

Cost recovery for water services , a suitable instrument for reaching good water status

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Cost recovery

- Cost recovery is about the amount of money that is being paid for water services. This should include the financial costs of the provision of water services, costs of associated negative environmental effects and forgone opportunities of alternative water uses.
- Taxes, charges, tariffs, etc. are water pricing instruments (or economic instruments) that are commonly applied to to ensure that the users and polluter pays.

Cost recovery and polluter pays principle

- 'Polluter pays' principle (PPP) was adopted by the OECD in 1972 as an economic principle for allocating the costs of pollution control
- Article 9 of the WFD links the PPP with the principle of cost recovery, both generally and with respect to the required 'adequate contribution' of the different water uses to cost recovery
- The WFD requires those who benefit from water services to cover the cost of providing these services; therefore, the PPP should be extended here so as to include the 'user pays'/'beneficiary pays' principle

Cost recovery and incentives

- Water pricing is not the only way to achieve cost recovery of water services. WFD requires them to provide adequate incentives for users to use water resources efficiently. Possible incentives are:
 - Water-use efficiency bonuses
 - Water tariffs for consumers split into a fixed rate and a variable or volumetric rate (not per hectare)
 - Price tags for water pollution can be created by means of tradable emission schemes
 - Possible trade-offs between incentives and cost recovery

Cost recovery and affordability of water services

- Unlimited 'free' water for all: Ireland was the only Member State where this system applies
- 'Free' water up to a certain level: this system is used in Belgium (Flanders region), where each inhabitant is entitled to 15 m³ of 'free' water per year.
- Increasing block tariffs (IBT): this system implies stepwise price increases with increasing consumption
- Reduced VAT rates: this is a common instrument in the EU. Presently, only 10 EU Member States apply the standard VAT rate to all drinking water supplies.
- Specific exemptions for low-income households from paying sewage and wastewater treatment charges

Cost recovery and incentiviveness of water prices

- Necessary balance between the potentially conflicting objectives of cost recovery, 'adequate' incentives and affordability
- Water pricing alone cannot realize the three objectives simultaneously. A combination of different instruments is needed to achieve the different requirements of the WFD's Article 9.
- Regulations and public expenditure/investments are needed
- Emphasis in water (services) policy be shifted from actions targeting the supply side to those targeting the demand side (aimed at reducing water demand directly)

Water pricing

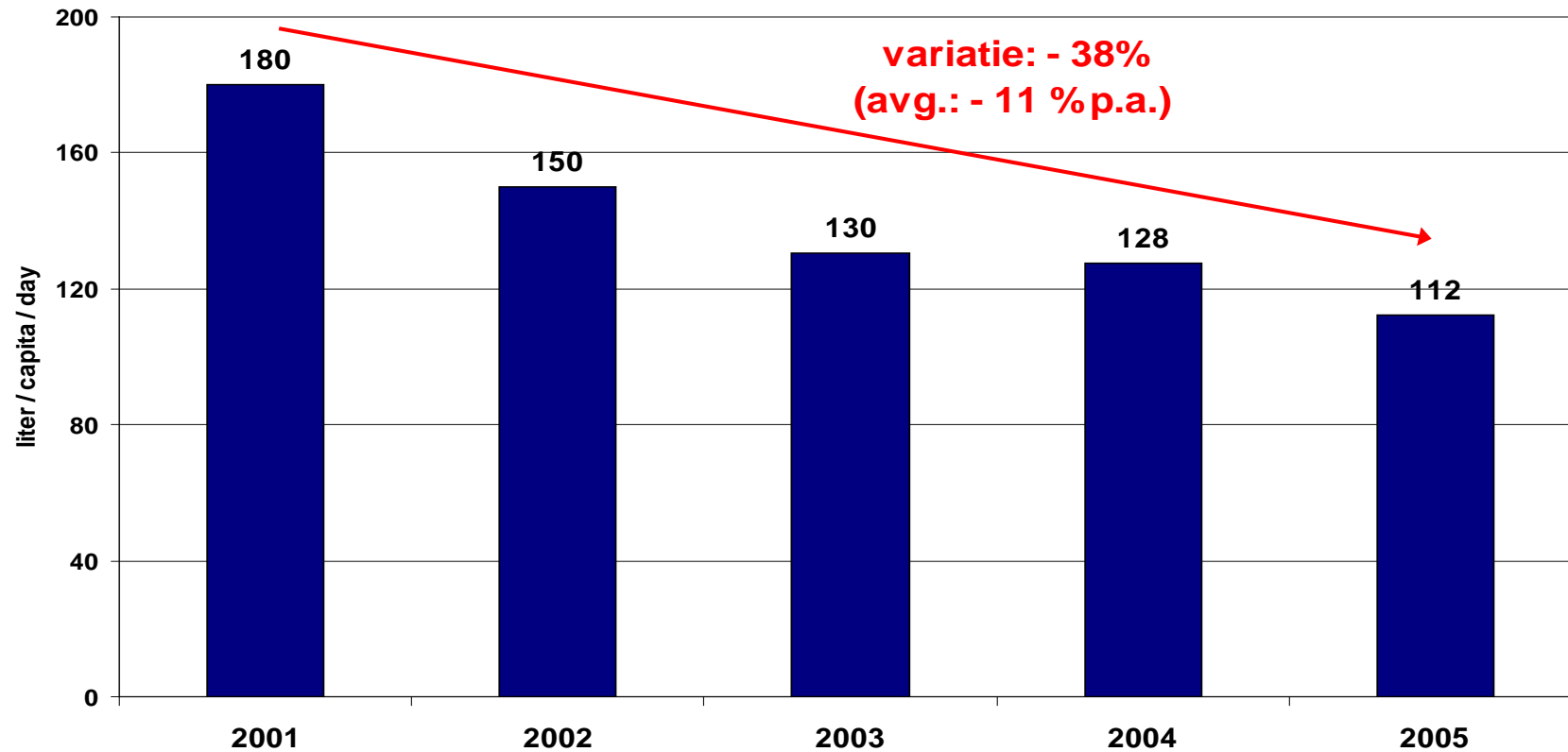
- Calculating a price that reflects the true value of water, in order to contribute to the long-term sustainable management of water resources, is clearly not a simple task
- Water prices must allow for the (adequate) cost recovery of water services, including environmental and resource costs according with WFD
- Main water uses (disaggregated for households, industry and agriculture) must adequately contribute to the recovery of costs of water services, proportionally to their contributions to the pressures imposed on aquatic ecosystems
- Water pricing policies must 'provide adequate incentives for users to use water resources efficiently

Evolution of Consumption Index Prices per services categories, between 2003 - 2013

Year	Total CIP per year	CIP drinking water	CIP sewerage
2003	112,70%	127,52%	129,00%
2004	108,10%	119,72%	120,54%
2005	107,80%	125,22%	130,58%
2006	103,80%	117,23%	122,25%
2007	106,35%	106,54%	111,06%
2008	105,40%	110,58%	115,41%
2009	103,46%	113,08%	124,12%
2010	104,49%	113,34%	123,93%
2011	103,14%	115,79%	131,22%
2012	104,95%	106,27%	110,75%
2013	101,55%	109,74%	120,74%

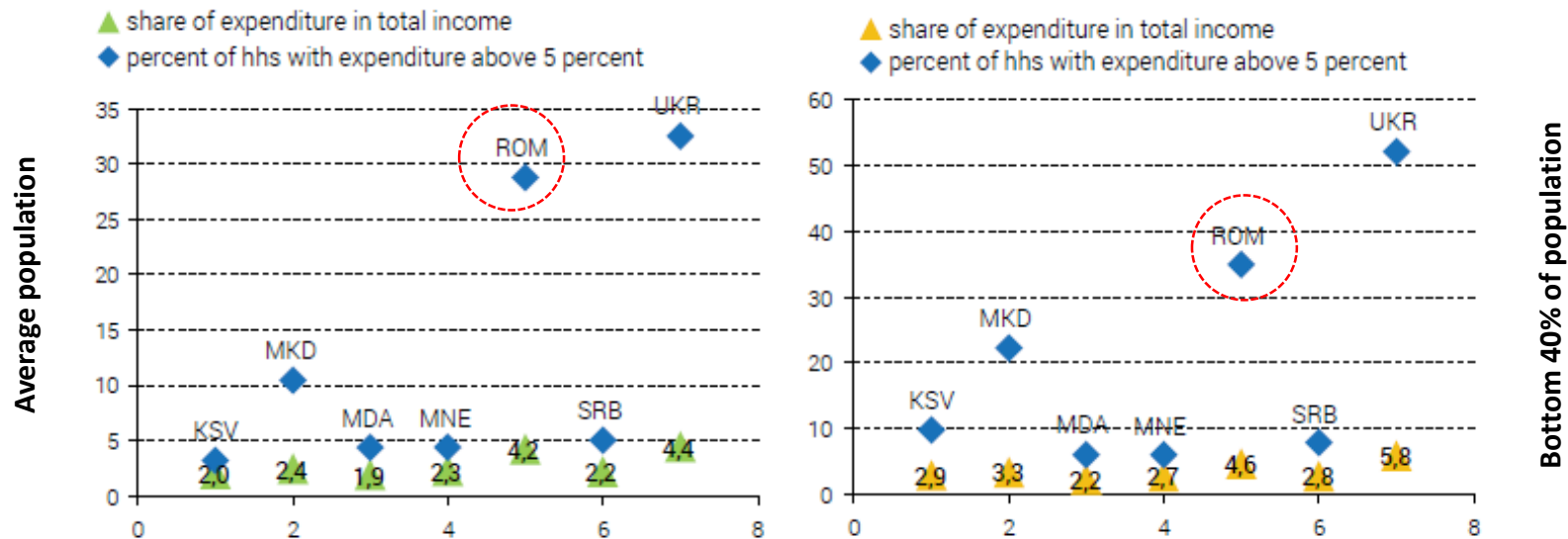
Source : National Statistics Institute

Evolution of the specific water consumption



Affordability

- ▶ Limited social space for tariff increase in Romania:
 - ▶ Close to 30% of HHS spending > 5% of monthly income for WSS expenditure
 - ▶ For bottom 40%, 35% of HHS spending > 5% of monthly income for WSS

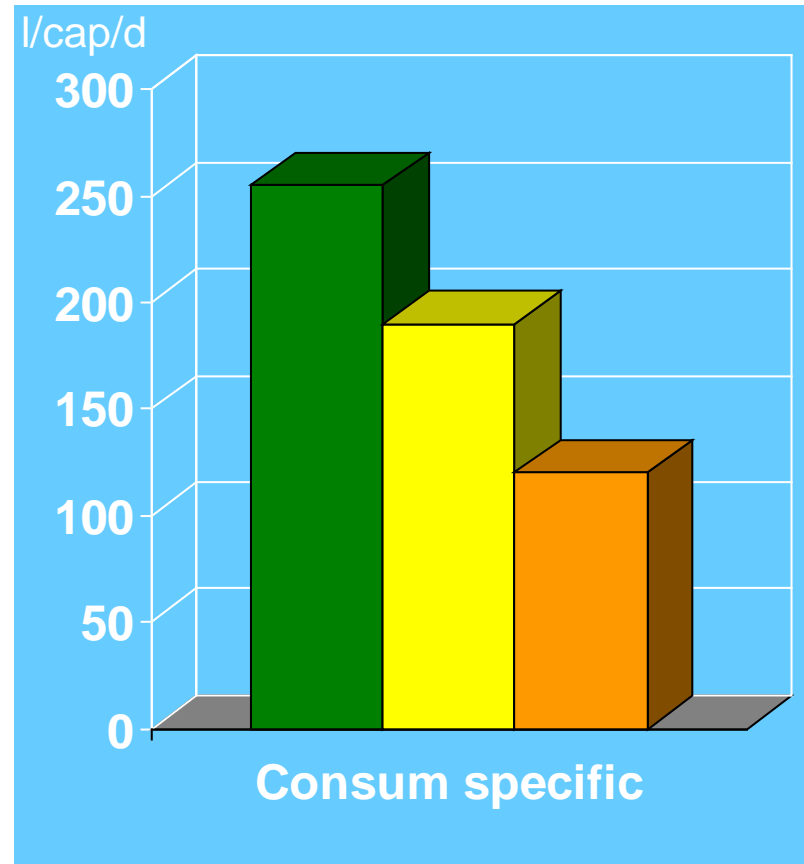


SOURCE: AUTHORS' ELABORATION FROM VARIOUS HOUSEHOLD SURVEYS.
NOTE: SHARES FOR FYR MACEDONIA AND MONTENEGRO INCLUDE REPORTED WATER SUPPLY EXPENDITURE ONLY.
HHS = HOUSEHOLDS.

Specific water consumption

- International comparison

- **High consumption**
Australia, Canada,
Japan, USA
- **Average consumption**
Denmark, France,
Korea, Poland, Netherlands, UK
- **Low consumption**
Czechia, Belgium, Hungary,
Germany, Portugal,
Romania



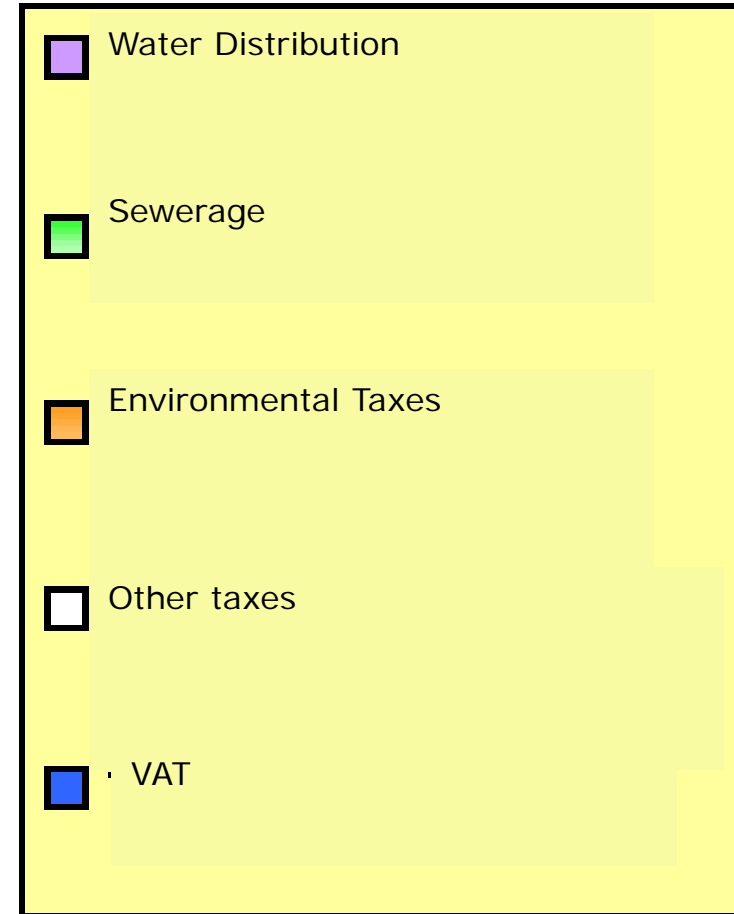
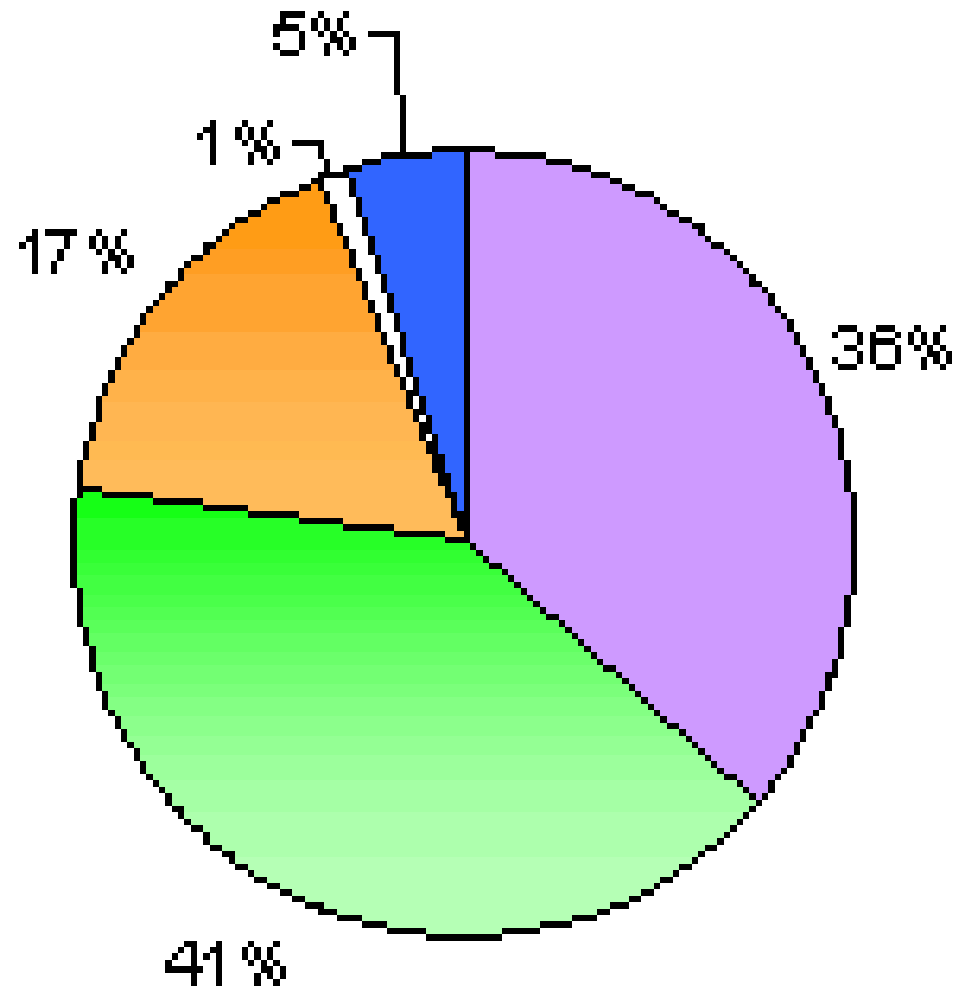
Comparison of water bill vis à vis available income



Mean Water bill (all services) /
Mean available income per household

	Mean available income per household (A)	Mean Water invoice per household (120m ³ /year) (B)	B/A
Aisne	23 499	455	1,94%
Nord	24 314	366	1,51%
Pas de Calais	23 194	428	1,85%
Somme	23 796	382	1,61%

Breakdown of the average price of 3,28 Euro/m³ in Artois Picardie



Country	Consumption (liter/day/person)	Mean water price m3 Water + sewerage+taxes (euros/m3)
Spain	130	1,0
Ireland	135	0
Luxembourg	150	0,90
UK	150	1,6
Italy	160	0,8
Sweden	180	1,15
Portugal	190	1,0
Greece	200	1,1
France	113	2,6
Finland	116	2,5
Germany	118	3,6
Belgium	120	1,9
Netherlands	126	2,7
Danmark	138	4,3
Austria	150	2,6



Thank you for your attention!