

# "Water is not a political game. Tariffs should aim at full-cost recovery"

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*Water tariffs in most Latin American countries are extremely low by any standard.*

*As a result of generous public subsidies, 1m<sup>3</sup> of water costs less than US\$1.00 in capital cities such as Buenos Aires, Caracas, La Habana, Mexico City and Panama City, as opposed to a global average of US\$2.03/m<sup>3</sup>, according to figures published by the 2011 GWI Global Water Tariff Survey.*

*As a result, water utilities have struggled for years to deal with highly uneconomical operations and financial distress.*

*It's no wonder that tariff hikes have finally come into light amid popular backlashes and political reshuffles.*

*Still, water tariff schemes have a long way to go to become efficient.*

*BNamericas spoke to David Zetland, senior economist at Wageningen University in the Netherlands, to explore what challenges and opportunities loom ahead for Latin American countries in water tariff policies.*

**BNamericas:** From a market perspective, what has to be taken into account when it comes to water pricing?

**Zetland:** The most basic pricing system is a full-cost water pricing, where the revenues proceeding from water tariffs cover operating and maintenance costs, plus some additional costs such as extending the system to those who do not have access to it yet.

Countries that don't adopt a full-cost water pricing model are going to subsidize the system somehow. They can do that by relying on the national budget, on aid agencies or by actually not maintaining the system. All of them will prove to be inefficient from a market perspective.

A political or an outside subsidy risks becoming a means to pursue a political agenda, which could interfere with the principle of operating the system for the customers, while a maintenance subsidy makes the water unreliable in the long term, with water shortages or bad water quality.

In addition to having full-cost recovery, in the driest parts of South America water utilities also have to look at preventing water shortages from happening. Within this context, companies can put in place a "water scarcity charge" to discourage inefficient uses.

**BNamericas:** Water metering is not widespread in South America. How do you implement efficient water tariffs in such a context?

**Zetland:** That's a problem of course. If consumption cannot be metered, people do not care how much they consume. Countries cannot pursue effective water conservation policies without volumetric charges. The only thing they can try to do is reduce overall consumption through public education campaigns, which are not always successful, or require that everybody use a certain technology such as shower heads, but obviously this does not get even close in efficiency if compared to having a water meter. Therefore, water metering proves to be a very good step towards improving water efficiency.

**BNamericas:** Should Latin American countries aim at universal water metering?

**Zetland:** Not necessarily. Universal water metering implies 100% meter coverage and that does not necessarily make sense. In France and New York City they found that a meter for any single apartment is not beneficial because the additional benefits in terms of efficiency do not cover the additional costs. In England studies show that, from an economically efficient perspective, the ideal metering penetration stands between 85% and 95%.

**BNamericas:** How do you kick off a process to increase your water metering penetration?

**Zetland:** Generally big industrial consumers come first as they are big water consumers and can get efficiency improvements very quickly. Then comes the public sector, and last individual houses and flats. On the cost side, the business and the public sectors should not have problems bearing the meters' costs, while a meter for a whole building should prove to be an affordable cost for single households too. But users should always be paying, otherwise subsidies come in and it turns into a political game.

**BNamericas:** Rural and low-density areas are scattered all over South America. How can water utilities supply water efficiently to everybody?

**Zetland:** In rural areas, a pipe connecting to every house can be very expensive compared to other options. In those circumstances it is fair to look at different solutions. If end-users in rural areas are not ready to pay for extra distribution costs, the company has a problem and turns to political authorities for a subsidy. Here, individual responsibilities should be emphasized. From a consumer perspective, it may turn out more convenient to drive 1km to the closest water pipe than having to pay for extra distribution costs. This is not a failure, it is about trying to manage money and water at the same time.