

# BRAZILIAN BUSINESS

Revista da Câmara de Comércio Americana do Rio de Janeiro | <http://www.amchamrio.com.br> | E-mail: [amchamrio@amchamrio.com.br](mailto:amchamrio@amchamrio.com.br)

ANO XVIII | Nº194 | Novembro/2003 | R\$4,00



## Desenvolvimento e consciência ambiental: um bom negócio?



**Luiz Dulci aposta na retomada  
do crescimento econômico**

**BC propõe comitê de auditoria  
para instituições financeiras**

**Empresas de energia  
receberão ajuda do BNDES**

# We buy treated sewage: contact ANA

**Jerson Kelman**

**C**onsidered as a country with abundant freshwater, Brazil has been using its rivers in a completely unorganized and irresponsible manner for decades. In the Northeast, water has been scarce for centuries. In large cities it is often impossible to use water from local rivers due to the pollution levels.

The city of São Paulo is a good example. If properly managed, the rivers of the metropolitan region could very well meet the needs of all its population. The local water and sewage company (SABESP), however, must get bulk water from the Piracicaba River Basin, some 100 km away, as the rivers in the metropolitan area are, to a large extent, too polluted to be used for water supply.

Strangely enough, some people believe that charging for pollution, which could effectively revert this situation, would have the undesirable side-effect of increasing the Brazilian production costs. The truth however is the other way round: the real cost is to have no

water in homes and industries.

The Brazilian Water Act, Law 9,433 of 1997, calls for implementing water charges, both for diverting bulk water from the rivers or for polluting them, so as to prevent abuses. If things would carry on as before, rivers would continue to diminish, penalizing current and future generations on their water capital. The Water Act adopts the "polluter pays" principle, an idea successfully implemented in Europe: whoever pollutes more, pays more.

The River Basin Committee decides how much and who to charge for discharging polluted effluents. The committee is a sort of "water parliament", with representatives of federal, state and local governments,

civil society and the productive sector. To this last segment belong the companies that use the river, such as water and sewage companies, irrigation districts, hydroelectric plants, navigation companies and some industries located along the river.

The funds raised should be invested in programs aimed at the improvement of the rivers conditions, according to the priorities set by the Committee. In order to boost the Committees activities, ANA (National Water Agency) launched, during its first year of existence, a revolutionary program based on "output based aid", rather than "input based aid". The River Basin Pollution Abatement Program, PRODES, is focused on



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cleaning up river basins. It does not subsidize engineering work nor equipment, but pays for the final result, which is treated sewage. Roughly, the Program consists in providing economic incentives for the construction of new sewerage treatment plants, aiming at the environmental recovery of the country's most polluted river basins.

Paying for treated sewerage is an innovative response to decades of ineffective subsidies, allocated to water and sewerage companies in developing countries. A considerable part of these subsidies were used up to build "white elephants", that is, huge ineffective infrastructure works.

Within the PRODES program the sewerage treatment is paid for throughout the first five years of the Sewerage Treatment Plant (STP) operation. The disbursement, however, is subject to an adequately provided service. If the service provision does not meet the required standards, the allocated funds, that have been patiently laying in a development bank, will be returned to the National Treasury. This arrangement reduces risks for both sides. It ensures the service provider that there is no *non-compliance* risks due to government budget cuts as the committed funds were set aside in a development bank. The government, on the other hand does not take the

chance of having to pay for inadequately implemented services.

During its first three years of implementation the Program made possible the creation of 34 new sewerage treatment plants (STP), committing a R\$ 272 million investment, out of which R\$ 78 million were subsidies. All service providers benefiting from the Program so far have been public enterprises. The

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Program could however be extended to private sector enterprises as well.

Along the same track of the PRODES program, ANA developed a proposal aimed at optimizing public expenditures on water supply in the North-East semi-arid region. It imposes a new view on how to subsidize water pipeline systems that would transfer water from reservoirs to human settlements, industries and irrigated areas. The overall idea is to have the government signing contracts directly with the water suppliers, instead of signing contracts with building companies. The contracts should have a clause on the tariff values that would take into account the purchasing

power of the different beneficiaries and stakeholders. The government would subsidize the difference between the unit price offered by the leasing company and the tariff value.

Contracts with the building companies as well as with the equipment providers would be carried out by the water supply service providers, not by the government any more. The whole idea, once more, is

to increase the effectiveness of the government's expenditure. The leasing companies would be incentivized to: (i) minimize the infrastructure installation costs, quite the opposite of what happens today; (ii) to carry out appropriate operation and maintenance since the subsidies would be paid for by effectively supplied and cubic meter of water, as measured throughout the enterprise's life.

The idea of imposing a tariff to ensure a reliable water supply, would certainly, bring up opposition, as water is currently being supplied in such an unreliable fashion, very often with quality standards that make it inadequate for human consumption. Convincing the opponents may not be such a difficult task after all, as the most expensive water is, indeed, the unavailable water, as very well know the inhabitants of areas subject to droughts. 31

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