

Valuing and Pricing Water Services

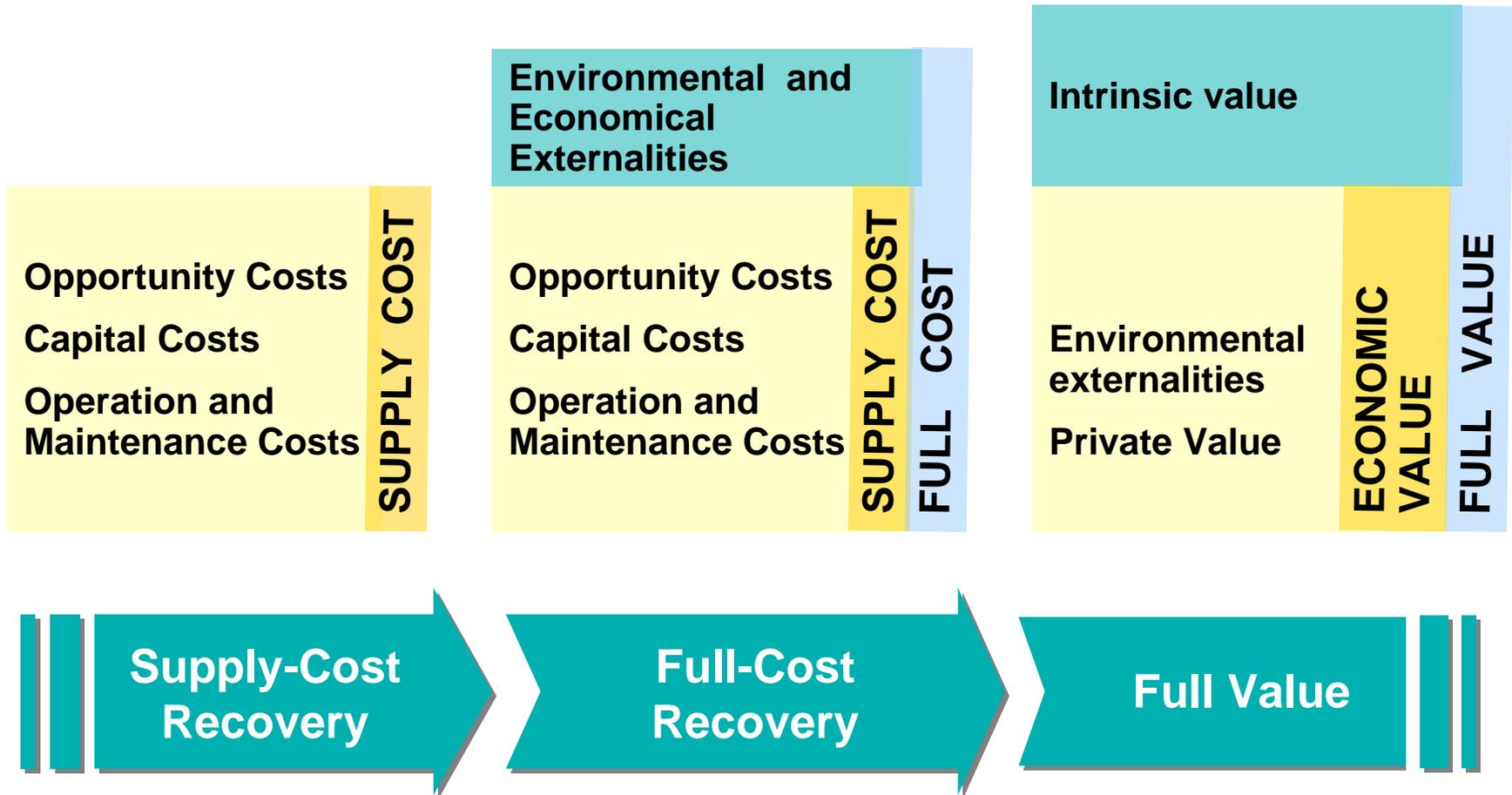
Impact of cost-recovery on equity,
economic development and biodiversity

Alain Mathys



VEZ
ENVIRONMENT

FROM PRICING WATER TO VALUING WATER



This is Free

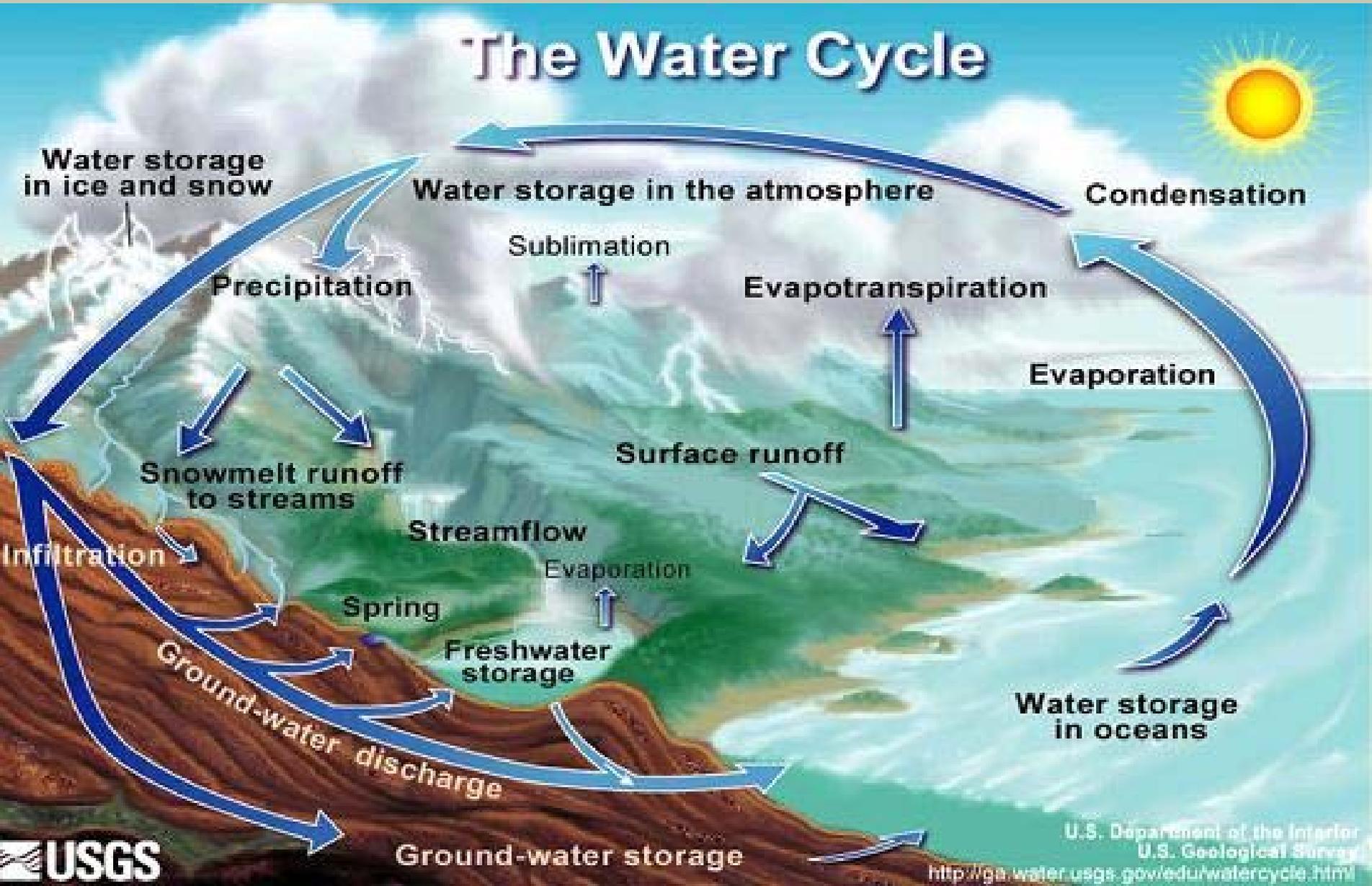




**This has a cost
and somebody
must pay for it.**



Water: A Renewable Energy?





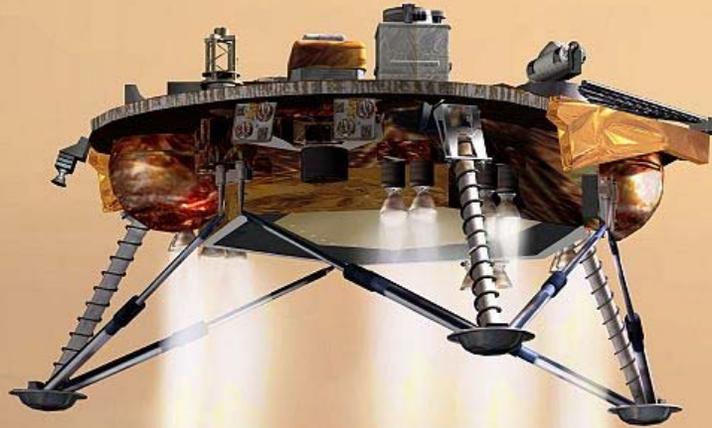
India

Investments required to meet MDGs targets for water and sanitation (2007-2017): \$49 billion

California's drought emergency

\$11.9 billion bond proposal



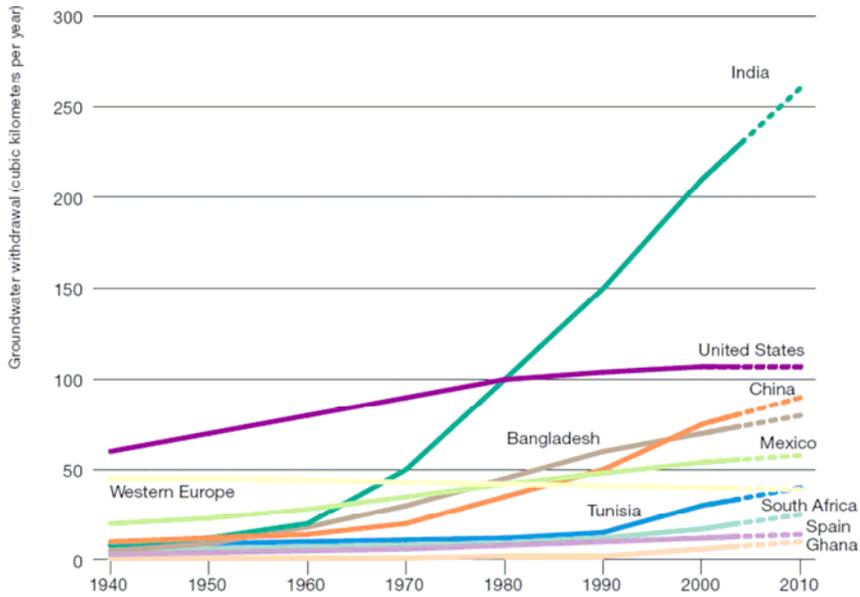


Phoenix Mars Lander

Mission: Searching for Water Evidence on Mars

Cost: \$ 450 million

Prices for Water Will Increase



Source: Shah 2005.

Evolution of Groundwater Abstraction



Evolution of Oil Price



Water: Full-Cost Priced or Subsidized?

The Dublin Principles

- ☛ Water has an economic value in all its competing uses and should be recognized as an economic good:
- ☛ Water is an increasing scarce resource. It is so precious that it should be priced at the cost recovery level.

The Rio Principles

- ☛ Water is a social good.
- ☛ Water is such an essential commodity that it should be subsidized

UN Committee on Economic, Social and Cultural Rights

- ☛ Water is a human right
- ☛ Water, and water facilities and services must be affordable for all.

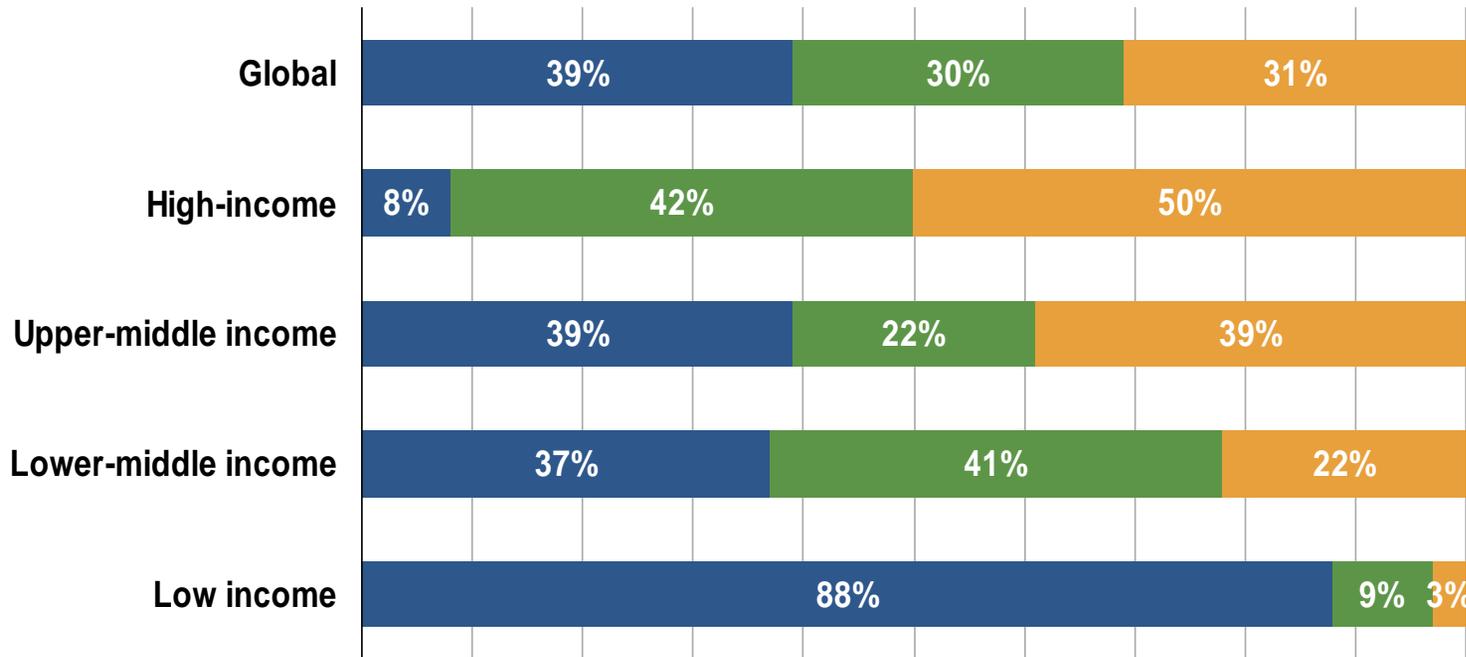
How to reconcile these contradictory statements?

How to ensure universal access to safe water?

How to protect water resources and the environment?



Full cost recovery is not achieved in many utilities



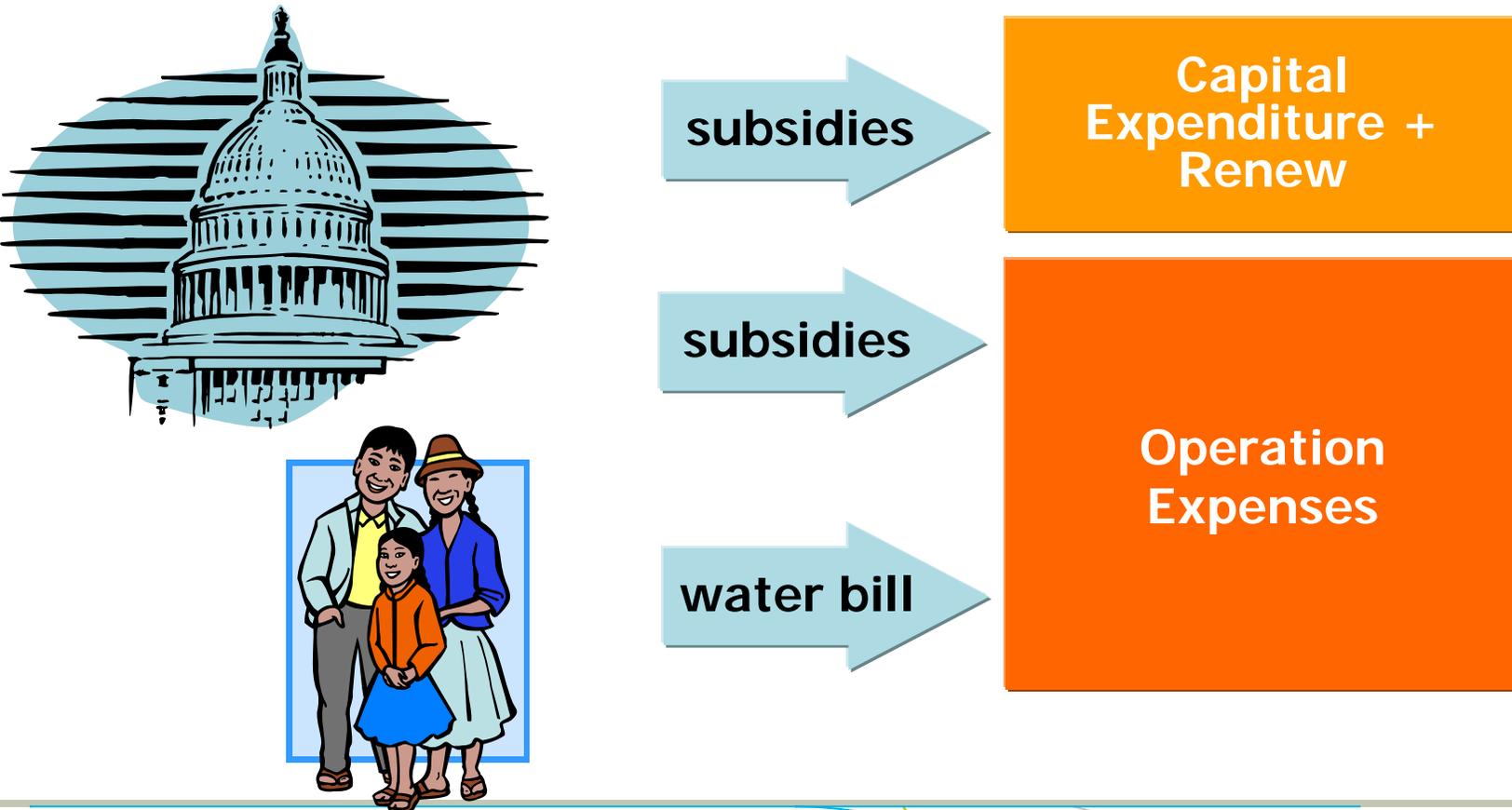
% of Utilities in which cost recovery from tariff



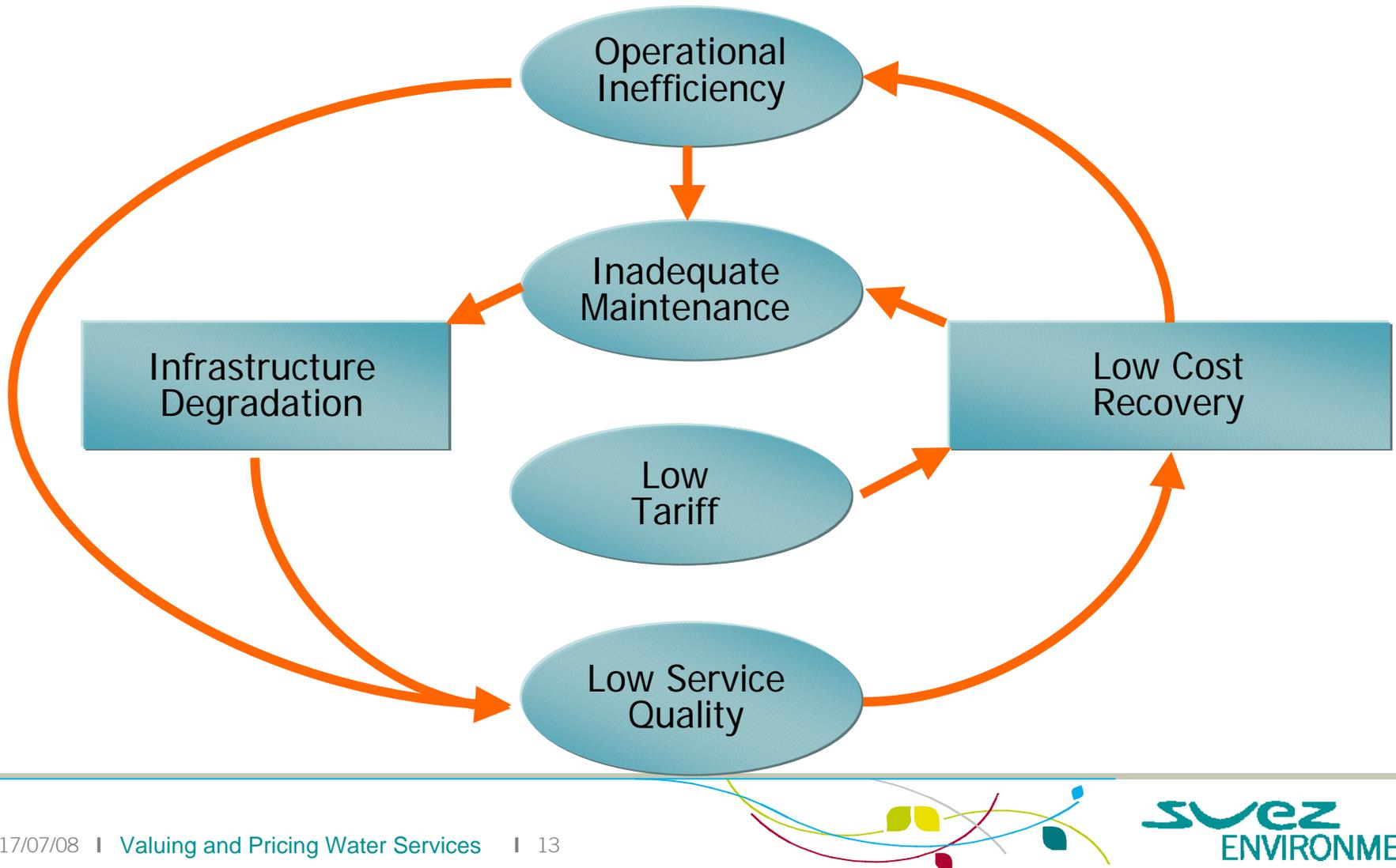
Source: Komives K., et al., "Water, Electricity, and the Poor: Who Benefits from Utility Subsidies?", The World Bank, 2005



Utilities Revenues: Common Situation



The Vicious Circle of Low Tariffs



2 Points of Views – Often Contradictory

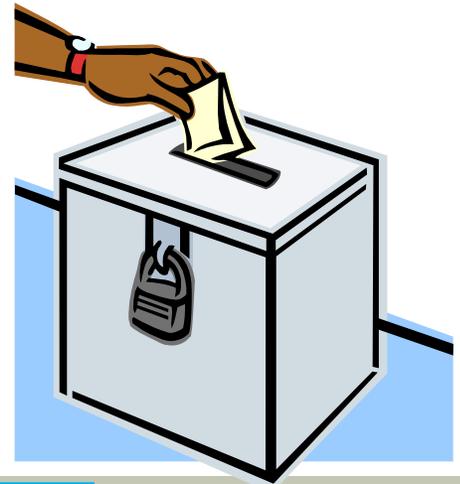
Service Provider Perspective

- Management autonomy
- Clear service standards
- Periodic targets
- Financial integrity
- Income (tariff + subsidy) in relation to service and investment obligations



Authorities Perspective

- Rising tariff is always unpopular
- Fear of public discontent
- Social concerns
- Reluctance to finance development from tariff
- Short-term vision
- Reelection



Water Tariff: Many Objectives – Are They Reconcilable

- Produce enough cash-flow to cover the service operator's cost and long term investment needs
- Foster water conservation and avoid wastage
- Ensure people economic affordability (public health concern and social acceptability)
- The bad and ineffective solution: Increasing Block Tariff
- Better solution: single tariff with a fixed charge
- In developing countries, focus subsidy on access to services
- Elasticity of demand: can more affect poor people, results often unpredictable



Unconnected People Pay High Price for Water

The poor are usually not connected but pay high price

- ☛ Buying water from street vendors is much more expensive than the official service
- ☛ Time spent fetching and carrying water cannot be spend in more productive activities
- ☛ Drinking contaminated water increases water-related diseases and health expenditures

The non-poor connected to the water network pay a price below the cost of the service



Should Consumers Pay More?

Price < Cost

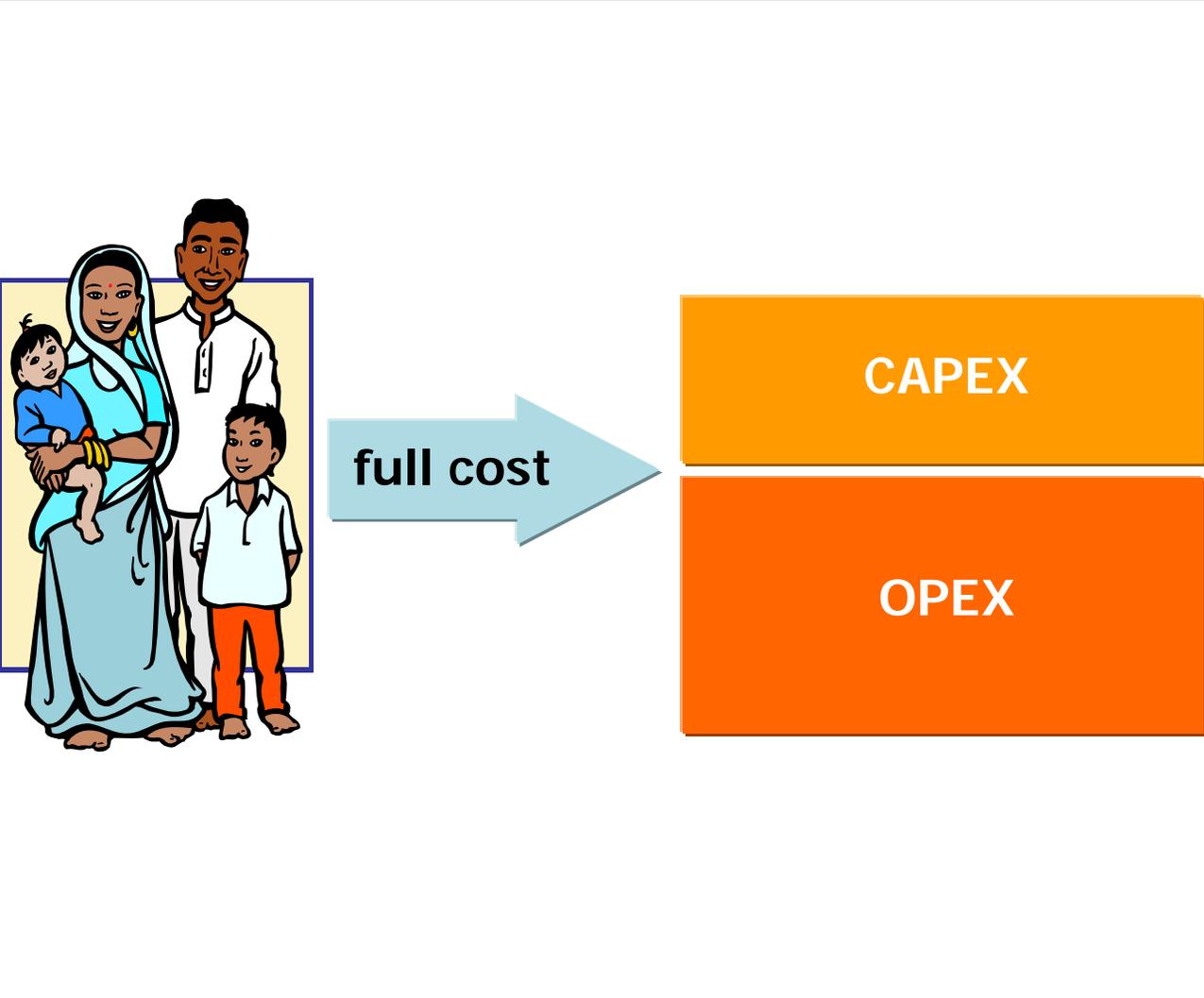
- Water utilities do not cover their cost
- Quality will suffer
- Poor maintenance
- No additional infrastructure development
- System will not survive for long
- Consumer not aware of value of water
- More leakage & misuse

Price = Cost

- Water utilities do cover their costs
- Sustainability ensured
- Future growth and expansion ensured
- Natural resources are protected
- Attracts investments
- Demand is contained
- Demand for quality of services rises
- Potential for serving the poor



Full Cost Pricing



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