

**Institutional financing of WATSAN***K. Subramaniam and Dr P.S. Rana, India*

FOR MANY PEOPLE in developing countries, water supply, sanitation and solid waste management — in that order — are the most important of all environmental problems. Water is a scarce and precious resource in several developing countries, particularly in the tropics. With surface sources being polluted, ground water sources are being exploited at abnormal rates — a factor which has put tremendous strain on water availability. To aggravate this problem, nature's cycle has also undergone surprising changes which have affected the rainfall pattern. As a consequence, both surface and under ground water have become scarce.

It has now become necessary to consider distant sources for new/augmentation of schemes, and that too to provide a minimum level of service. This of course consumes a large chunk of funds. The other important factor which has had a severe impact on the availability of water is the population boom and large scale urbanisation taking place during the current decade. As per census of India, approximately 20 per cent of urban households do not have access to safe drinking water, while in the sanitation sector only 44 per cent of the urban population has sanitation facilities. Only 3 per cent of the rural population has access to sanitation facilities.

With the schemes becoming costlier day by day, the burden on the local bodies too is becoming very heavy. The revenues of local bodies are insufficient even to meet their O&M costs. Since water supply and sanitation have mostly been treated as public services to meet minimum needs, cost recovery for the user service has never been considered as an important alternative. Even when there are user charges, they are highly subsidised. Low availability of funds has resulted from the fact that core infra-

structure services do not pay for themselves and the Government does not have the financial capacity to continue to subsidise the beneficiaries.

At present, there is no appreciable involvement of the private sector. While the financial requirements of water supply and sanitation facilities are on the rise, Government investments are shrinking and the Urban Local Bodies are not in a position to invest in these sectors because of their poor financial status. Therefore, financial institutions such as HUDCO, LIC, ILFS and international financial institutions such as the World Bank, ADB, OECF, USAID etc. have a key role to play in the future.

The present paper discusses the current scenario of investments in water supply, sanitation sector future fund requirements and the yeomen role of financial institutions such as HUDCO in "reaching the unreached."

Current scenario in WSS sectors

According to the 1991 census, 81.38 per cent of urban households covering 85 per cent of urban population had access to safe drinking water. The percentage of population covered by water supply has increased from 79 per cent in 1987 to 85 per cent in 1992 as shown in Table 1.

Traditionally, provision of water supply services has been considered a public responsibility. The Government agencies are the major suppliers of water and they contribute 86.81 per cent of treated water as per the following table.

With regard to sanitation, the NSSO 44th round Survey (1988-89) shows that 89.04 per cent and 31.08 per cent of households in rural and urban areas respectively did not have any latrines/toilet facilities. In urban areas, out of those having toilets only 39.06 per cent had flush system,

Table 1

Table 2. Source of water supply as per method of supply (%)

Table 3. Pattern of public sector investment in water supply and sanitation

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37.49 had septic tank system and the rest had service latrines.

Investment needs in WSS sector

The plan outlays for the Eighth Five Year Plan for water supply and sanitation are shown in Table 3. The Eighth Five Year Plan expenditure as a percentage of total public sector plan expenditure has moved between 0.56 to 3.80 per cent. The Eighth Five Year Plan has put the total public

sector outlay on available water supply and sanitation for urban areas at Rs5757 crores.

Against this the total investment requirements for water supply and sanitation based on various reports are shown in Table 4.

Table 4 clearly indicates that an investment of Rs 25,490 cores is required for 100 per cent coverage of urban water supply and sanitation. However, total planned outlay for both the States and the Centre during the Eighth Plan is Rs 5757 crores, which is grossly inadequate.

Table 4. Estimate of required investment in urban water supply and sanitation (based on 1994-95 prices) during the period 1996-2001

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Institutional funding arrangements

Urban infrastructure development has been funded through budgetary support from Central/State Governments and local bodies through Five Year Plans and Annual Plans. The resources have been supplemented with funds from Life Insurance Corporation (LIC), the World Bank. Other multinational and bilateral programs routed through Central/State Governments supplement the Plan allocations partly as grants and partly as loans according to a predetermined formula. Institutional finance is a recent entrant in this area and its percentage contribution to total investment in this sector is still quite low. Life Insurance Corporation has been investing in urban infrastructure projects. As a part of its statutory requirements LIC is required to invest 25 per cent of net accretion from its controlled funds in social oriented schemes such as Housing, Education, Water Supply and Road Transportation. 50 per cent of the funds are allocated by the Planning Commission to the States. The

allocation of the rest is at the discretion of the LIC. Housing & Urban Development Corporation (HUDCO) started its lending operations for infrastructure in 1989-90 when a separate infrastructure finance window was created for this purpose. The infrastructure leasing and financial services limited was set up in 1988 with the same objective.

Table 5 gives the share of different institutions in total investment in urban infrastructure.

The average total plan outlay for Water Supply, Sanitation and Roads for the Eighth Plan both under the Central and State head comes to Rs18967 Crores. With regard to institutional sources, while HUDCO proposes to invest around Rs3000 Crores in urban infrastructure projects during the Eighth Plan, IL & FS plans to invest in the range of Rs500 Crores - Rs1000 Crores. However, the actual sanction for urban infrastructure during 1994-95 by HUDCO is Rs738.78 crores and cumulative sanction is Rs2832 crores. ILS during the same period sanctioned

Table 5. Share of different sectors in financing urban infrastructure projects

Rs7.7 crores. LIC on an average invests Rs100 crores per annum which is included under Plan allocation. Taking all these estimates together one finds that the total flow of finance of urban infrastructure is not likely to exceed Rs5000 crores per annum as against investment requirement of Rs 25,490 crores/annum. This underlines the importance of Financial Institutions to play a key role in future for provision of basic infrastructure services.

HUDCO's role in reaching the unreached

Due to severe constraints of funds to meet the growing demand, a need for institutional financing in the field of infrastructure sector was felt and an Urban Infrastructure Finance Window was created in Housing and Urban Development Corporation (HUDCO) in 1989-90. Over the last six years, HUDCO has financed 412 schemes with a total project cost of Rs 5,640 million and a loan component of Rs 2,823 million covering 295 towns in various States in the country.

The opening of the infrastructure window in HUDCO has been welcomed with enthusiasm by the various State Governments, and the response to it in terms of projects submitted to it for financial assistance has been very encouraging.

The performance in infrastructure financing is given below:

	<i>Cumulative Operations</i>
Schemes sanctioned	: 412
Schemes completed	: 92
Project cost	: Rs 56048 million
Loan amount	: Rs 28232 million
Loan released	: Rs 13971 million
States covered	: 18
Uts covered	: 1
Towns covered	: 295

Water supply

Realising the importance of water supply needs HUDCO has accorded topmost priority to financing water supply schemes, especially in small and medium towns. As much as 37 per cent of the cumulative loan sanction for urban infrastructure schemes by HUDCO has gone to the water supply sector. The schemes sanctioned by HUDCO are for water supply augmentation, rehabilitation, extension as well as new schemes with development of source for unserved areas. Stress is laid on formulation and implementation of financially and economically viable schemes with full cost recovery.

Considering the problems of water supply, particularly in small and medium towns, higher priority has been given to schemes belonging to these towns. State-wise break-up of the number of schemes and the loans amount sanctioned is given in Table 6.

Sanitation

Besides extending financial assistance for underground sewerage/drainage schemes under urban infrastructure

Table 6.

financing, HUDCO is the nodal agency for implementing the important Integrated Low-Cost Sanitation Programme, sponsored by the Government of India.

The performance in the sanitation sector is as given below :-

	<i>(Status as on 31.3.1996)</i>
1. Towns covered so far	1087
2. Conversion of dry latrines	1.71 million
3. Construction of new latrines	1.16 million
4. Scavengers to be liberated from sanctioned schemes	109881
5. Sanctioned Project Cost	Rs8870.08 million
6. Sanctioned loan amount	Rs4145.00 million
7. Community toilets constructed	3463 units

HUDCO's initiatives for cost recovery

HUDCO has been insisting that all its borrowing agencies should formulate financially and economically viable infrastructure projects. Each project must be self-sustainable and be able to pay for itself. Even those agencies and State Governments who were slow in responding to these efforts to bring about an attitudinal change, have come around with persuasion, and have started realizing the imperatives of recovering full cost of infrastructure projects.

With strong persuasion from HUDCO, a number of States and individual agencies have revised the water tariffs. In a number of schemes, agencies have adopted innovative cost recovery mechanisms such as levy of advance registration charges, connection charges, development charges, betterment charges, water tax, utilisation of revenue from other sources such as octroi, property tax sale of plots, charges from water kiosks etc.

Conclusion

All the Urban Infrastructure Financial Institutions in India are now facing the major challenge of how to make a qualitative jump in mobilising and managing even larger funds in order to cope up with the escalating demand for provision of core infrastructure services. The creation of an Urban Infrastructure Window in HUDCO during 1989, was instrumental in the evolution of a prime lending organisation which serves the cause of the deprived. This financing institution has not only developed its own specific clientele and profile but has also followed its own patterns to streamline the cost recovery and viability of capital intensive core infrastructure projects. Further, HUDCO has also helped the Urban Local Bodies (ULBs)

much more in institutional strengthening, project formulation & monitoring of various Urban Infrastructure Projects.

HUDCO has also expanded the capital base for water supply and sanitation projects by mobilising funds through Governments sources, national capital markets, international loans and grants. In the context of liberalisation policies of the Government and impact of the Nagarpalika Act there will be substantial additional requirement of institutional finance for UI Sector. This will pose an interesting challenge to all the financial institutions to seek investment from the private sector, initiate expansion of financial systems, along with other measures for the mobilisation of additional financial resources to "reach the unreached".