

# Presentation

Presentation from the 2009 World Water Week in Stockholm  
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**WORLD**  
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August 16–22, 2009 **WATER**  
**WEEK**

# **Subsidies from public budgets: a need and a risk for water services**

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# Subsidies: need and risk

Funding the cost of water services

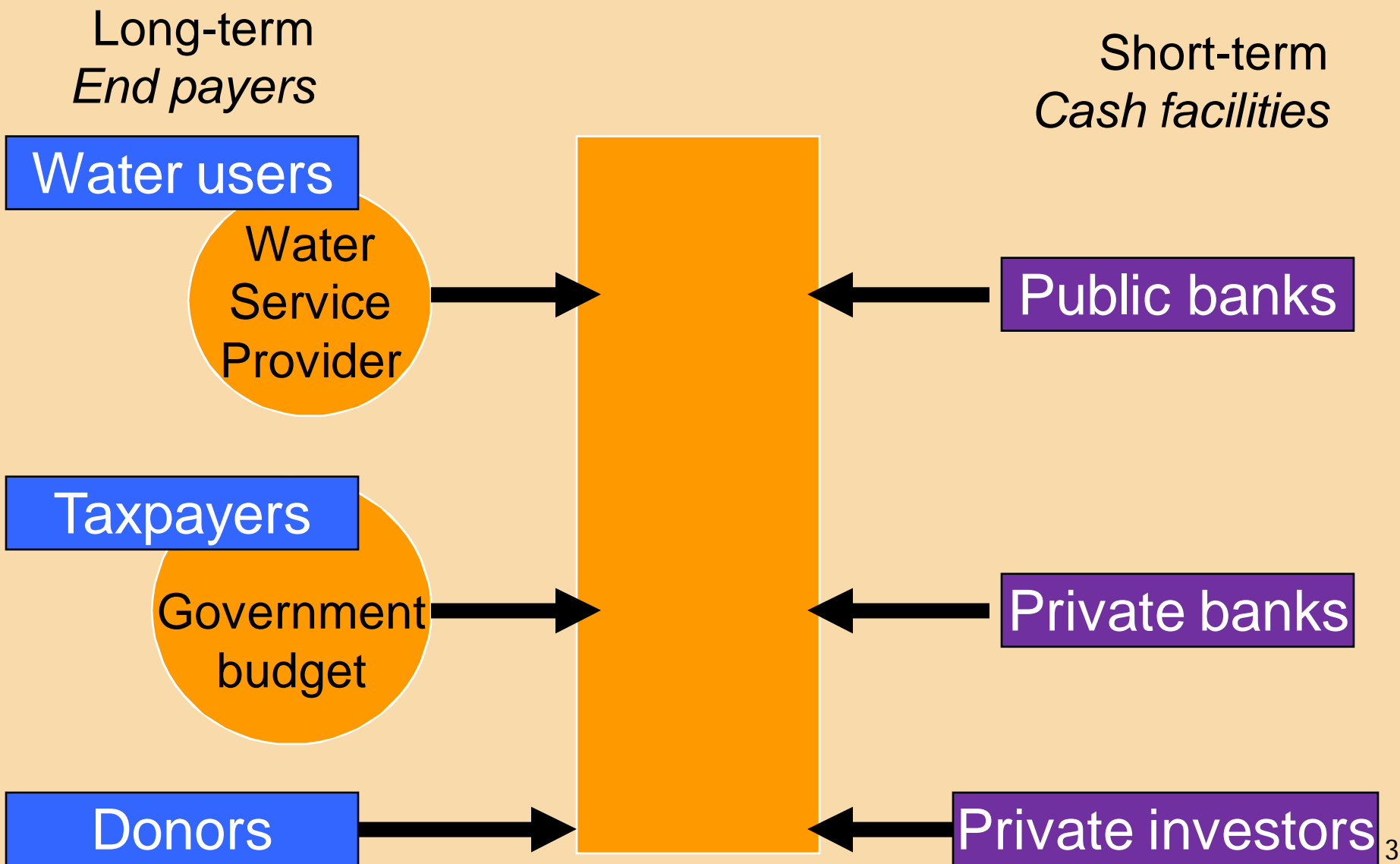
- Subsidies

Sustainable Cost-Recovery

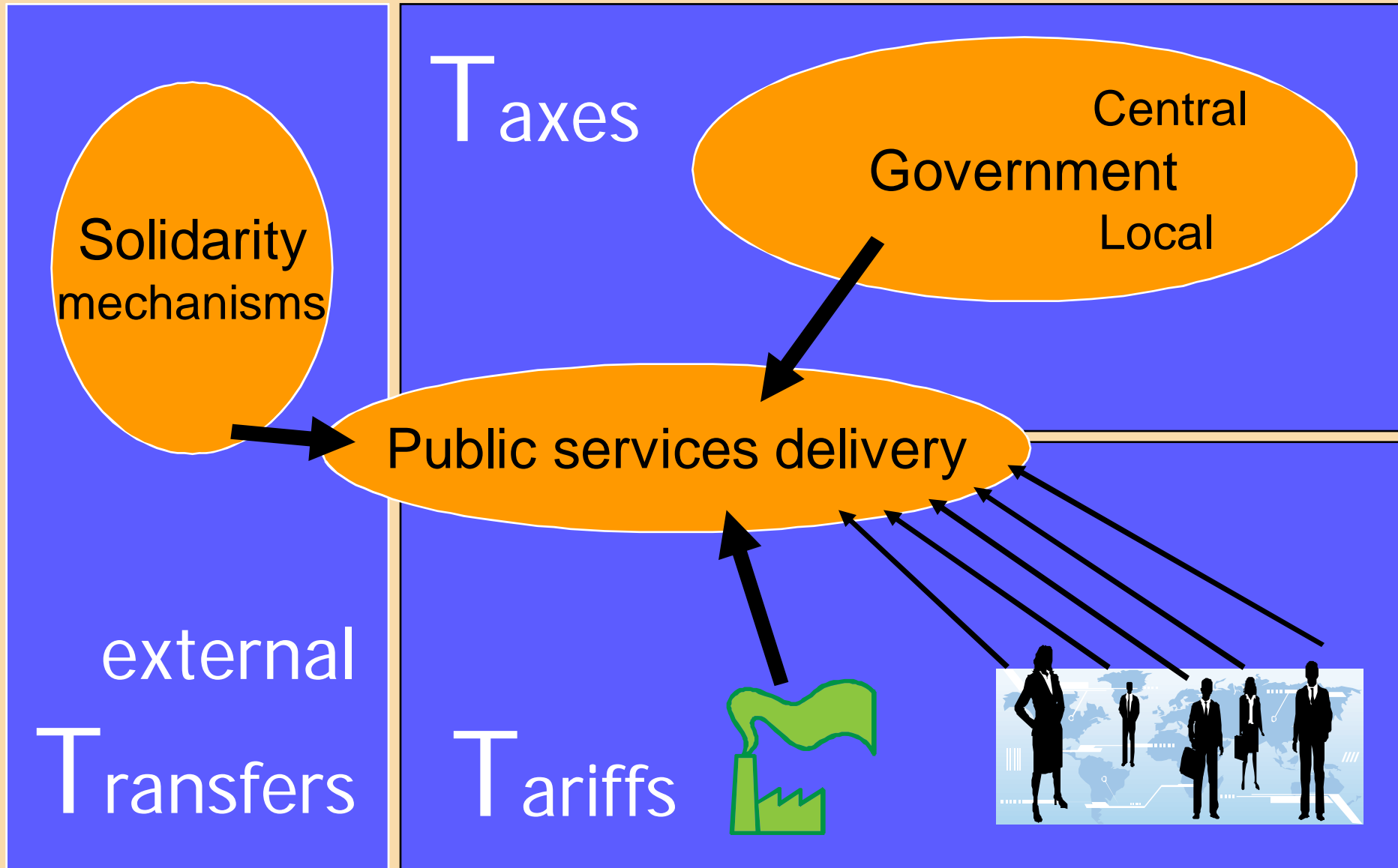
Pitfalls and other challenges

Conclusion

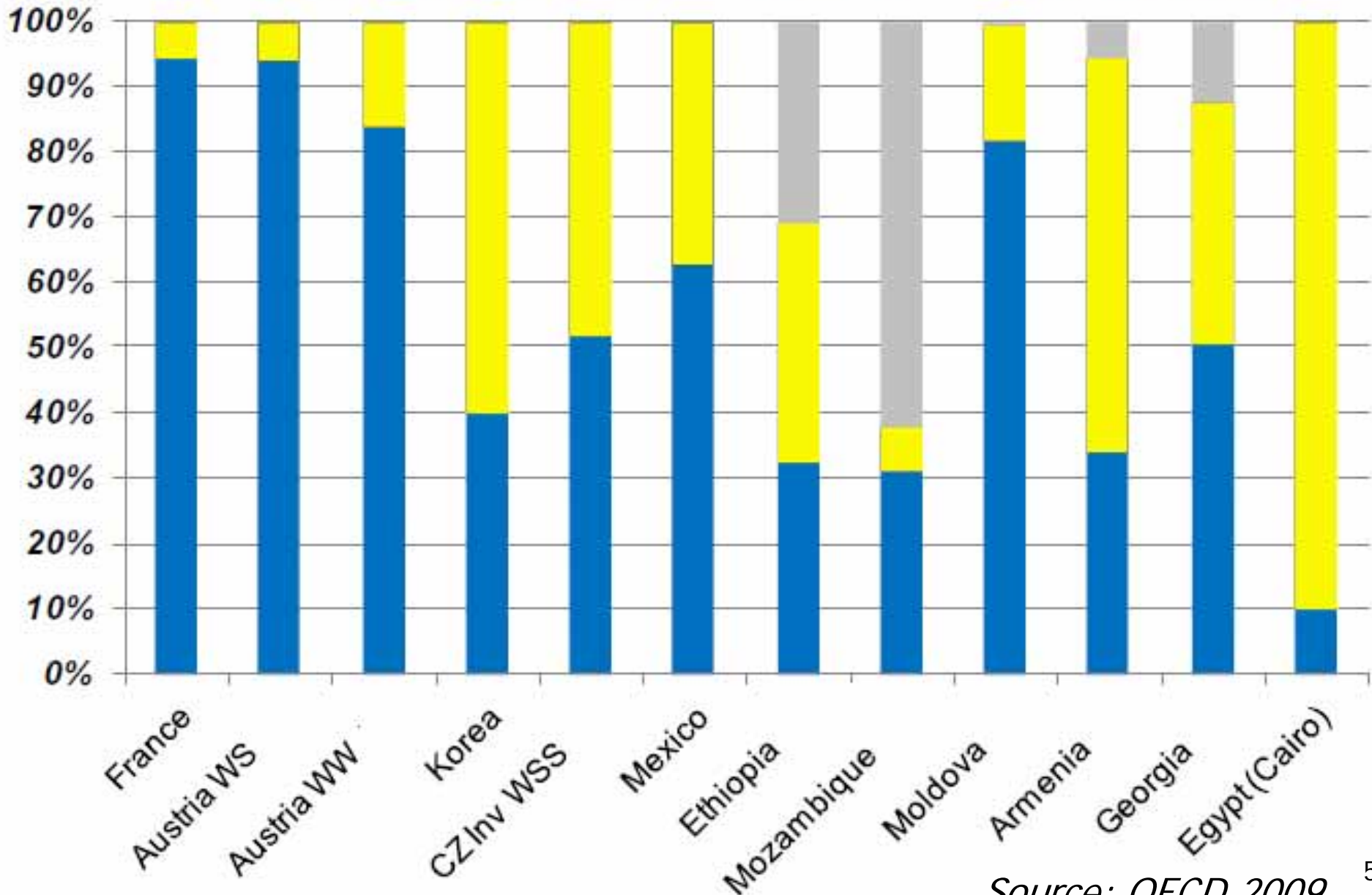
# Two categories of water financing flows



# Ultimate financial resources (see OECD)



■ **Tariffs %**
■ **Taxes %**
■ **Transfers**



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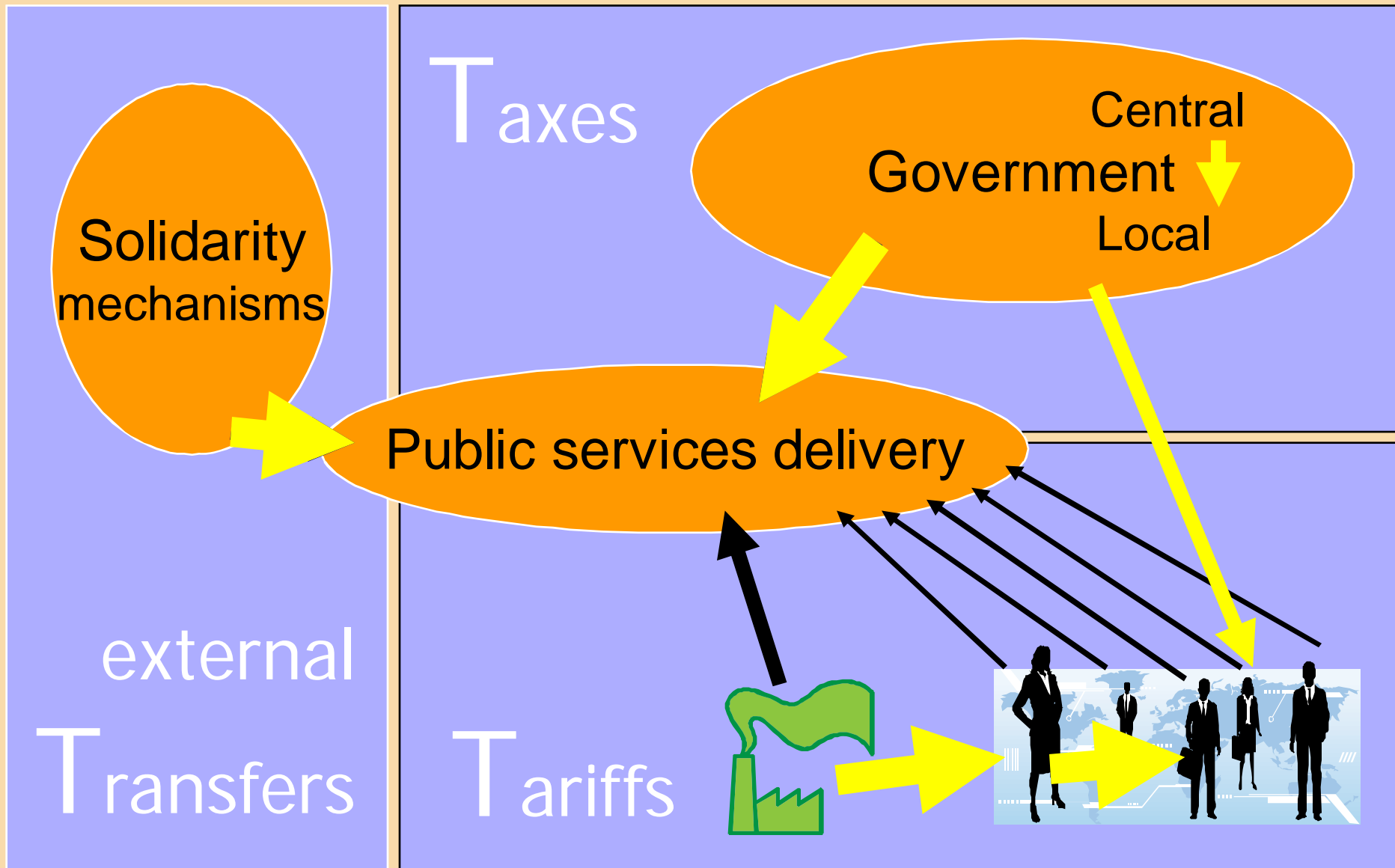
# Subsidies in the water sector

**Subsidy:** an amount of money that is given directly or indirectly to somebody else

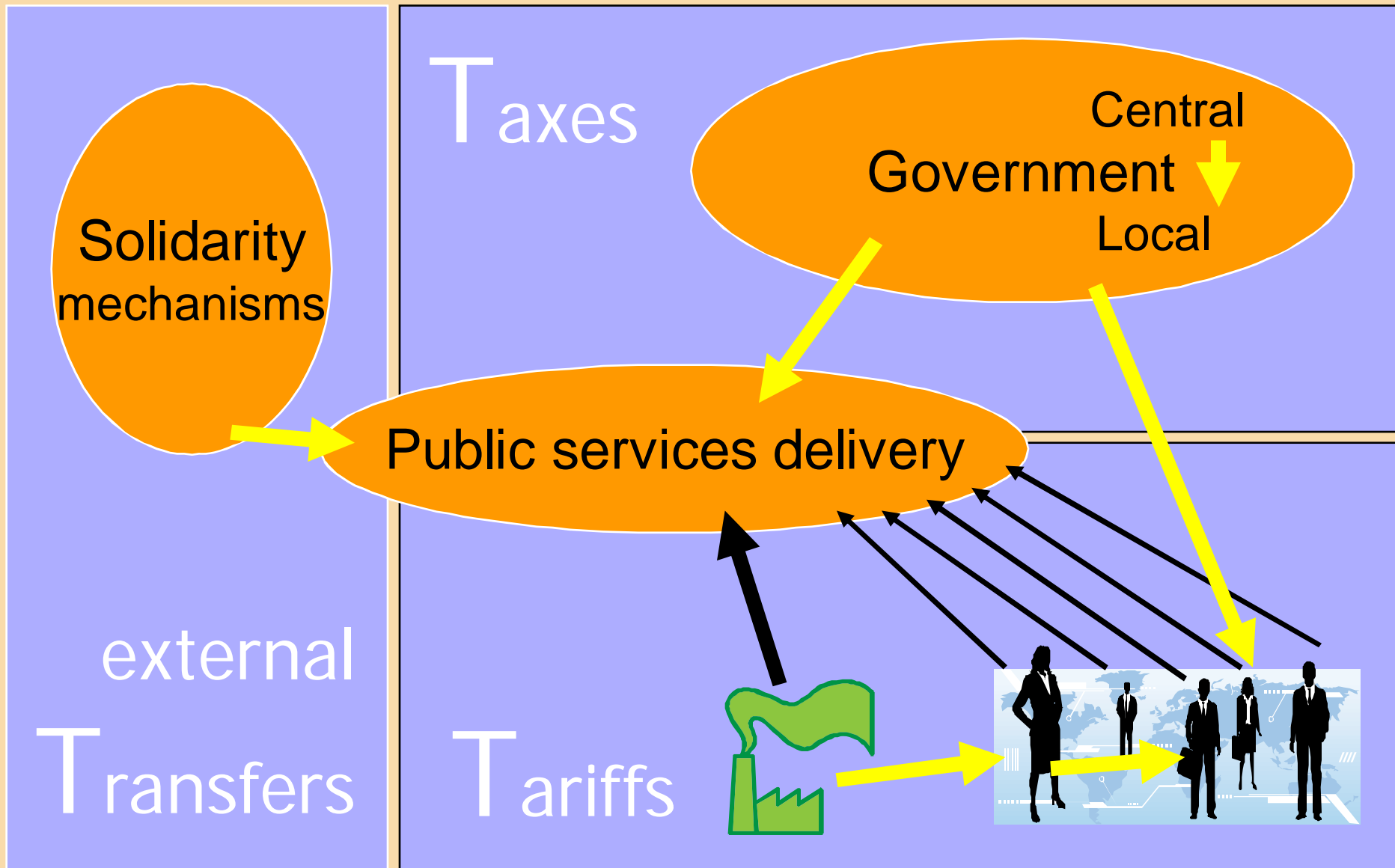
**Subsidiser:** government, private body, individual, donor, etc

**Recipient:** water utility, water sector, local government, individual water-user, etc

# Various types of subsidies



# Public budgets subsidies



# Examples of public budgets subsidies

- Direct transfer to water utility budget
- Indirect transfer to water utility budget
- Development of infra by government(s)
- Softening borrowing costs
- Tax exemption
- Subsidies to targeted individuals
- etc

**Exist in most countries**

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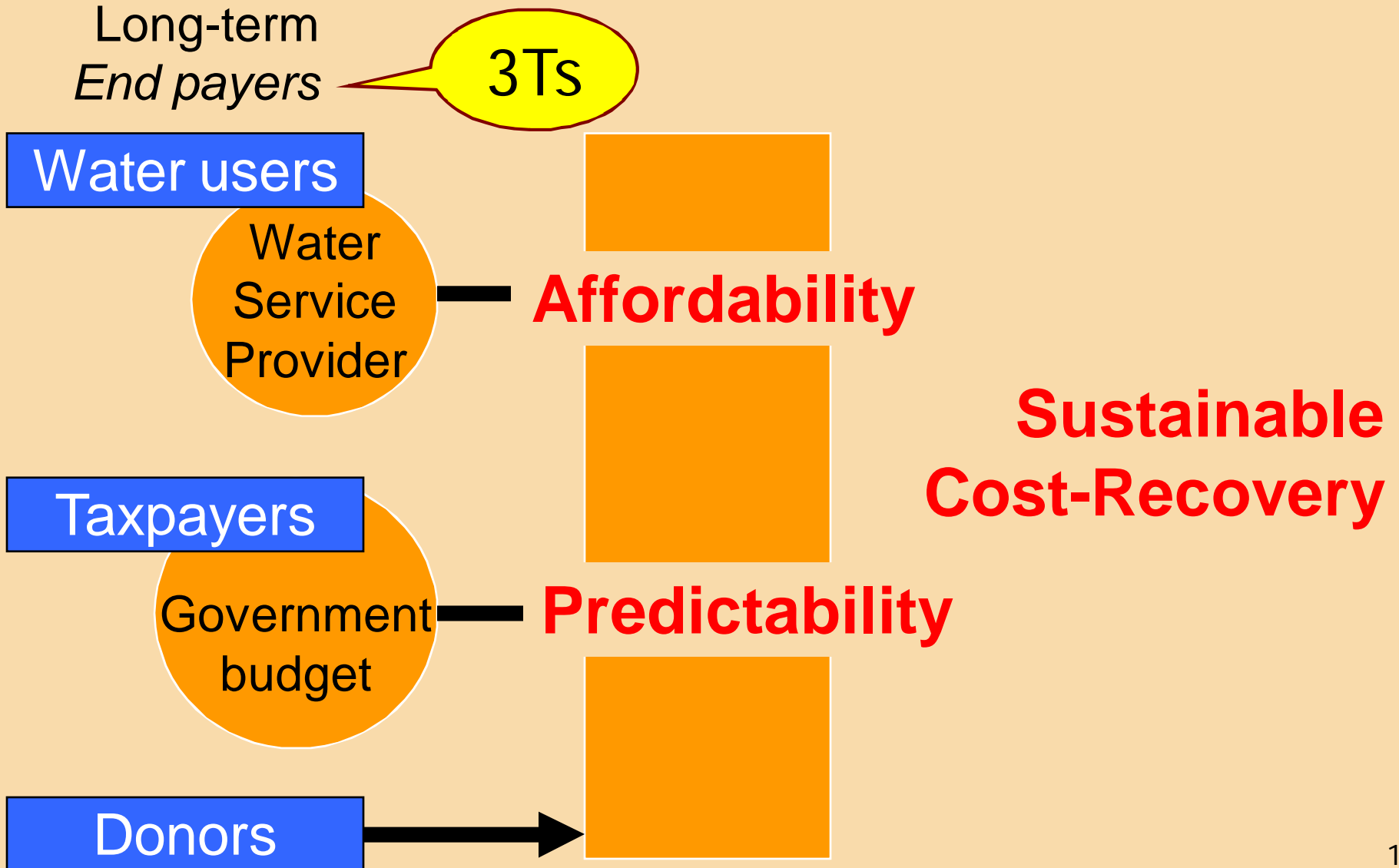
Subsidies

- Sustainable Cost-Recovery

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# Financial sustainability



# Sustainable Cost-Recovery

Defined by the Camdessus report  
in 2003

- ◆ 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 Cost-Recovery

## Human Development Report 2006

*"Regulation and Sustainable Cost-Recovery are vital to equity and efficiency"*

## International Water Association 2006

A 4-page "Reference paper" describes Sustainable Cost-Recovery

## OECD Report on Financing and Pricing Water

**2009** *"Sustainable Cost Recovery provides the essential foundation for achieving water- and sanitation-related investment targets".*

# Enhancing financing of the water / sanitation sector

Funding the cost of water services

Subsidies

Sustainable Cost-Recovery

- Pitfalls and other challenges

Conclusion

# The attractiveness of subsidies

**For the recipient** a subsidy is a gift.

As the cheapest source of finance it is very attractive for water utilities

- > A utility prefers a subsidy to any other way of funding
- > A potential recipient will be able to wait for several years hoping that a subsidy may become available

**The hope for potential subsidies may delay necessary investments**

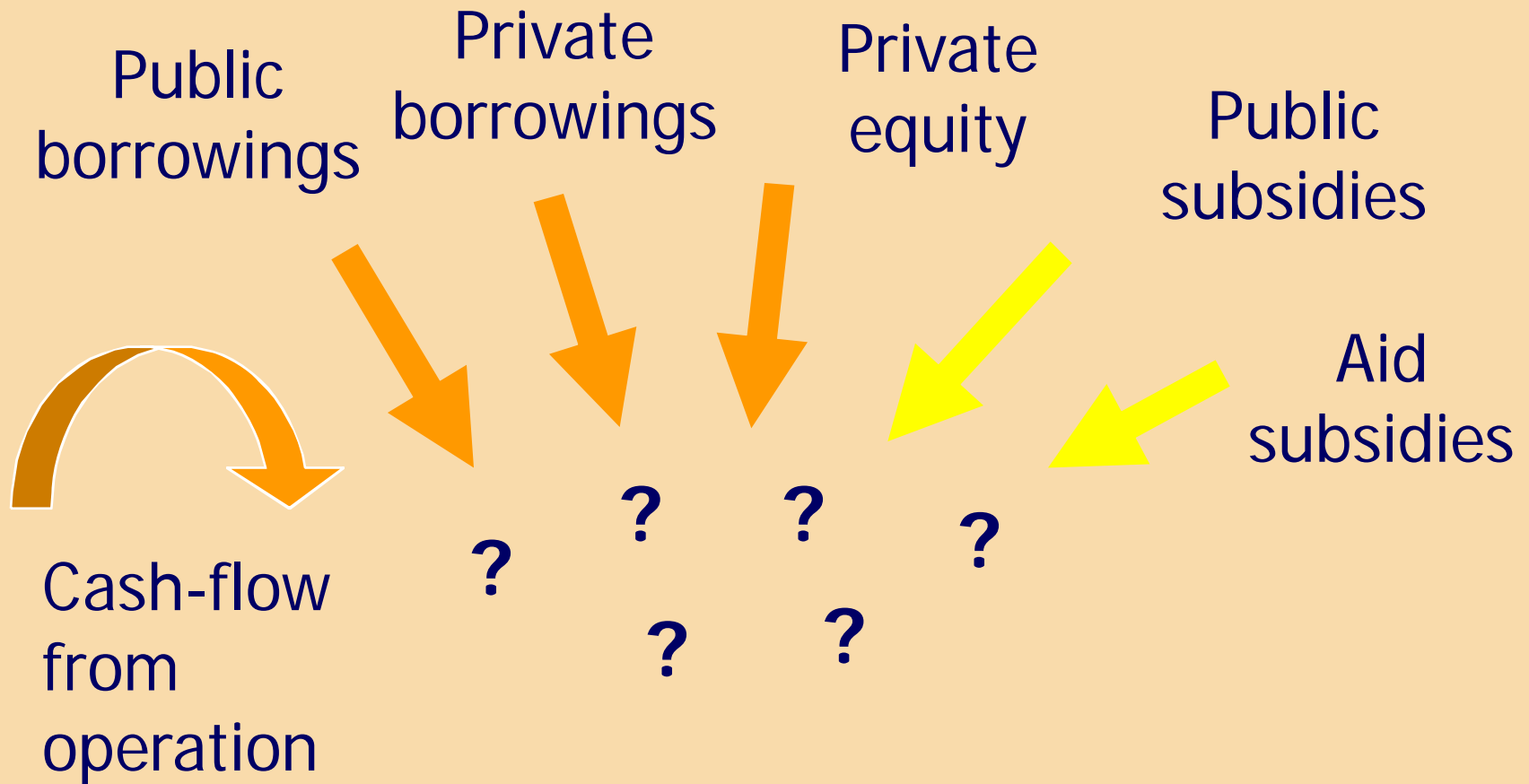
# "Easy" money

**For the managers and sponsors of a water utility or for Finance ministers,**

if they think that significant subsidies are potentially available and that getting them needs patience and political influence only, why should they make the effort to mobilise more costly or less politically acceptable financial resources?

**The hope for potential subsidies may dry up the other financial flows to the sector**

# Increasing financing flows ?



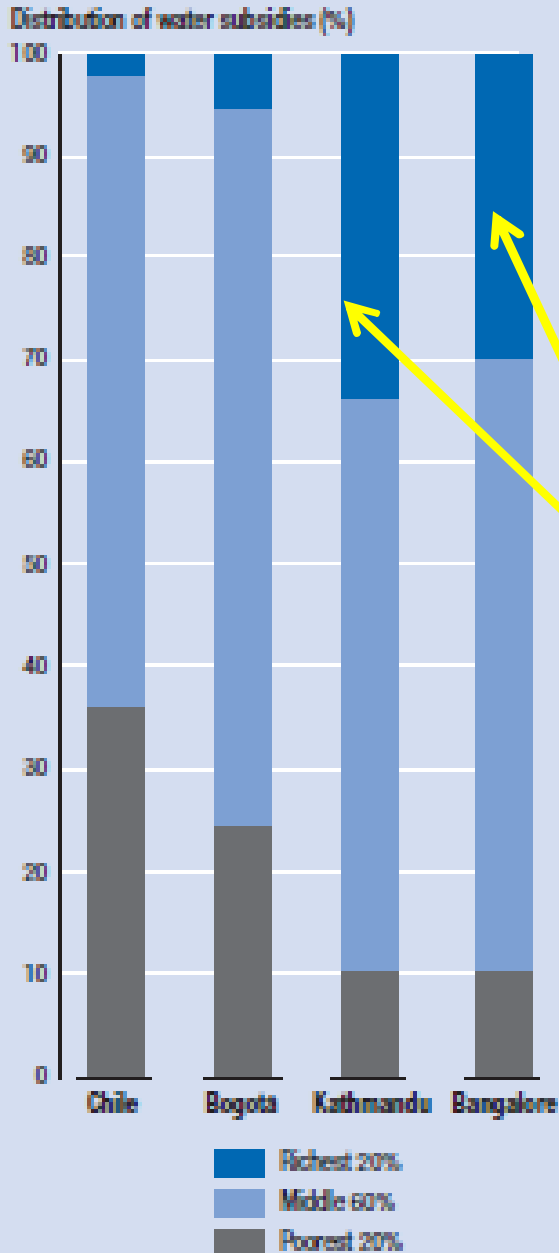
# The huge responsibility of a subsidiser

When allocating subsidies, governments and donors must take utmost care that these subsidies do not destabilise the economics of the water/sanitation sector and result in less national progress than potentially they could have contributed to.

**> Major grant programmes are the effective economic regulators of the sector**

**> Governments and donors have the responsibility to think beyond the individual project they subsidise and consider the impact of their subsidy on the whole sector**

# Designing cross-subsidies



Non targeted cross-subsidies such as Increasing Blocks Tariffs may benefit the rich more than the poor

*Source:*

*Human Development Report 2006*

# Cross-subsidies must remain “reasonable”

**The challenge of not excessively burdening the users that fund the cross-subsidisation (rich individuals, industrial users, etc):**

The higher the price charged to those users, the higher is the incentive for them to mobilise alternative sources. If they resolve to dig private wells the funding of the cross-subsidy disappears.

*Experienced in Jakarta, Brazil, Colombia, etc*

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Pitfalls and other challenges

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# Subsidies in national water policies

Central government has the duty to build appropriate frameworks that enable local water utilities to finance local water/sanitation needs  
*(Camdessus report, Hashimoto Action Plan)*

*Budget subsidy mechanisms must be designed as constituents of national water **policies**.*

# Operation of public water services

All the previous considerations are valid whatever the organisation of the operation of water services:

- ✓ One single operator or operation split between
  - an asset developer and
  - an operator of the existing infrastructure
- ✓ Public or private operators

Allocation of public budget subsidies to a local water utility in no way depends of the presence or the absence of a private operator. Constraints and impacts are similar in both cases

# SCR & subsidies: two main requirements

- ◆ **predictability of budget subsidies** to enable anticipation and investment by water utilities
- ◆ **cross-subsidies must allow the affordability** of water services to each category of user

# Thank You



Source: Suez