

The challenge & solution of Sustainable Cost Recovery

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AquaFed,

**THE INTERNATIONAL FEDERATION
OF PRIVATE WATER OPERATORS**

Technical Workshop 1 – Water & Finance

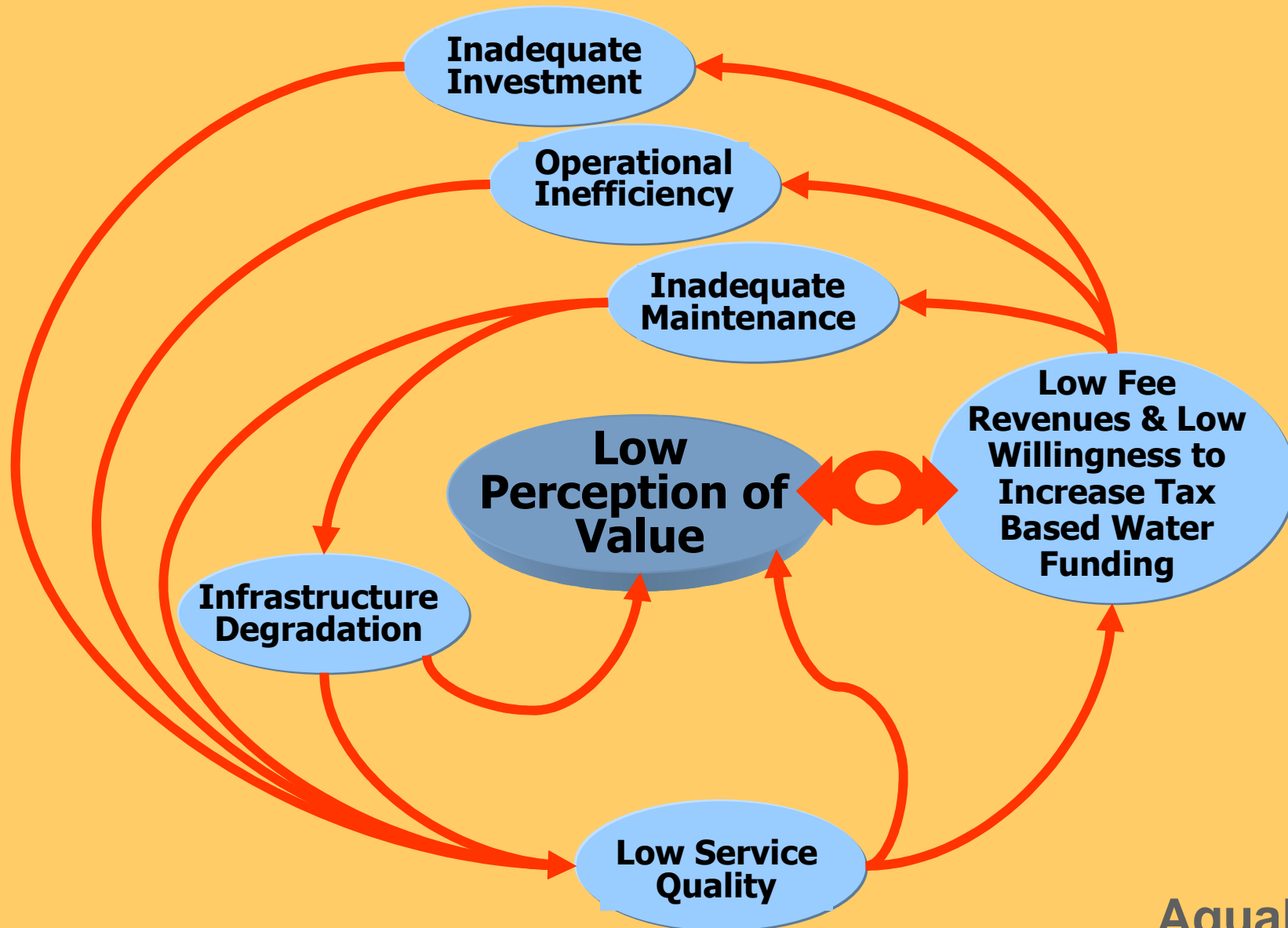
UNEP-FI – Global Roundtable 2007 – Melbourne October 2007

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Sustainable Water & Sanitation Services

- Long-term business needs stable and predictable long-term finance
- Investments and cost management for long life assets
- Revenue streams sufficient and predictable
- Charges that are adequate, equitable and affordable
- Fundamentally a political question

The Vicious Spiral of Low Funding



UN Secretary General's Advisory Board on Water & Sanitation

"We need sustainable cost-recovery policies with efficient tariffs and adequate subsidies and cross-subsidies."

Hashimoto Action Plan - March 2006

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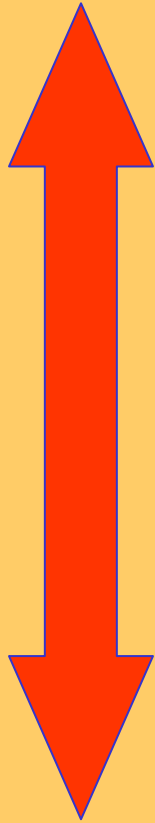
Sustainable Cost Recovery – an Endorsed Principle

- Camdessus report 2003 - Definition
- Gurria report 2006
- UNSGAB Policy Impetus
- UN Human Development Report 2006
- IWA Reference Paper

Unsustainable VS Sustainable

Unsustainable

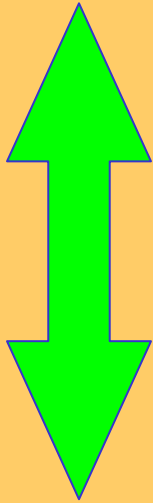
Costs



Revenue

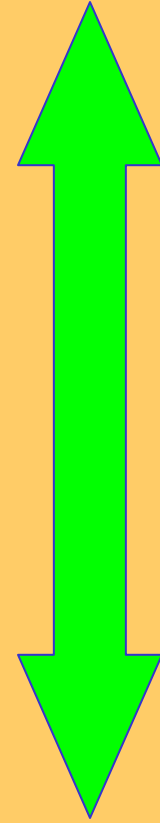


Value Perception

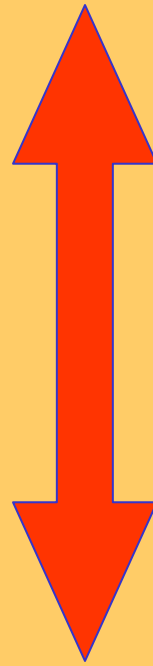


Sustainable

Value Perception



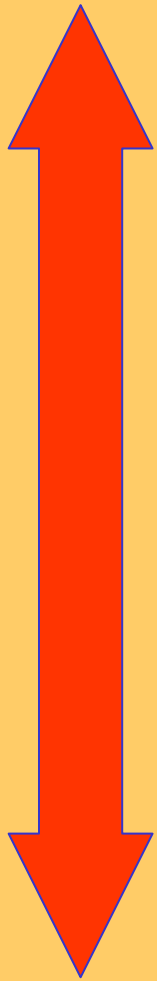
Costs Revenue



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Constituent Components

Costs



**Internal
operating
costs**

**Maintenance
&
Refurbishment**

**Capital costs
Infrastructure
& Depreciation**

Revenue

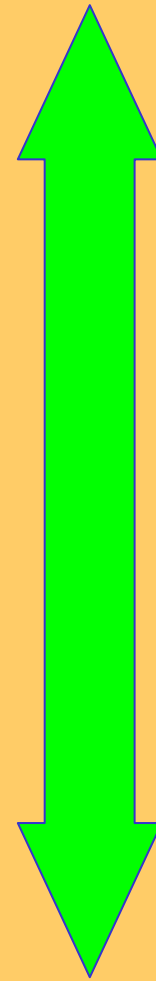


**User
charges**

**Subsidies
from public
budgets
(taxpayers)**

**Aid
grants**

Value



**Direct
benefits**

**Externality
benefits**

**Avoided
costs,
damage &
risks**

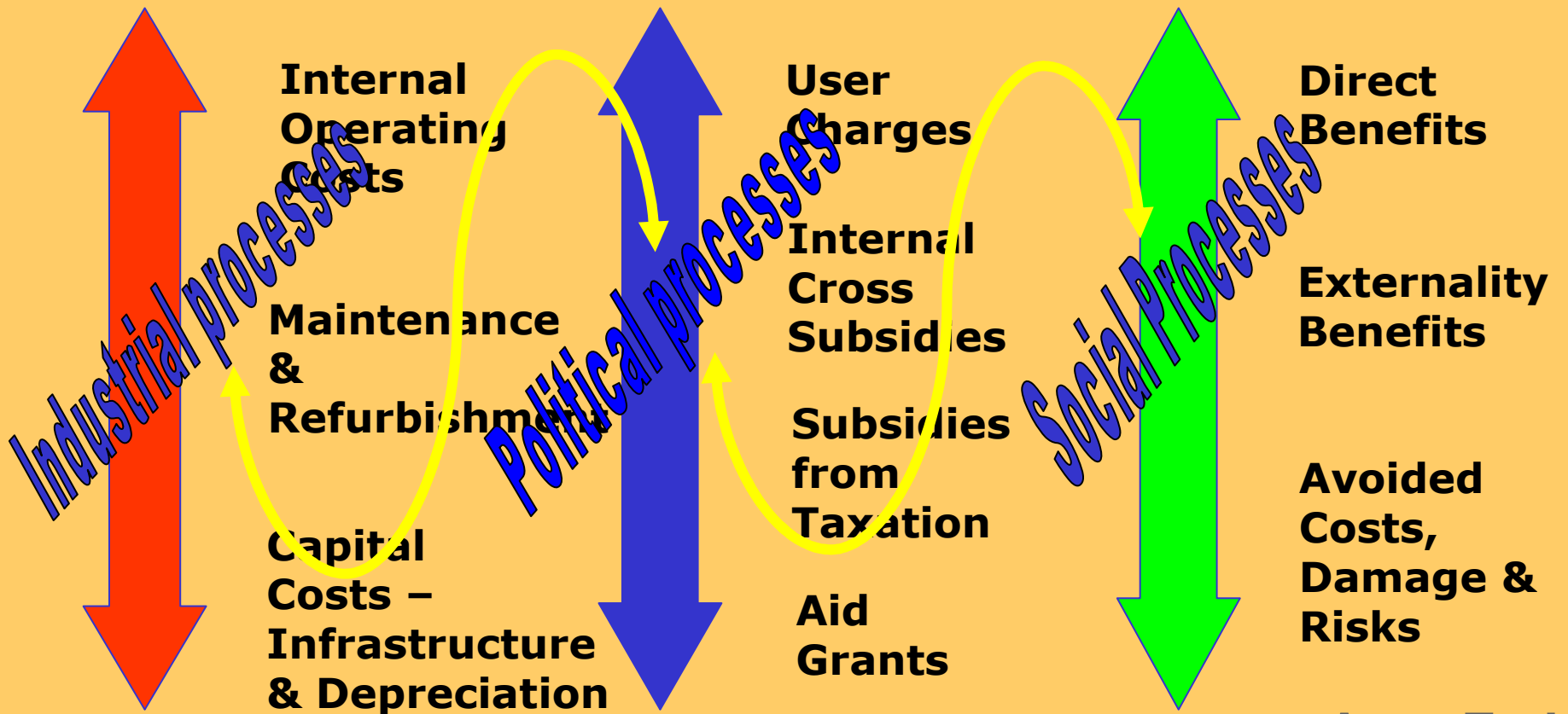
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The Dominant Processes

**Efficiency to
Compress
Costs**

**Socio-economic
Optimisation
of
Revenue**

**Societal
Maximisation
of
Value**



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“Sustainable Cost Recovery”

“Camdessus” recommendation

- ◆ Long-term cost-recovery policy anticipating needs
- ◆ Subsidies from public budgets secured well in advance
- ◆ Revenues from users as a group with cross-subsidisation to ensure affordability

Sustainable Financing = Stable Revenues

Income from charges

To be based on economic affordability (for whole community)

Not to be based on "Political Affordability"

Provides good visibility as "market signal"

Good collection efficiency & cost

Income from taxes

Requires consistent allocation (but is often short-term)

The challenge of budgetary competition

Is invisible as "market signal"

Administrative processes can be complex

Grant aid

Beneficial but not sustainable

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Predictability of budget subsidies

- Budget subsidies from taxation are fine, but must be predictable and fixed in advance
 - Pre-allocated predictable budget subsidies allow long term planning and efficient investment
 - Post-loss budget subsidies do not provide any incentive for efficiency nor ensure perenniality of service

Affordability for all user categories

- Differentiated service provision:
 - a realistic approach (Some for all)
- Cross-subsidies are acceptable
 - Cost recovery should be collective not individual
 - Special low tariffs for the very poor compensated by mean tariff that ensures cost recovery
 - Targeting with cross-subsidies

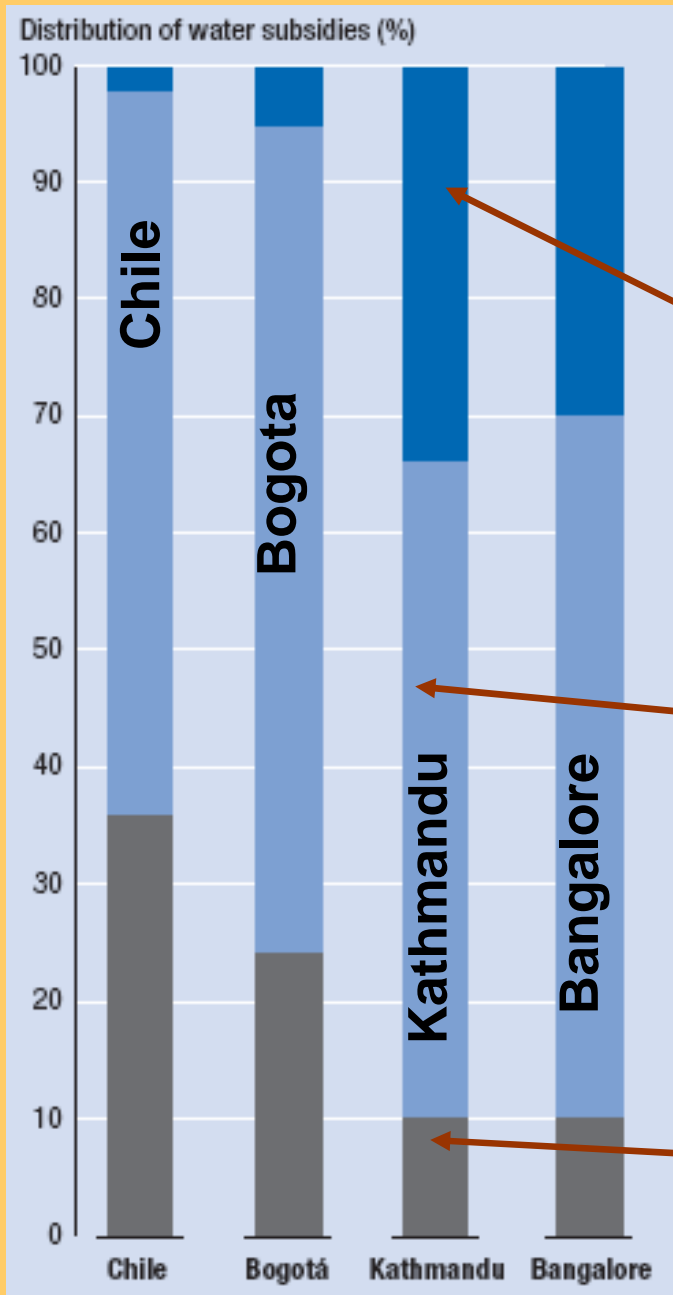
Sustainable Financing Works

- Financial predictability of subsidies enabling long-term investment
 - **Europe & USA** Development of infrastructure with subsidised funds (US Municipal Bonds)
 - **European Union** – Regional Development & Structural Funds – e.g. Spain, Accession Countries
 - **Basin Agencies in France** – Strategic subsidy for a fixed percentage (typically 50%) of capital infrastructure is a rule that gives predictability and incentivise investment

Individual Affordability & Individual subsidies

- **Chile** – External subsidy based on family earnings
- **Colombia** – Cross-subsidy based on habitat (geographical area as a proxy)
- **Jakarta** – Cross-subsidy based on property
- **Increasing Block Tariffs** cross-subsidy usually based on consumption. Not targeted, do not ensure affordability

“Where do the water subsidies go?”



Richest 20%

Middle 60%

Poorest 20%

Source: Komives and others 2005, reported by Human Development Report 2006

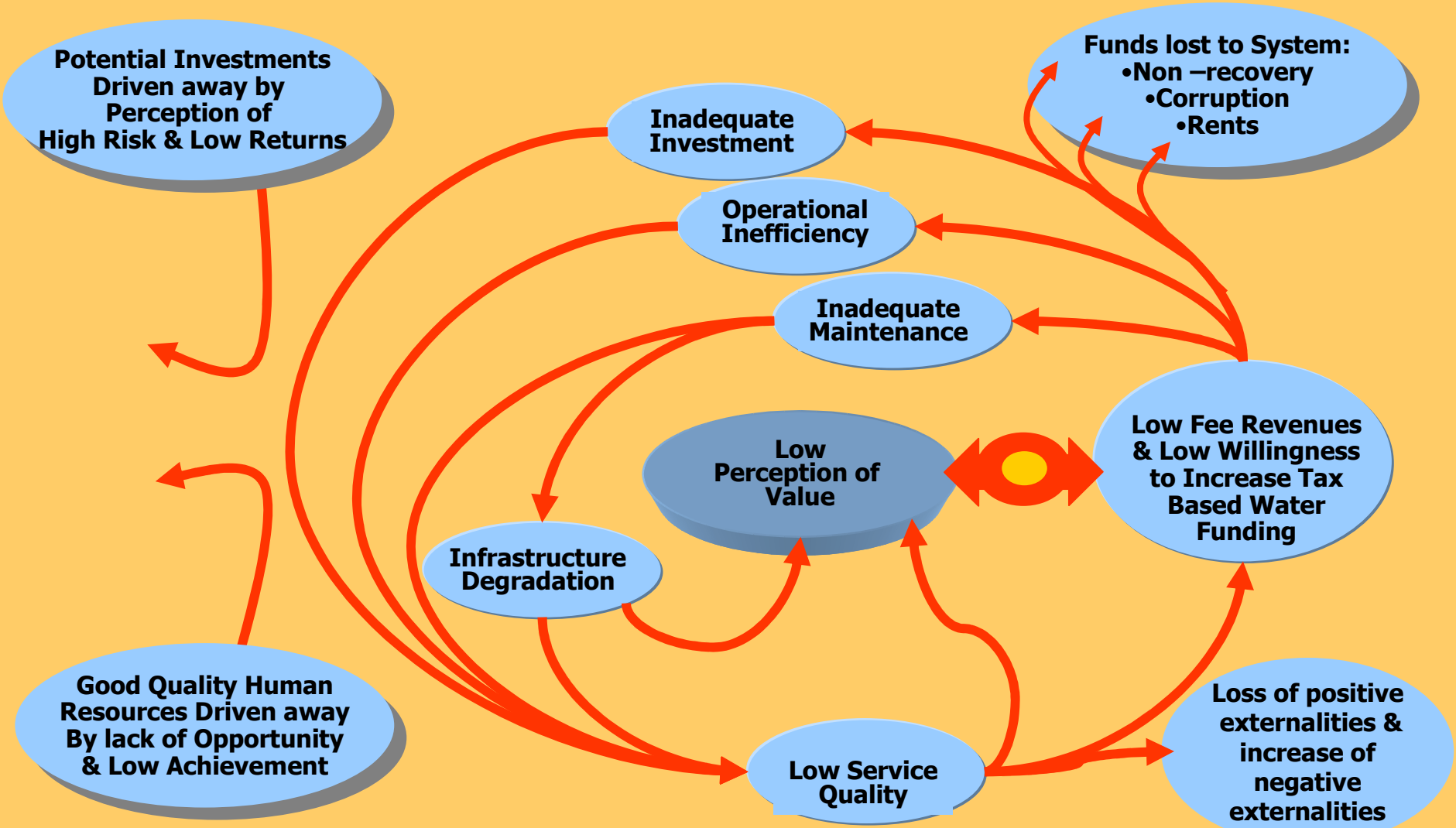
The appropriate mix

*"We need
sustainable cost-recovery policies
with efficient tariffs and adequate
subsidies and cross-subsidies."*

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