

Editorial: Financing the WASH sector – getting the economics right

THERE'S A RISK THAT THE theme of this issue will make your eyes glaze over. Yes, 'financing' still bewilders and confuses many of us. In the water, sanitation and hygiene sector there has historically been a lack of professionals who understand economics and financing. The fact is, by and large, we are engineers, handpump technicians and hygiene promoters, not economists and market analysts. But whether we like it or not, money makes the world go round. Increasing our understanding of this aspect of the sector is essential.

Many of the thought-provoking papers in this issue explore the difficult task we face in trying to get the finance right without creating unwanted side-effects. We know that we risk distorting water and sanitation markets if we intervene with good intentions but little understanding, and many of us have direct experience of this. Richard Luff explores the difficulties associated with providing emergency humanitarian assistance for free, and then transitioning to development interventions. We need to manage the expectations people have of how much assistance they can receive under which circumstances, and ensure that our enthusiasm for making potentially life-saving interventions available does not undermine long-term sustainability. Introducing a commodity, for instance drinking water treatment products or handpump spare parts, for free will discourage local entrepreneurs from entering the market. And we desperately need vibrant, self-sustaining markets that bring products at affordable prices within easy reach.

We also need economic frameworks that provide the right incentives, and ensure that the scarce resources for investment work hard and leverage other inputs. There is a growing realization that we don't know nearly enough about the financial flows to the WASH sector, and that the contributions of households have been largely underestimated or even ignored. Developments in the sanitation sector, with the introduction of demand-led, no-subsidy sanitation, have revolutionized our thinking about how this part of the sector can be financed. The power of households to invest in their own infrastructure and the role of the private sector in fuelling progress are now appreciated, but there is still a role for the public sector in correcting the failures of the sanitation market and leveraging resources. Sophie Trémolet explores this in her article on understanding sanitation markets.

Rolf Luyendijk and Catarina Fonseca spar, very politely, over the question of whether maintenance should be supported by donor funds. Their debate highlights the fact that many countries are still struggling with the absence of a robust system of local government which levies appropriate taxes and tariffs that can support ongoing maintenance. But as Stephen Jones points out in his paper, in many countries there is still an overall lack of finance available, even when users

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are willing to pay, and ‘we support a level of service which is above the effective demand of the users’. In the light of the persistent poverty of many countries where WASH agencies and donors work, there is a need to clarify how much users should be expected to pay, and who should bear the responsibility for capital maintenance. As Stephen Jones suggests, this should be part of national policy; that is, not just part of donor or external agency policy.

Making services reliable and oriented to the needs of users will go a long way towards ensuring willingness to pay and cost recovery, but the fact is that in very poor communities it may be difficult to ever raise enough finance to support systems fully. Cross subsidies only work if some are willing and able to pay more for their services than they cost, and in poor countries there may be very few people in a position to do this. Better understanding of the role of tariffs, transfers and taxes is needed in order to build enduring systems that allocate resources where they work hardest.

We have made great gains in the WASH sector over the last two decades – not only has coverage gone up, but our approaches have, in many cases, evolved. We now confidently talk about sanitation markets, argue the finer points of tariff design, and agree that requiring people to pay for services is consistent with meeting human rights obligations. But we still don’t always know how to get the economics right, and we need to continue to build consensus on this aspect of the WASH sector. We need to attract and build up a cohort of economists who understand the sector, and WASH specialists who understand economics. I trust this issue of *Waterlines* will contribute to the development of this understanding.

Clarissa Brocklehurst, Guest Editor