

EECCA TASK FORCE

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Background Paper on Financing Water Services and the Social Implications of Tariff Reform

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Objective of Paper

- To describe the financial situation in the EECCA water supply and sanitation sector
- To identify opportunities and constraints in putting the EECCA water sector on a financially sustainable basis

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Structure of the paper

1. Executive Summary
2. Introduction
3. Existing financing situation in the EECCA water sector
4. Policy options to close the financing gap
 1. User charges
 2. Public budgets
 3. Official Development Assistance and other sources
 4. Decreasing service levels
5. User charges and their social impacts
6. Conclusions

Key Messages

- The main source of finance for the EECCA water sector is from user charges the rest comes from public budgets
- In many countries utility revenue only covers about 60% of operational costs, resulting in decreasing levels of service
- The current level of finance would roughly need to double to allow for the proper operation, maintenance and renewal of existing infrastructure

Key Messages Continued

- To close the gap EECCA countries will need to combine all available sources of finance:
- User charges will continue to be the main source of finance for operational and maintenance costs
- Tariff increases will require adequate measures to protect the poor, including through income or tariff measures
- Other sources should mainly help to cover high, up-front investment costs:
 - Finance from public budgets could be increased
 - Official development assistance will play a small role in terms of total flows, but can have catalytic and demonstration effects
 - The private sector is unlikely to become an important source of finance, but may be a major source of know-how