybe the local government starts the business but calls for tenders from technically qualified companies and best provider should be selected with a well-enforced contract. All this boils down to sound governance; easy to say, but hard to achieve. But you have to start somewhere.



A brief about your presentation at the IWF 2013, New Delhi.

Water like any scarce item needs to be priced to reflect that scarcity; so it remains available at required volumes and pressures. The people responsible for the shortage of safe water are currently from the government, facing political incentives rather than obligations to safely supply. The low prices set by the politicians have made the industry unattractive to work in. By pricing water low and by not providing incentives to produce or conserve or treat, government has basically ruined the industry in most of the states in India. But the situation is retrievable along lines set out above. I think as a general rule, politicians should not be allowed to manage utilities such as water. They should be there to ensure that the interests of the voters are met; those interests include safe drinking water. The local governments should tender for the provision of safe water. What the government and politicians can do is to facilitate the process of choosing the principles, persons, and companies who provide those services. Most government utilities, especially in Andhra Pradesh, and even in wealthy IT-based Karnataka do not have a good history of water management. For the companies entering this area, it should be made a matter of competition, not necessarily private ownership, but competitive proposals.

There should be a competitive and transparent tender situation. India can easily study what Singapore or Australia or America does. There has to be a resolve to stop making everything — least of all water — a political product.

Deviating from the issue of water, many policies and measures relevant to GHG mitigation have been chalked. Are these initiatives up to the mark?

There should be major penalty tax for a vehicle that doesn't pass emissions standards. If we forget about GHG and all those controversial scientific things, India should in any case clean things up — emissions from burning oil and petrol and gas, carbon monoxide and so forth, and unsafe water, all lower all life expectancy — with a real cost in the trillions of dollars per decade relative to a healthy economy. Water is just as critical as GHG in my book. Reducing pollution in the towns and cities will reduce the planet's greenhouse gases. But note that carbon dioxide as such is not a problem. The genuine pollutants and particulates are the real culprits. I don't feel we should prioritize carbon over water in India — there is lot of controversy about whether carbon trading and taxes will work. We should adapt to what happens, and administer environmentally friendly policies in terms of pollution, waste, and in particular, water. ■