Financing basic water supply and sanitation in Bolivia

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In spite of large amounts of overseas aid spent on infrastructure in Bolivia, rural and urban water supplies are not being managed sustainably because water consumers are unwilling to pay cost-covering tariffs. Overseas development assistance might be better spent addressing these social and structural problems rather than on infrastructure.

In Bolivia, over the past five years, the water and sanitation sector has received US$120 million from the Single Funding Directorate (DUF). Given this level of investment in the sector, one might think that the water and sanitation sector is making headway towards achieving the millennium development goals. The resources provided by DUF have been targeted for the construction of new infrastructure, which should lead to greater access. However, such investment does not necessarily result in greater sustainability. In fact, one of the greatest challenges for the water and sanitation sector in Bolivia is the lack of investment to ensure the social, political, financial and institutional sustainability of existing investments (public and private), rather than more investment to increase coverage. This challenge is exacerbated in many ways by international co-operation efforts, which focus on new infrastructure rather than evaluating and improving the impact and sustainability of the investments already made.

Background

In Bolivia, municipal governments are responsible for providing water and sewerage systems, either directly or through a concessionaire. To finance water services, municipalities receive funding from the national government, through a sub-national financial plan administered through the Directorio Unico de Fondos (DUF), which has two main financial branches:

- the National Fund for Regional Development – FNDR (Soft loans) and
- the Productive and Social Investment Fund – FPS (Grants).

These funds – with annual budgets of roughly 100 million dollars – provide funding for a variety of social services, including water and sanitation, rural development, school infrastructure, health infrastructure, urban development, energy, and institutional strengthening. In essence, the DUF acts as a mechanism to redistribute resources throughout the country, to promote regional economic and social development, and to provide a national response to local demands. Funding for the DUF is provided by international overseas development assistance (grant and loan ODA).

Funds are intended to be demand-responsive; therefore municipalities, with active participation by community members and stakeholders, determine which programme or project will be prioritized for funding. Once a project has been identified and prioritized, the municipality conducts the requisite feasibility studies, and submits a request to the appropriate fund under DUF. (FPS grant funding is targeted to municipalities with populations below 10 000; FNDR soft loans are provided to municipalities with populations over 10 000, and can be used to support public or private service providers.) For both FPS and FNDR funding, a local counterpart supplying (on average) 20 per cent of the project's total cost must be identified. Impressively, and reflecting communities' demands, the water and sanitation sector has received US$120 million from the fund over the last five years (2000–2004), representing 24 per cent of the total amount disbursed by DUF. Of this amount, 23 per cent were grants, and 77 per cent were soft loans.

Challenges

As mentioned earlier, there are key challenges that are being overseen in the allocation of the funds. Rural and urban areas suffer from different constraints. The sustainability of the investments in rural areas, financed generally by grants, is negatively affected due to the following:

- Even though international best practice suggests that local 'buy-in' is a pre-requisite for sustainability, rural systems are financed almost entirely by conditional and unconditional transfers approved by the central government (50 per cent of the public investments are financed by international co-operation). Local counterpart funding of municipal resources are also often obtained through the national (and therefore ODA) transfers.
- Local water committees, which are charged with managing local water projects, have poor management capacity as they have no experience or training, and no back-up to administrate small rural systems. There are serious problems with the management, maintenance and rehabilitation of these systems.
- Despite lip service paid to cost recovery, water tariffs are often symbolic. When the system functions, it is considered to be

'owned' by the community. When problems occur, the municipal government is expected to assume responsibility for financing rehabilitation, given the weak capacity within the community-led management.

In urban areas, the problems in the sector are more complex because of the increase in the number of the stakeholders involved (for example, private operators, regulators, municipal governments, trade unions, NGOs and political parties). Some of the greatest challenges faced in urban areas are the following.

Institutional/political aspects. In Bolivia, systematic attacks on foreign investors have resulted in withdrawal by private operators, resulting in a reduction in infrastructure investment (the country does not have the savings capacity necessary to finance the capital costs of infrastructure). In addition, the weak enforcement of contracts and legal insecurity increases the cost of construction and supervision contracts; and tariffs are set according to political rather than economic considerations, while regulation for the sector is weak, with no capacity to enforce current legislation.

Management aspects. Powerful trade unions prevent organizational changes, staff efficiency and improvement to service provision at the public utilities, despite the low management capacity of staff and poor-quality service. Because the municipalities own majority stakes in the public utilities, government typically absorbs the utility's losses, resulting in a hidden subsidy, while management decisions and activity are opaque, suggesting that the utility is not run to serve the public interest.

Social aspects. Based on recent events, it appears that the population believes that public services should be financed 'by someone', although a clear indication of who that someone is remains unclear. The recent creation of committees, which ask for the 'rights which have been expropriated by transnational companies', and which are supported by foreign NGOs, results in a loss of interest from the private sector to invest in the country. It appears that citizens believe that they have rights, but no obligations to pay for water services.

Economic/financial aspects. Because all external loans are made in dollars, consumers are expected to bear the currency risk of international investments. This is a challenge, because it results in tariffs being indexed to foreign currency; high interest rates due to depreciation; and the import of inputs to the sector, which impacts the trade balance and results in unsustainable practices.

International co-operation/ODA. The administration of ODA poses a considerable constraint to Bolivia, as a result of the many bilateral and multilateral agencies operating in the sector. This results in high transaction costs for ODA, to meet the specific norms of each agency; costs of personnel who need to be employed to fulfil the reporting requirements of ODA agencies; the reality that the interests of international partners may not match the interests of national and local government; and, perhaps most importantly, the fact that agencies promote financing of infrastructure rather than current costs and capacity building for institutional strengthening, to support existing infrastructure, and more sustainable infrastructure development.

Given these constraints, the situation of the water and sanitation sector is very uncertain in Bolivia. The main lesson to draw from Bolivia's experience may be that the social problems, which have not been resolved yet (the so-called water wars in Cochabamba and El Alto), seem to increase when ODA resources are used for infrastructure, without concurrent attention to underlying social, economic, institutional, and political issues. In Bolivia, ODA might be better used to undertake activities to sensitize the public to water services reform, while strengthening the capacity of regulators and service suppliers. Likewise, a broader effort to refocus ODA investments towards these 'softer' issues may be needed to support more sustainable, and country-owned, water-services delivery in developing countries.

About the author

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