

Session 5.2.2 – Affordable and sustainable water and sanitation services: The role of tariffs and other instruments

Topic	Topic 5.2 Pricing Strategies as a Tool for a Sustainable Water Sector
Date of the session	Thursday March 19
Time of the session	11.00-13.00
Main convening organizations	OECD, Suez Environnement, IWA
Contact person(s)	Monica Scatasta, Alain Mathys monica.scatasta@oecd.org, Alain.MATHYS@suez-env.com
Short description of what the session intends to discuss and the key questions that have been identified.	
<p>The session builds on the previous session 5.2.1 and brings the debate from general definitions and a discussion on dialogues and processes to the practical solutions that can be implemented to address different policy objectives (financial, social, economic, environmental).</p> <p>In particular this session asks how we can practically measure affordability and how tariffs for water services -and particularly tariff structures- can be designed to provide a meaningful contribution to financial sustainability while ensuring access to affordable services for all, including the poor and vulnerable groups.</p> <p>By presenting experiences in developed and developing countries and the lessons learned from them, the session should help highlight which policy instruments can help balance the financial sustainability and social objectives of tariff strategies.</p> <p>The key questions it addresses are:</p> <ol style="list-style-type: none"> 1. How can we measure affordability? Should affordability be measured locally? 2. How do different tariff structures and non-tariff measures perform in achieving different objectives? How can their capacity to target lower income groups be improved? 3. What have been the major difficulties in implementing pricing reforms? 	
Wider context of issues : Why is the question important to improving water challenges in the world today ?And how does it relate to issues outside the water sectors?	
<p>Tariffs for water and sanitation services are a key building block of sustainable cost recovery. However, various obstacles limit their use, including concerns about the impact on poorer households. Even in many OECD countries, where most households do not face affordability constraints, it is unusual for tariffs to cover the full costs of services.</p> <p>But keeping tariffs artificially low for all users may result in a vicious circle of underfunding, insufficient investment, collapsing infrastructure and deteriorating services, which tends to hurt lower-income users the most.</p> <p>Designing appropriate tariff structures or non-tariff income support mechanisms may be more effective. Smets (2008) showed that over 40 countries have put in place measures to mitigate the impacts of tariff increases on the poor, while trying to improve cost recovery e.g. through cross-subsidization from other users. The effectiveness of tariff measures to target the poor can be questioned. The capacity to reach the poor of some popular measures, such as increasing block tariffs with a “subsistence” block provided at low rates, has recently been questioned, particularly</p>	

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<p>where the poor are not connected, or when poorer families are large. They may also hurt financial sustainability if cross-subsidization is not appropriately introduced. In some OECD countries, attempts have been made to adjust their design to improve their targeting performance and reduce unintended negative impacts. The effectiveness of these and other structures will be discussed</p>	
<p>Discuss the development of session questions and its role on the relevant topic</p>	
<p>i. Identify common issues and priority problems</p>	<p>The first question is how one should measure affordability and at what geographical level. The session asks whether affordability limits need to be assessed at national/local/community level rather than relying on international affordability thresholds, e.g. 3-5% of household income.</p> <p>One solution to affordability constraints, rather than keeping a low average tariff level for all, may be a well-targeted, carefully designed tariff structure. But if cross-subsidization via the tariff is chosen, how do different tariff structures respond to affordability considerations? How do they compare in targeting support to the intended population? We need evidence!</p> <p>The session will also discuss whether subsidizing connection charges (i.e. access) is a better strategy than subsidizing consumption. Some countries use non-tariff mechanisms to provide relief for the poor, such as coupons or targeted income support. Their use, however, requires good data about income distribution and may entail significant administrative costs.</p> <p>Finally, panelists will present their experience with the actual implementation of tariff reforms. This will provide a link with the discussion on tariff setting processes and the public debate concerning tariff that was addressed in session 5.2.1.</p>
<p>ii. Discuss the future evolution of the topic , in the short- , medium-, to long-term based on changing political climates and other foreseen socio-economic /ecological factors</p>	<p>The financial and economic crisis may lead to a further polarization on the debate on tariffs.</p>
<p>Differing Perspectives : (Regional, Stakeholder, Others...)</p>	
<p>While the general dilemmas are valid quite generally in every country, the relative importance of different objectives and the specific trade-offs between them will differ not only from country to country, but locally within countries, depending on socio-economic conditions, water scarcity, the status of existing infrastructure and the coverage level of water and sanitation services.</p>	
<p>List of Speakers and Timing</p>	
<p>Introduction by chair: 5 minutes Opening remarks by keynotes speaker: 10 minutes</p>	

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<p>Presentations and discussion by panelists: 50 minutes Debate: 45 minutes Wrap-up by Chair: 10 minutes</p>
<p>Panellist</p> <p>Chair: James Horne, Deputy Secretary, Dept. of the Environment, Water, Heritage and the Arts (Australia)</p> <p>Opening remarks: Monica Scatasta, OECD Water Program Coordinator, OECD (France)</p> <p>Panelists (in alphabetical order):</p> <ol style="list-style-type: none"> 1. Alain Mathys, Director, Water for All Program, Suez-Environnement (France) 2. Mouhamed Fadel Ndaw, Coordinator, Millennium Water and Sanitation Program (PEPAM) (Sénégal) 3. Guillermo Pickering, Chairman, ANDESS , the National Association of Water and Sanitation Services Companies, (Chile) 4. Charles Shindaile, Technical Director, Southern Water Supply Company - joint presentation with NWASCO, the Zambian regulator, (Zambia) 5. Kamal Zoubi, Director, Amman Water Company (Jordan) <p>Wrap-up and closing remarks by the Chair</p>
<p>Previous experiences to draw on expected challenges and past lessons*</p> <p>Local experiences in OECD and developing countries with the design and implementation of tariff reforms</p> <p>OECD's review of OECD and non-OECD countries' experiences with pricing water services for different purposes, social tariffs and different cost recovery mechanisms</p> <p>Relevant references: Komives, K., et al. (2005), <i>Water, Electricity, and the Poor — Who Benefits from Utility Subsidies?</i>, World Bank, Washington, DC. Smets, H. (2008). <i>De l'eau potable à un prix abordable: la pratique des États</i>, Académie de l'Eau, Paris OECD, (2009). <i>Pricing water resources and water and sanitation services</i>. OECD, Paris, forthcoming.</p>