

TOPIC SESSION REPORT	
Theme: Financing Temporary Thematic coordination group: <ul style="list-style-type: none"> • World Bank • OECD • IsDB • AfDB • Aquafed • Gates Foundation • NWP • EIB • Iller Bank 	Chair: ... Abel Mejia..... Reporter: ... Monica Scatasta Interim Thematic coordination lead: Organization: ...World Bank..... Name contact person: ... Abel Mejia e-mail: Amejia1@worldbank.org
Topic: 5.2 Pricing Strategies as a tool for a Sustainable Water Sector Main Topic Question: How can pricing strategies respond to multiple and potentially conflicting objectives (financial, social, economic, environmental sustainability)? How does the answer differ for pricing water resources vs. water service provision? Topic coordination group:	Topic coordination lead: Organization: ...OECD..... Name contact person: ... Monica Scatasta e-mail:monica.scatasta@oecd.org
Key Topic Issues: (NOTE: key issues are then grouped and rearranged in session structure) 1) Multiple policy objectives – How can water pricing respond to the objectives of financial, social, economic and environmental sustainability? Are there trade-offs between them?	

If so, should pricing strategies be called upon to reconcile these? How do the issues differ when pricing water services vs. when using economic instruments to manage water resources?

2) Financial Sustainability – What is the role of pricing policies in contributing to the financial sustainability of water service provision? How is this seen from the perspective of the service provider (revenue sufficiency) vs. the local/national government responsible for infrastructure (means to attract investment) vs. the regulator (way to avoid monopoly rents and ensure affordability)? What is sustainable cost recovery and how can it be achieved over time? What is the link between pricing and efficiency of service provision (what are appropriate costs to be recovered, capital and operational expenditure)? What is the current experience with cost-recovery? What are the specific challenges for urban WSS vs. rural WSS vs. irrigation service provision?

3) Social sustainability – Is there a real conflict between financial sustainability and social sustainability of pricing strategies? Are tariffs an appropriate vehicle to deliver social policy objectives or should other instruments be used? When separate policy instruments cannot be implemented, how can tariff structures be designed to ensure affordability for vulnerable groups, while avoiding to discourage increased access? And who should pay for the extension of access? And beyond cross-subsidization among customers of the same provider, what is the role of cross-subsidization between urban and rural users?

4) Economic Sustainability – Efficiency in allocation: What is the role of pricing in allocating scarce water resources across competing sectors? What is the role of pricing mechanisms (ad other economic instruments) in addressing mounting water scarcity –particularly in the context of climate change– and dealing with droughts? Reallocation has “winners” and “losers”: is there a conflict between economic efficiency objectives and social sustainability objectives? If so, is keeping the price of the resources low the appropriate answer? Or are there better mechanisms to address the income redistribution impacts of water re-allocation and to protect livelihoods in negatively affected regions? Efficiency in use : How effective are volumetric water tariffs in inducing efficient water use? Volumetric tariffs and metering: what are the pros and cons of metering and who should pay for them? Can there be trade-offs between economic efficiency and financial sustainability (e.g. when a system with over-capacity already exists)?

5) Environmental sustainability – What is the role of pricing mechanisms in ensuring the preservation of basic ecological functions of the water resource base for current and future generations?

6) Pricing for sanitation: How to reconcile environmental, social and financial sustainability? How to reconcile the challenges when (i) WTP is lower than for drinking water but investment requirements are bigger, (ii) the solidarity/fairness issue may include different stakeholders (e.g. upstream polluters vs. downstream users), (iii) the service may be provided by a separate entity from drinking water supply (no cross-subsidization opportunities)

7) The political economy of reform: What are the experiences on the ground? What are the difficulties that policy-makers encounter in reforming pricing mechanisms and implementing reforms?

Sessions Ideas	Session Question(s)
Relevance of water pricing in achieving financial sustainability of water services	<p>Setting the stage: How are the 4 objectives of financial, social, economic and environmental sustainability relevant when defining tariffs for water services? What are the main trade-offs between them in this context?</p> <p>Should pricing strategies be called upon to reconcile these? And if so, how?</p> <p>What are the specific challenges for urban WSS vs. rural WSS vs. irrigation service provision?</p>

	<p>Address primarily the questions under the financial and social sustainability “key issues” under 2), while touching briefly on tradeoffs with 3) – the latter will be explored further in session 3. The interaction between financial sustainability and the objective of “efficiency in use” issue under 4) will also be explored.</p> <p>Present country experiences and emerging trends:</p> <ul style="list-style-type: none"> - How have different objectives and trade-offs been identified? - How have pricing strategies been designed to achieve financial sustainability? - How have social aspects been taken into account? - What is the evidence on impacts? Have pricing strategies achieved the objectives that had been assigned to them? - <u>Political economy of reform</u> : What have been the major difficulties in designing and implementing pricing reforms? <p>Concluding remarks drawing lessons learned based on policy experiences</p> <p>Regional sensitivity: medium</p>
Sessions Idea	Session Question(s)
<p>Title: Pricing water for efficient allocation and use: Hard choices in water resources management</p>	<p>Setting the stage: How are the 4 objectives of financial, social, economic and environmental sustainability relevant for the use of economic instruments in water resources management? What are the main trade-offs between them in this context?</p> <p>Should pricing strategies be called upon to reconcile these?</p> <p>Address primarily the questions under “key issue” no. 4. Discuss the relevant social impacts and the potential role of charges for funding or attracting investment in large infrastructure or for the provision of public goods</p> <p>Present country experiences and emerging trends:</p> <ul style="list-style-type: none"> - How have different objectives and trade-offs been identified? - Have raw water charges been designed to achieve efficient allocation or fr other objectives (e.g. raising funds for management agencies)? - How have social aspects been taken into account? - What is the evidence on impacts? Have pricing strategies achieved the objectives that had been assigned to them? - <u>Political economy of reform</u>: What have been the major difficulties in designing and implementing the use of economic instruments for water resources management? <p>Concluding remarks drawing lessons learned based on policy experiences</p>

	Regional sensitivity: Medium
Sessions Ideas	Session Question(s)
Financial sustainability vs. social sustainability: Is there a real tradeoff?	<p>Questions :</p> <p>Is there a fundamental incompatibility between the objectives of financial sustainability of service provision and social objectives?</p> <p>What are appropriate affordability thresholds in different circumstances?</p> <p>Should support be provided through tariff structures or through parallel mechanisms?</p> <p>If cross-subsidization via the tariff is chosen, how do different tariff structures compare in appropriately targeting support to the intended population?</p> <p>What is the evidence on the ground of targeting performance of alternative mechanisms?</p> <p>How can targeting performance of existing mechanisms be improved?</p> <p>What are the constraints (e.g. data availability, costs, acceptability) that may limit the introduction of better targeting mechanisms (e.g. administrative targeting, service level differentiation)?</p> <p>And beyond sector-specific objective, what is the legitimacy and effectiveness of WATSAN tariffs as a social policy instrument?</p> <p>Check Regional sensitivity: high</p>
Pricing for sanitation: A special challenge	<p>How to reconcile environmental, social and financial sustainability?</p> <p>How to reconcile the challenges when</p> <p>(i) WTP is lower than for drinking water but investment requirements are bigger - How does</p> <p>(ii) the solidarity/fairness issue may include different stakeholders (e.g. upstream polluters vs. downstream users),</p> <p>(iii) the service may be provided by a separate entity from drinking water supply (no cross-subsidization opportunities)</p> <p>Check Regional sensitivity: high – medium - low</p>

Topic 5.2 potential stakeholders

- WUAs
- RBA / national, regional or international
- Multipurpose asset management
- NWAs
- Ministries of Agriculture / Trade Ministries
- Water partnerships