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Strategic Water Governance Issues Faced by Water Utilities in the ESCWA Region

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STRATEGIC WATER GOVERNANCE ISSUES FACED BY WATER UTILITIES IN THE ESCWA REGION

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ABSTRACT

Some of the challenges hindering effective water governance in the ESCWA region are the lack of participatory decision-making processes and rational water policies in general; fragmented and some times conflicting institutional structures; inadequate water valuation and pricing; as well as insufficient investment for water supply and sanitation especially in rural areas. The general role of the region's water utilities in effective water governance is directly linked to securing wide and equitable access to clean water for all sectors of society including the poor. Most of national efforts in the region to solve water governance challenges facing water utilities and the water sector in general have been dominated by "neo-liberal" management tools and mechanisms such as decentralization schemes for local water resources management; privatization of water supply and distribution facilities; and ensuring service cost recovery through water pricing schemes. The main rationale behind the heavy reliance on such tools is that using free market principles enhances water use efficiency; helps improving the management and balancing the budgets of water utilities; and eventually helps in securing access to clean water and sanitation for poor communities and marginalized sectors of society. In this paper, the above-mentioned tools are analyzed and the prerequisite conditions and enabling environment for their successful implementation, along with some of their most pronounced limitations and impacts, are pinpointed. Finally, the recent restructuring process and privatization prospects of the Lebanese water utilities are briefly presented.

I. INTRODUCTION

Water governance refers to the range of political, social, economic, and administrative systems that are put in place to develop and manage water resources and the delivery of water services (UNDP, 2003). Principles of effective water governance include equity and efficiency in water allocation; secured access to clean water and sanitation; balanced water utilization for consumptive uses in various sectors and maintenance of environmental integrity; as well as active community participation in the management of local water resources.

Some of the challenges hindering effective water governance in the ESCWA region are the lack of participatory decision-making processes and rational water policies in general; fragmented and some times conflicting institutional structures; inadequate water valuation and pricing; as well as insufficient investment for water supply and sanitation especially in rural areas. Even though poverty is practically non existent in some parts of the region, especially in the GCC countries, the consequences of such challenges have limited development options and contributed to the deterioration of poor communities' livelihoods in other parts of the region.

The general role of water utilities in effective water governance is directly linked to securing wide and equitable access to clean water for all sectors of society including the poor. The significance of ensuring such access to water in poverty alleviation efforts has been recognized by the international community which assigned the target of halving the number of people who are unable to reach, or afford, safe drinking water by 2015 among the millennium development goals (MDGs). It should be noted, however, that providing global access to realistically priced clean water has always been a very difficult task for water utilities in many developing countries, including some of those in the ESCWA region, due to political, socio-economic, financial, and institutional hindrances.

II. WATER GOVERNANCE ISSUES FACING WATER UTILITIES

Most of national efforts in the ESCWA region to solve water governance challenges facing water utilities and the water sector in general have been dominated by "neo-liberal" management tools and mechanisms that are globally gaining grounds since the early 1990s as the main vehicles for growth and poverty reduction. Such tools include decentralization schemes for local water resources management; privatization of water supply and distribution facilities; and ensuring service cost recovery through water pricing schemes. The main rationale behind the heavy reliance on such tools is that using free market principles enhances water use efficiency; helps improving the management and balancing the budgets of water utilities; and eventually helps in securing access to clean water and sanitation for poor communities and marginalized sectors of society.

Nevertheless, many negative impacts of using some of these tools have surfaced throughout many developing countries in the past decade and a half. Most significant of these impacts, when 'rules' of free market economy are left alone in control, have been increasing poverty levels among severely disadvantaged populations; reducing overall access to clean water and sanitation; and increasing environmental pollution and degradation (Woodhouse, 2001). Therefore, the introduction of these tools and approaches should not be used as a means to abandon any earlier-acknowledged governmental responsibility to provide adequate water services. On the contrary, it should be done in such a way to achieve water-related international goals of poverty reduction.

A. WATER MANAGEMENT TOOLS

Below is an analytical description of the above mentioned management tools, along with some of their most pronounced limitations and impacts:

Decentralization

In general, decentralization can be an effective tool in promoting good governance and democracy because it is easier to hold the local authorities accountable to the people and to the national government alike (World Bank, 2000). With respect to water resources management, decentralization can generally improve efficiency in allocation of water to various economic sectors; allow for a wider margin of cost recovery in water and sanitation provision; and provide the necessary administrative and institutional enabling environment that is needed for proper accountability and control over the quality of service delivery.

Local people and authorities are more capable of identifying their water needs and problems. In addition, formal and informal webs of relations needed to address water management problems are easier to develop in decentralized systems. Therefore, local water utilities would be able to provide less costly services in general, and historically marginalized groups and poor populations would be more likely to have a greater sense of ownership since decisions are made locally regarding issues like priorities for water use. Moreover, decentralization can provide effective tools for the recognition of traditional water resources management structures that might exist in a particular community (Carney and Farrington, 1998).

Nevertheless, decentralization has to be implemented appropriately because it has its own shortcomings and disadvantages. Typical disadvantages include fiscal problems due to shortages in financial allocations to remote marginal regions and due to lack of autonomy that would allow local water utilities to enforce regulations and collect their service fees and dues. Problems also include the lack of technical expertise in water management since technical capacities of local authority staff are likely to be low. Consequently, decentralized local water utilities and institutions might need to bring in expensive outside experts frequently. Proper decentralized local water management must be strengthened with the needed financial, human, and technical capacity. To address these problems decentralization processes should be always coupled with the necessary financing and capacity development schemes.

Among the known problems also associated with decentralization is the possibility of elite capture of local water resources that might occur in case the leadership of local authorities falls into the hand of the wealthy and powerful with political and social clout. In such situations clientelism would be promoted rather

than participation, and disempowered poor water users need to negotiate their political space and actively struggle for their water rights. Hence, effective water governance in such case becomes linked to a more complex set of political, economic, and social factors that extend beyond the usual decentralization discourse. Involving non-traditional stakeholders such as citizen groups, specialized NGOs, and consumer advocates, usually proves effective in strengthening local water governance and, hence, helps in preventing elite capture (Engberg-Pederson and Webster, 2002).

Therefore, it can be concluded that decentralization of water utilities would lead in principle to more effective water governance. However, in order to achieve such impact an active role of the central government water management should be sustained. A working balance between national and local water authorities' power in legislative and policy control is needed for decentralized water governance systems to succeed. Various involved stakeholders should agree upon clear differentiation of roles and responsibilities at the national and local levels on clear rules and regulations on issues such as water rights and equitable access to water services.

In the ESCWA region, different decentralization schemes for irrigation and domestic water supply have been adopted in various countries. Different experiences led to different impacts, but in general decentralization has raised to a certain extent the sense of responsibility among farmers and resulted in achieving higher water use efficiencies (ESCWA, 1999). In Egypt for example, water users associations (wua's) were introduced into the country in 1984 as part of the measures adopted with an irrigation improvement project to increase farmers' participation in planning, design, construction, and administration of improved irrigation systems. Reported benefits of the wua's, as well as the new irrigation policy altogether, are immense. They include improvement in water distribution efficiency, reducing operation and maintenance costs, and most importantly, giving a chance for farmers to resolve conflicts among themselves (Attia, 2003).

In Yemen also the government began in January 2001 the implementation of an irrigation improvement project, and adopted a participatory irrigation management approach, whereby farmers take on a greater share of responsibility for the operation and maintenance of irrigation schemes. A law was issued to regulate regional and local water authorities and utilities and decentralize their administrative systems within the 'democratization' process of the country. However, mixed results of the whole process have been reported with some persistent problems regarding financial systems that are still centralized.

While it is obvious from the above-stated experiences that some countries in the ESCWA region, such as Egypt, already successfully implemented decentralization schemes, some other countries in the region are still in the beginning stages of creating such an environment. In Lebanon, for example, the Ministry of Energy and Water has recently started to decentralize water resources management in the country. Other countries, on the other hand, are still following a more centralized approach. Finally, it should be noted that it is still too early to evaluate the overall impacts of decentralization of water management in the ESCWA region because the whole idea is relatively recent in the region. Even in the countries that have had a good start with the process, it is still premature to claim that they already enjoy a good enabling environment for decentralized water governance.

1. Privatization

Private sector participation (psp) has been widely promoted in water and sanitation policy plans as part of the neo-liberal reforms driven by multilateral and international financial institutions and adopted by most bilateral development agencies. Despite local community and civil society resistance to various attempts at privatising water resources, privatization is viewed by many in the international development arena as the best means for achieving higher efficiency in water services and expanding access to clean water.

In general, experience with public water utilities has shown that such institutions may be sometimes too slow in adapting to increasing needs for water service provision. Moreover, such public utilities often suffer from inherent public sector inefficiency and corruption. However, increasing private sector involvement to improve water utilities performance remains controversial. While many believe that water is

a public common good and the process of providing water services is strictly a matter of public governance, others believe that engaging the private sector would accrue enormous benefits to the process and society at large in terms of enhanced transparency, reduction of costs, and improvement of productivity (Bennett, 1998).

Under the right conditions, private sector participation can be quite beneficial for enhancing operational efficiency and increasing financial resources available for water services. However, privatization of water services can direct investment preferentially to central urban areas, which are usually already better served compared to peripheral rural areas. Private sector would not invest in water utilities unless they are profitable. Consequently, affluent urban neighbourhoods would get the lion's share of investments due to their greater ability to pay for their services. But most of those who lack access to water and sanitation usually live in rural areas. As such, they stand a little chance of benefiting from water resources privatization initiatives. Moreover, those reported as not having access to water and sanitation services in urban areas are also less likely to benefit since they tend to be concentrated in low-income neighbourhoods (possibly illegal) where private water companies would not be eager to invest.

Therefore, what can be said about private sector participation in the water sector is that it is not a magic solution. The causes of public sector failure in the provision of water services do not just disappear the moment private sector is engaged. As a matter of fact, realistic analysis shows that in certain situations privatization may face many impediments, most significant of which is the inability or the unwillingness within poor communities to pay the full costs of water services (Bakker, 2003). When people in poor neighbourhoods are not able or not willing to pay for their services, difficult decisions have to be made on social and economical levels. Such cases can be addressed only through public regulation rather than fully relying on the private sector. Regardless of the type of privatization scheme implemented, efficient and competitive performance by the private sector in providing the needed services requires well-defined monitoring and proper regulation and law enforcement on the part of central governments.

In recent years, water policy makers throughout the ESCWA region have chosen privatization as a strategic decision that involves major reforms in line with overall structural adjustment programmes aimed at reducing budget deficits and meeting increasing demand for water and sanitation services. As such, privatization contracts are being implemented or seriously considered in most countries of the region including Bahrain, Egypt, Gaza, Jordan, Kuwait, Lebanon, Qatar, Saudi Arabia, and Yemen (ESCWA, 2003).

However, the region still suffers from many problems related to privatization of water service delivery. Most of the countries within the region have relatively little know-how in privatization planning and implementation. Significant capacity building of local institutions and expertise is needed at both the national and regional levels, if positive results are sought from privatization. Moreover, knowledge and information regarding the expected results of the chosen privatization scheme(s) should be made clear and available for local communities and societies throughout the region in order to avoid any distrust among the public and potential marginalization and exclusion problems. It is necessary also to recognize social and ethical considerations while developing the needed legal and regulatory frameworks to guide the implementation of privatization schemes.

2. Water Pricing

A kind of an "eternal" question is always asked whether water should be considered as a common good or an economic good with all the social and ethical ramifications of such a question. One argument strictly considers water as a common public good and, therefore, as a basic human right that should be secured irrespective of users' ability to pay for its delivery. By definition, such goods cannot be exclusively used by any individuals because once they are produced the whole public should be able to benefit from them. Consequently, adhering to this argument would prohibit the use of typical market mechanisms to set a price for water. Water in this case should be delivered either for free or at a highly subsidized nominal price.

On the other hand, the Dublin Principles (1992) emphasize treating water as an economic good. As such, it is a product that can, and should, be priced in the market. Theoretically, this would allow market mechanisms to operate in the water sector and bring higher efficiency and value for water use. However, for the market of an economic good to be efficient, such products should be priced at their 'marginal cost', which is the price that the market would settle into within a competitive system. This argument also supports full cost-recovery of water and sanitation investments and services from users, based on the notion that only when cost-recovery is ensured can reliable and sustainable service delivery be reached.

As a matter of fact it is well known that when government provides a scarce resource (such as water) as a common public good free of charge or at a non-targeted highly subsidized price, abuse of such resource is bound to occur. Due to this phenomenon, known as tragedy of the commons, water over-exploitation has been a global problem for a long time even in regions living continuously under water stress conditions such as the ESCWA region. Well known also is the overall economists' preference for defining private water rights and creation of water markets through viable water pricing mechanisms in order to solve this problem (Johansson et al, 2002). It should be noted, however, that strict commodification of water is fraught with social and ethical problems since water pricing mechanisms based on full cost recovery and total removal of subsidies mostly lead to unfair distribution of service costs. As such, lower-income people suffer the most from water pricing schemes that do not account for social considerations and, consequently, do not lead to full access to clean water services.

Therefore, water can be optimally managed when it is considered as a common public good, which possesses an economic value that should be collected from users in order to ensure water conservation and prevent its wastage. To achieve the required level of access to clean water, a combination of regulation, targeted subsidies, and obligatory tariffs for the service might be needed (Guiterrez, 2001). Yet, the notion of an optimal water pricing policy still does not command consensus among economists and policymakers, as there is continuous disagreement regarding the "right" water price. Because it is vital for life, and it is considered as a basic human right for all, the value of water should not be defined by economic terms only but should also reflect the social, environmental, cultural, and religious morals placed on it.

Therefore, the value of water as given in Islam and relevant Islamic traditions and customary laws should be duly respected within adopted water pricing mechanisms in the ESCWA region. Various options that would secure cost-recovery, improve water use efficiency, and at the same time would be suited to the administrative, social, and economic conditions of concerned societies can be regionalized and implemented. However, currently used water-pricing schemes in most ESCWA countries are characterized with non-targeted subsidies even for highly inefficient water uses. In fact, water is still provided for irrigation at a highly subsidized cost in several ESCWA countries in spite of the evident widespread water overconsumption in the agricultural sector throughout the region (ESCWA, 2003). Nevertheless, some other ESCWA countries have already implemented efficient water pricing schemes, which take equitable access to necessary basic needs of water into consideration. In Jordan, for example, a water pricing scheme has been implemented using the concept of "lifeline rate schedule". The scheme is designed to recover the costs of water service delivery while keeping "lifeline" basic needs affordable for poor sectors of society (Taha and Bataineh, 2002).

B. ACCESS TO WATER AND SANITATION

It is known that development of water and sanitation infrastructure, and provision of equitable and universal access to such services, is considered as a basic human need (and right) and a cornerstone for economic and social development. Among the indicators of the quality of water and sanitation service provision are both the quantity and quality of delivered water, with the latter being especially important for domestic supply. As mentioned earlier, securing universal access to clean water and sanitation is among the major water governance issues faced by water utilities throughout the ESCWA region.

As a matter of fact, access to safe drinking water has approached 100 percent of urban populations within the region since mid 1990's (UNICEF, 1998). However, only 60 percent coverage has been reached in rural areas of the region, which is well below the developing countries' average that was raised from 71 percent in 1990 to 78 percent in 2000. This gap between urban and rural areas' services is reflected in some

health indicators such as the infant mortality rate (IMR). Despite the decreasing IMR levels as a whole due to the overall expansion of water and sanitation services, great disparities in the IMR figures still exist between rural and urban areas (UNDP, 2002) in the region. The ratio of rural to urban under-five mortality ranges from 1.21 to as high as two-fold, which poses a serious challenge in terms of equality in service coverage among urban versus rural areas. The problem is not the total amount of available water, but the lack of access to water services throughout marginal rural areas of the region where people are forced to fetch and use poor-quality water with the known impacts on their livelihoods (Soussan, 2004).

On the other hand, an alarming indicator of poor water quality management in some countries of the ESCWA region is the big disparity that exists between the access to safe drinking water and access to sanitation services. Widespread pollution of water resources especially due to contamination with domestic sewage has rendered entire watercourses inaccessible for human use throughout the region. As a result of this widespread pollution of water resources and the chronic lack of needed investments and infrastructure to control it, the potential for economic development of several countries in the region is being compromised. This is especially alarming in countries such as Lebanon and Jordan, for example, where the fast growing tourism sector has become increasingly threatened in both countries in recent years due to water quality degradation.

Evidently a key water governance challenge throughout the ESCWA region is to ensure that enough investments are made in water and sanitation infrastructure in rural areas in order to meet the international goals (MDGs) of water and sanitation service coverage. Investments in improved and more reliable services of water and sanitation can quickly and significantly improve the lives of poor and marginalized communities within the region. Moreover, improvements in this sector have always been identified by the poor as a high priority need. It should be noted that, private water companies' main interest in cost recovery issues plays a known hindering role against providing water services for poor and marginalized remote rural areas. Consequently, water sector interventions in such areas are mostly implemented by public water utilities or NGOs (Budds and McGranahan, 2003). In any case, whether government led or privatized, water and sanitation services should be operated and maintained with full participation by all local stakeholders.

III. LEBANESE WATER UTILITIES

A. RECENT RESTRUCTURING

The Lebanese water sector has been undergoing a major restructuring for the past five years. With the recognized central government's inadequate capacity to secure all the needed investments by the sector, a major decision was taken toward decentralization of water resources management in the country. The first step taken in that direction was the passing in 2000 of Law 221 (and its subsequent amendment by Law 241 of the same year) which stipulated the consolidation of the existing 21 regional and local public water utilities then into four water authorities at the Muhafazas (governorate) level. The consolidation was deemed a necessary prerequisite for decentralization in order to enlarge the size and potential customer base of the utilities to viable levels so that they could be autonomously managed (Jaber, 2005). This law limited the role of the Ministry of Energy and Water (MEW) to the development and implementation of a national water policy and master plan; planning and executing major water resources development projects at the national level; and overseeing the overall activities of the established water authorities.

The established water authorities, on the other hand, were given wide responsibilities for water governance at the Muhafaza level such as the overall management of regional water resources within the framework of the national water master plan; planning, conducting detailed studies, and executing regional water resources development projects; operation and maintenance of regional distribution networks; and overall cost recovery through the development of tarification schemes that would be eventually approved by MEW. This was in fact a significant devolution of power and responsibility from the central government since originally the role of local water utilities was restricted only to the operation and maintenance of distribution networks under their control.

B. CURRENT STATUS

The actual merging of local and regional public utilities within the established water authorities happened this month (October 2005) after an interim period that extended for five years. During the interim period local utilities were still practically operated separately, but each group of neighbouring utilities that were consolidated into one water authority, were managed under one board of directors. The long time taken to actually implement the consolidation plan was needed to overcome certain regulatory and institutional hindrances that were faced by the process.

It should be noted that the newly established water authorities are still facing some of the same problems that have historically been faced by most Lebanese public sector institutions for a long time. Securing adequate funds for the investments needed by the water sector is among the most significant problems faced by these authorities. In spite of receiving about 1.3 billion US dollars over the last decade, the Lebanese water sector still needs much more investments to reach internationally accepted standards for access to water and sanitation services. Inadequate institutional and staff capacity is also among the persistent problems. The whole consolidation process has been done without any recruitment of new personnel due to a general moratorium enforced for a long time throughout the Lebanese public sector. This has left the established water authorities without any new blood that is usually necessary for successful institutional merging processes.

Among the persistent problems also in the water sector that has to be faced by the newly established water authorities are the partial and non uniform coverage of water tariff collection which is hindering cost recovery and the generally weak efforts of low enforcement that have led to the proliferation of illegal connections to water distribution networks throughout the country. The established water authorities are not expected to achieve financial balance and be economically viable without solving such problems. Financial reforms are also necessary in terms of the introduction of modern accounting systems to replace the currently used ones that are based only on cash flow.

C. PRIVATIZATION PROSPECTS

The Lebanese government, like those of most other ESCWA countries, has started with some preliminary plans for privatization as an ultimate solution for securing the prohibitive amounts of investments needed for the water sector. Various formats of private sector participation in water service provision, ranging from getting private sector help for the management of the newly established water authorities to full service privatization, have been studied and scrutinized by relevant governmental institutions. However, internal debate is expected to go on for quite some time within these institutions before a final decision on the adoption of any specific format, or a combination of formats, could be taken.

It should be noted that a lot of potential obstacles need to be taken care of before any privatization plans can be implemented in the Lebanese water sector. Most significant obstacles stem from the above-mentioned problems with institutional and individual low capacity within all the candidate public water sector institutions for privatization such the water authorities. These problems, that have been persistent for a long time, would hinder the public sector from playing its necessary role in regulating and overseeing the whole privatization process. Another important obstacle that is expected to face privatization plans is the financial and economic viability of public water authorities. Current economic status of these institutions is very far from being viable, and as mentioned earlier significant reform for their financial management systems is necessary before achieving the needed viability. Initial support from the central government, which has not been available so far, may be necessary as well for the newly established authorities.

In conclusion, private sector participation in water service provision might be a very positive step that would help enhance the economic viability of the sector through cost recovery and improved efficiency. Ultimately, it might also increase access to clean water throughout the country. However, the right conditions should be met within the water sector and the right format(s) of private sector participation should be selected in order to achieve the targets of the privatization process. Otherwise, the process might give negative results and ultimately lead to reducing access of certain sectors of society to clean water. As a

matter of fact examples of failed privatization processes throughout the world are numerous, and lessons learned from these examples should be taken into consideration while making strategic decisions about privatization of the Lebanese water sector.

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Strategic water governance issues faced by water utilities in the ESCWA region

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Strategic water governance issues faced by water utilities in the ESCWA region



Water Governance Challenges:

- Lack of rational water policies
- Lack of participatory decision-making processes
- Fragmented and conflicting institutional structures
- Inadequate water valuation and pricing
- Insufficient investment for water supply and sanitation



National efforts:

- Decentralization
- □ Privatization
- Water pricing

Major objective:

securing access to clean water and sanitation

Strategic water governance issues faced by water utilities in the ESCWA region



Decentralization:

Leads in principle to more effective water governance by:

- □ Improving efficiency in allocation of water to various economic sectors
- Allowing for a wider margin of cost recovery in water and sanitation provision
- Providing the institutional enabling environment for proper accountability and control over the quality of service delivery



Decentralization: (cont'd)

Has its own shortcomings and disadvantages:

- Fiscal problems
- Lack of technical expertise
- possibility of elite capture

Therefore:

To achieve the objectives of decentralization, an active role of the central government, and a working balance between national and local water utilities should be sustained.

Strategic water governance issues faced by water utilities in the ESCWA region



Privatization:

Considering water as a public common good

VS.

Viewing PSP as a means for expanding access to water by:

- Enhancing transparency, operational efficiency, and productivity
- Reducing costs and increasing financial resources available for water services
- Getting rid from inherent public sector inefficiencies



Privatization: (cont'd)

Has its own shortcomings and disadvantages:

- It may direct investment preferentially to affluent urban areas
- It may be faced by the inability or unwillingness of poor communities to pay for the full costs of water services

basic requirement:

All forms of PSP require well-defined monitoring and proper regulation and law enforcement on the part of central governments.

Strategic water governance issues faced by water utilities in the ESCWA region



Water Pricing:

An "eternal" question: should water be considered as a common good or an economic good?

- One argument: water is a basic human right, i.e. it is strictly a common public good
- Dublin Principles (1992) emphasize treating water as an economic good

However, both arguments have their problems and cannot be strictly followed



Water Pricing: (cont'd)

- Providing a scarce resource as a common public good free of charge or at a non-targeted highly subsidized price leads to the tragedy of the commons
- Strict commodification of water without accounting for any social considerations reduces overall access of poor sectors to clean water

Therefore:

Optimally, water should be considered as a common public good, with an economic value that should be collected from users in order to ensure water conservation and prevent its wastage.

Strategic water governance issues faced by water utilities in the ESCWA region



Access to Water and Sanitation:

- Urban vs. rural area coverage [disparity of IMR figures between rural and urban areas (UNDP, 2002)]
- Access to safe drinking water vs. access to sanitation services [significant disparity between the two in some ESCWA countries]

Major challenge:

is to ensure that enough investments are made in water and sanitation infrastructure to meet the international goals (MDGs) of water and sanitation service coverage



Lebanese Water Utilities:

- Recent Restructuring: With the recognized central government's inadequate capacity to secure all needed investments by the sector, a major decision was taken toward decentralization of water management.
- Current Status: In spite of receiving about 1.3 billion US dollars over the last decade, the Lebanese water sector still needs much more investments to reach internationally accepted standards for access to water and sanitation.
- Privatization Prospects: Preliminary plans for privatization have started, but a lot of obstacles need to be taken care of before they can be implemented.

Strategic water governance issues faced by water utilities in the ESCWA region



Thank you



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