



Financial Sustainability

SHEET 3

AN UPDATE

Large-scale community- managed water supply, sanitation and hygiene promotion schemes were implemented in Hitosa and Gonde-Iteya of Oromia Region of Ethiopia. The schemes have provided potable piped water issuing from springs to a total of 56 rural and small urban communities.

In April 2001 a report on the financial sustainability of the water supply schemes was completed¹. Two issue sheets were then produced based on this report: the first was on water consumption rates; the second on water tariffs and increasing water usage.

This issue sheet is based on a subsequent field visit in October 2003 to look at what has actually happened in Hitosa, and what the implications are in terms of the sustainability of large- scale community-managed gravity schemes.

* Tekalign Tsige,
Evaluation of Financial Sustainability of Hitosa and Gonde-Iteya Water Supply Schemes, April 2001.

Introduction

The Hitosa gravity scheme has now been managed and maintained through a community structure for a decade. The scheme was completed in 1994; it initially served 31 Peasant Associations with 122 tap stands over 140 kms of pipeline and 74 members of staff were employed.

The Hitosa Water Scheme now serves 35 Peasant Associations, soon to be increased to 37. There are now 125 communal tap stands as well as 730 private connections for domestic or non-domestic customers. The scheme has 84 paid employees of the Water Administration Office, with an Executive Committee, which continues to be run voluntarily by elected committees and a board.

Over the years, the scheme has continued to deliver clean water and now does so to an estimated 70,000 people. There were, initially, quite major leakages and repair work, especially because of people breaking the pipes, but this is no longer the case and now there is minor, on-going maintenance work on pipes and taps.

Overall, it is clear that the scheme is being effectively maintained and operated. All but one or two taps are currently functioning, and are being used: the exception being that the community closed a few taps during the harvest season because they were enclosed in arable land.

The question of management is a more complex one. To some extent the board, committees, office management and employees clearly run the gravity scheme successfully in that the taps are serviced, the water runs and, in cash terms, a profit is being generated year in, year out. However, it is useful to look again at many of the initial concerns and recommendations raised in Issue Sheets 1 & 2 about financial sustainability to see what has happened in practice.



From Problem to solution: Children fetch dirty water, the community participates in construction work – and a clean, piped water supply today.

The impact of Government decentralisation

Over the last few years, the Ethiopian government has started to implement a decentralisation policy. This, theoretically, increases the role and capacity of local 'wereda' level structures, in government line departments, including that of the water desk.

For Hitosa, this policy change has not fed into any change in the level or kind of linkages they have with government. At the moment, there is a sense that the Hitosa structure is self-sufficient, and better managed and resourced than the decentralised government water desk: but this could change. However, for the foreseeable future, it is clear that the Hitosa scheme will need to find its own solutions and cannot depend on government for leadership. They still hope for a fruitful relationship down the line, including access to spare parts and technical support.

Differential pricing for urban and rural consumers

Issue Sheet 1 and 2 suggested the possibility of differentiating between rural and urban consumers and charging more to the urban consumers. This is also government policy in that tariffs for rural areas are supposed to cover operation & maintenance, while urban rates should aim at full cost recovery. This has not happened, but the following comments from a number of people from the Board and Management show different views on whether a new price structure should be introduced.

'So far the Board has not taken up this recommendation. We have felt that there is not much of a difference between urban and rural communities, that it is difficult to draw a line, and that a differential pricing would not be a good idea.'

The government policy states that tariffs for rural areas are supposed to cover operation and maintenance, while urban rates should aim at full cost recovery



Alem Debele beside her private tap: "Now I don't have to spend my time looking for water and can also use as much water as I want to prepare my tela" – the local beer which Alem prepares for sale.

'However, in some ways there is a difference in the way we are pricing things because in both town and countryside we have the taps and the private connections but it is almost only in the town that we have more expensive, private connection for businesses and organisations which is at 1.70 birr.'

'I think there is a difference between the town and the rural area. In the town, people find it a bit easier to have cash. In the rural areas sometimes people have to borrow to find the cash, I think we need to discuss this. But really, the thing is that the water at the taps, it is only 5c for two jerry-cans of 25 litres, this is very little money, nothing else has stayed at this kind of price, and it is so little we do not even count it. You know, even a needle that used to cost the same 5 cents as the water, now costs 10 cents!'

'Rural people are not always very poor though. Rural people are also increasingly asking for private connections. Of the 730 connections 87 are rural and more and more people are interested. They organise things themselves including the purchase of equipment we need and the number of all these private connections are much more than we expected.'

The discussion moved on to issues of wealth and poverty in the rural areas and who puts in private connections; the most important variable identified was proximity to pipes to which a connection could be fitted, followed by wealth. However, none of the private rural connections are of female-headed households, although a large proportion of the urban ones are.

In summarising the question of rural/urban pricing the Head of the Water Administration Office concluded 'We have been talking about needing to increase the price, and maybe looking at different urban and rural prices, but it is not straight forward and there are arguments both ways, we need to do a study, talk with the community and decide again what we should be charging'.

Subsidy or free water for the vulnerable

Issue Sheet 1 also suggested the possibility of developing a subsidy system or ensuring free water access for identified vulnerable people. This recommendation from the community and the consultant has not been adopted. In fact the members of the Board and Management talked to did not remember that it was a recommendation.

The general view was summarised as follows: 'We could find out the names of the vulnerable but it is difficult to draw a line like this and say a certain percentage of the population are vulnerable and the rest are not. It is complicated also because households will help out, individuals are not alone, and it will be unfair to look at this. Also, as we said earlier, the water is very cheap and even vulnerable households can find a few cents.'

Seasonality

Issue Sheet 2 suggested introducing a seasonal payment system to take into account the ability and willingness to pay of communities. On this the response was as follows:

'Tariff rates have changed over the years. We haven't always charged the same rate, before it used to be 75 cents then at one stage we increased it to 2 birr then we found that was too much so we agreed on 1 birr for the tap stands. Also we reduced the price a couple of years ago when there was a bad drought in this area, then we brought the price back up.'

Although the tariff rate has not been varied to take into account annual seasonality, the scheme has found another way of operating that reduces costs in the rainy season when demand for water is low.

'What we do is that the number of people we employ is reduced in the rainy season, when we have fewer people and livestock using the water. Each tap stand collector has to cover more Peasant Associations and the individual points are therefore open for less time. Then, when the queues start again, and people return to more use of the water - when the rains stop - then we employ more people.'

'In the dry season the taps are open from 8-12 in the morning and from 2-6 in the afternoon, every day including Saturday and Sunday. If a shift



In Hitosa 31 peasant associations were supplied with water via 140km of pipeline. The Board has now extended the pipe by 30km to serve four additional peasant associations.

system is in operation in the rainy season, people will know that the tap is open in the morning or afternoon at particular, shorter times. As soon as the demand grows again the full opening times are returned to.'

'Most of the employment is really in shifts during the rainy season, its not like the tap attendants are laid off. The employees still receive an income but in shifts, not every month. It can be as little as 15 tap attendants paid in one month, as a lowest figure, although we normally employ 59 (50 women and 9 men). Also, exceptionally, we might even employ extra people beyond the 59, if the demand gets very high.'

'Also there is one more element to taking seasonality into account. If the income is not 40% more than the salary, then we start cutting their salary as well. It is like this: the tap attendants are paid 153 birr a month if they earn less than 180 then they get 60% of the revenue and 40% goes to the scheme'.

One threat to this system that seems to be happening however is that as the number of private connections increases, the income on the tap stands is falling, and this needs to be managed in terms of the arrangements above.

The drop in demand for clean water in the rainy season remains a major problem in terms of the impact of the project, since if people resort to the rivers and the ponds in the rainy season they remain exposed to unsafe water sources.

Payment in kind

Issue Sheet 1 also suggested the possibility of exploring payment in kind. On this the Board members and Management were adamant that it was not needed.

'This is not really an issue since the cost of 5 cents is so little and people can find that (the cash). Also in terms of tap attendants being paid in kind rather than cash was not needed because they are handling cash and it is from there that they get paid.'

Clothes-washing areas and livestock-watering troughs

Issue Sheet 2 includes the recommendation to build clothes-washing areas and livestock-watering troughs as a way of increasing consumption rates. On both of these, there was a sense that nothing had happened; nobody, neither the community nor the Management nor the Board, had pushed for it 'since the water was originally planned for people to drink', but that this would be a good idea.

'There is an area for washing clothes upstream near the source, however everywhere else, near the tap stands, we have not discussed building a wash-stand. But if we could have something like this, it would be very good, and people would welcome it.'

'What has been discussed is that it would be good to do something about the cattle, because at the moment the cattle, the donkeys, the horses and people, young and old, are all there in the same place and it would be much better if there was somewhere for the livestock and somewhere for people. It is not clean, not sanitary the way the livestock and people are together. The problem is one of doing this 'ye ak'im gudai new' 'it is a question of capacity to address the issue'

'The idea of cattle troughs is a very good one, you see it is not just an issue about cleanliness, it is also that in the villages where the water points are, it gets crowded and dangerous, the children are running around there with the animals and they can get hurt. Also, and I have seen it with my own eyes in our Peasant Association, but thanks be to God the woman was fine in the end, but pregnant women can be hurt in the stampede. In my Peasant Association we are 350 households, then there are many more animals, cattle, donkeys, horses, etc than that come to drink – you can imagine it!'

Cross-subsidies for sanitation

Issue Sheet 2 looked at the possibility of water cross-subsidising sanitation. This has not happened. However, there seems to be a growing urban demand for latrine slabs and there is the possibility of the Hitosa Scheme constructing and selling slabs, without a subsidy, at cost, and possibly with a mark-up. Although this has been discussed little has happened in practice.

Tariff structure

Issue Sheet 2 summarised recommendations in terms of a block tariff structure related to the type of customers instead of the volume of water consumption. This has been adopted but, in general, with lower tariffs as shown in the table below.

Customer Type	Recommend Birr/M ³	Actual Birr/M ³
Tap stand users	1.50	1.00
Privately connected domestic customers	1.60	1.70
Privately connected non-domestic customers	2.00	1.56
Tanker Sales	-	2.00

Facilitating clothes-washing stands is one way to increase water consumption, as well as improve personal hygiene.



Increasing coverage

The issue of increasing consumption, including by extension of pipes was suggested in Issue Sheet 2. This has happened both through the Board's initiative and through other NGO/Government initiatives. During WaterAid's visit, work was starting to extend the pipes by another 10 kms, adding 5 water points in 2 new Peasant Associations. The government and NGO were financing the extension, the results of which, however, are increased revenue and associated running costs.

Sustainability: reality as compared to the hypotheses

Comparing the forecasts with actual revenue, expenditure and volume of water usage, the clear difference is that on all fronts the actual figures are lower than forecast.

Overall, annual revenue continues to be higher than annual costs; however the annual profit margin is being consistently eroded, and unless pricing and demand issues are reviewed, under the current pattern, annual expenditure could outstrip annual revenue, thus forcing the project to rely on built up reserves to continue to run the scheme.

The way forward

Hitosa is clearly a very successful story. It is an example of community management, which is working – delivering clean water, at a comparatively very low cost, almost without interruption, to thousands of beneficiaries. A committee and Board structure oversee a management structure and staff. The scheme is still seen to be a community initiative in which an NGO - WaterAid - and a government department - the Water Bureau - have played a facilitative role, but where the project has now long functioned autonomously.

However, it is clear that there is also a very visible danger, which is the issue of strategic

management and whether or not those entrusted with the scheme are able to make key management decisions, including the underlying ones of ensuring financial sustainability in the long run.

It is clear that although day-to-day management is taking place, the more difficult management options are not being addressed and there is little business planning. The Committee, the Board and the Management seem to find it difficult to act outside the established pattern.

There seems to be an inability to take the initiative and make changes, with all seemingly wanting to wait for others to solve dilemmas for them. For example the Committee, the Board and the Management seem to have agreed that the tariffs should be increased, but they have not done this, awaiting a study that it seems they think the government water desk should undertake.

Summary

Community ownership, operation and maintenance are all in place. The demand for private connections, and the support of other agencies in extending the scheme to new areas, has helped increase consumption to rates that appear to have enabled the scheme to operate at a profit, year in, year out.

However, the missing piece is strategic management. Key decisions are not being made and although, even without this, the scheme has worked and will probably continue to do so effectively in the short term, the danger is that coasting along will not always be possible and could close down options for the future.

The main recommendation for Hitosa is therefore to face this problem and ensure that the Committee, the Board and the Management are trained to enable them to take on the task of strategic decision-making and long-term business planning. The different roles of the Committee, Board and Management in this regard also need to be clearly agreed. Only then will community ownership and management be truly demonstrated.

A WaterAid Report

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