



Sustainable financing of the costs of small-scale water services provision

Stef Smits, IRC

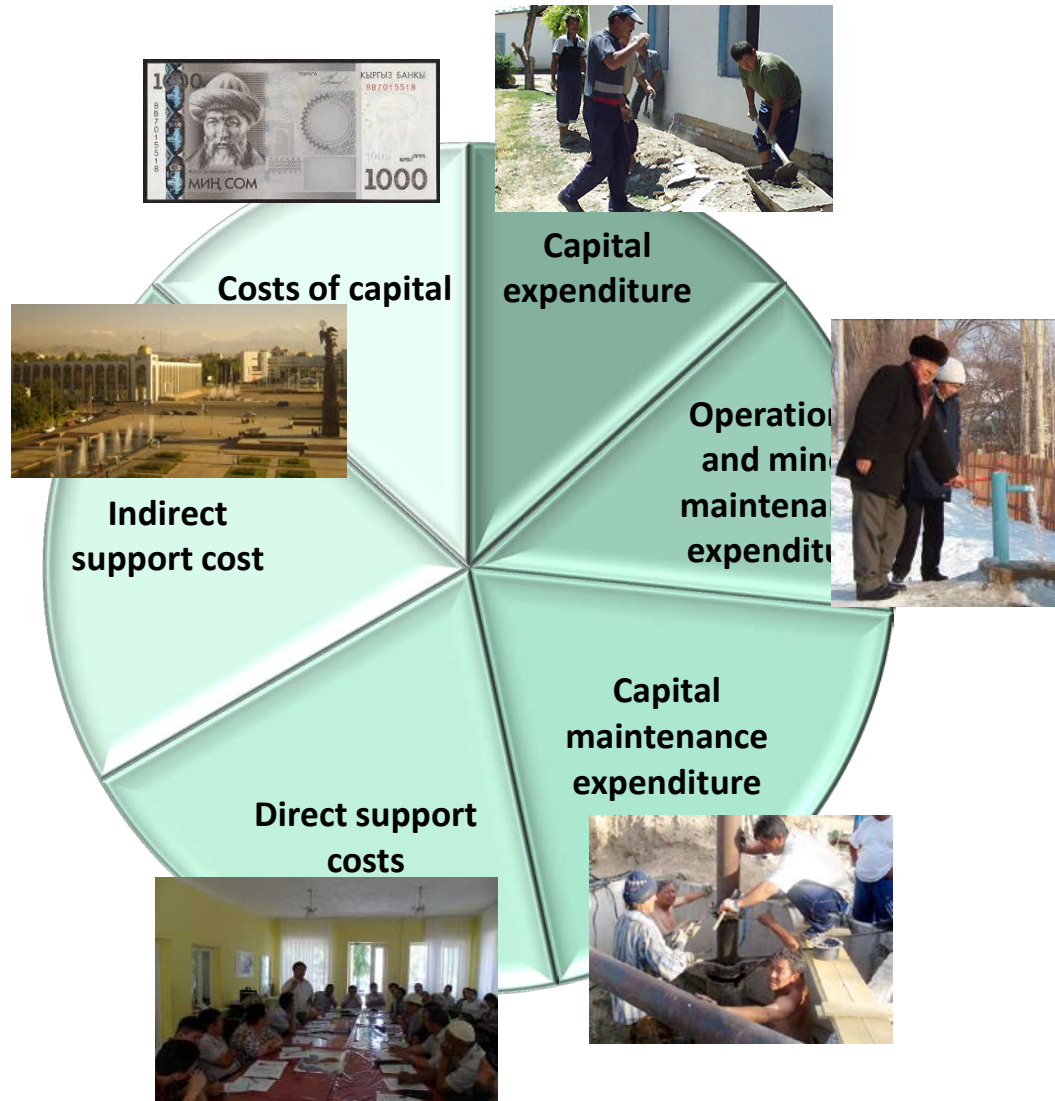
15 Nov 2016

Supporting water sanitation
and hygiene services for life

The financial challenges of small-scale water supplies

- Serving 14 million people in Europe who currently don't have access to water supply:
 - Three quarters of whom live in rural areas
 - Most likely to be served through small-scale systems
 - At high per capita costs
- sustaining and improving existing small-scale systems:
 - Limited economies of scale in operation and maintenance
 - Limited possibility for cross-subsidies in tariffs
 - At high per capita costs in terms of monitoring and supervision
- Need for strategies to finance development and sustainability of small water systems

Costs to be covered to ensure sustainable services



Sources of financing for covering these costs

- Tariffs: financial or in-kind contributions from water users to both investment and recurrent costs, directly related to the service
- Taxes: income generated by the national or local government, allocated to the water sector
- Transfers: from international donors and charitable foundations

Financing capital costs

- Collective water supply systems: typically through taxes – and transfers – with small user contributions
- Household water supply systems: tariffs, with some public support
- Need for investment strategies, that:
 - Identify the magnitude of all capital expenditures needed to reach universal coverage
 - Identify the likely sources of funding for this
 - Duly recognize the possibility and scale of self-supply, with public support
 - Consider payment of costs of capital

Financing operation and minor maintenance costs

- Ideally 100% user-financed through tariffs
- Need for finance strategies and regulation, that balances sustainability and affordability:
 - Guidelines for tariff calculation
 - Differentiation between minor and major maintenance
 - Process for review and approval of tariffs
 - Mechanisms for decentralised or delegated regulation
 - Mechanisms for cross-subsidy:
 - Within small-scale supply systems (limited)
 - Between water systems (e.g. urban and rural)
 - Via taxes – no longer cross-subsidy

Financing capital maintenance costs

- In theory via tariffs, in practice from taxes or not happening at all
- Strategy to finance capital maintenance:
 - Based on assessment of extent to which these costs can affordably come from tariff
 - Identifying the part that needs to come from taxes at sector level
 - Establishing mechanisms – at decentralised level – to manage capital maintenance works (e.g. maintenance funds, ring-fenced WASH budgets for local government)

Financing direct support costs

- Where existing usually from taxes, with minor tariff contributions, but often under-funded
- Strategies for direct support
 - Defining institutional models for delivery of direct support
 - Establishing reference costs for such support (1-2 US\$/person/year)
 - Ring-fencing this as part of (local) government budgets

4. Matching costs to finances

- Detailed analysis of actual and ideal life-cycle costs and financing gaps
- Tools:
 - System level: AtWhatCost tool;
 - Local government level: Local government budget tracking;
 - Sector level: TrackFin

Conclusion

- Strategies to finance small-scale systems need to:
 - Assess current flows of funding to each cost category (TrackFin)
 - Define which of the sources of funding are needed to fully cover each type of costs
 - Consider the balance between sustainability and affordability in defining tariffs and user contributions
 - Define the public finance commitment to fill any gaps

IRC

Visiting address
Bezuidenhoutseweg 2
2594 AV The Hague
The Netherlands

Postal address
P.O. BOX 82327
2508 EH The Hague
The Netherlands

T +31 70 3044000
F +31 70 3044044
info@ircwash.org
www.ircwash.org

Supporting water sanitation
and hygiene services for life