

Cost recovery pricing *is* the best way to ensure the poor have access to good water services!

About me. I come from California, a case-study of how not to manage water (but big variety in service quality); I live in NL, a case study of how to manage water. I've traveled in 80 countries and observed a variety of government and market failures.

Goal: Water prices should be as simple as possible and keep the system operating (annual fees in water-rich areas; daily volumetric tariffs where water is scarce).

Real problem: Ban-Ki Moon: inadequate water service results from “a crisis of governance, weak policies and poor management.”

Definitions.

Cost recovery: means:

- The water agency does not take outside subsidies for capital or operating expenses (there are always cross subsidies within and across customer classes)
- Supply is “sustainable” if fixed and marginal (capital and operating) costs are paid.
- These costs include the cost of scarcity, externalities (enviro flows), and future investments.
- They include the cost of servicing debt and return on equity to investors or citizens. More on “profits” below.

Good water services: are:

- Provided by community, public and private water providers. All are controlled/regulated by government/citizens (more below on when that's not true).
- Can mean 24/7 piped water to the home, or not. There are costs and benefits to pipes (versus standpipes or even bottled water) and personal toilets (versus communal toilets or latrines). Just the same as public buses vs private vehicles – prosperity improves private capital stocks.

Ensure the poor: It's very hard to identify or serve the poor.

- Most governments are corrupt, broke or incompetent. Should we trust them with the provision of such an essential service?
- When government fails, the poor lose. The rich can buy private solutions or direct government resources to their own needs.
- Water subsidies and corruption thus lead to cheap piped water for the rich; the poor buy water off trucks at a much higher price.
- I stayed in a poor neighborhood in Jakarta where the tap water was undrinkable and drinking water came in 5-gallon (20 liter) bottles, filled for \$1.50 (\$75/m³).

We affirm that... The best way to help the poor:

- Do not distort decisions by artificially lowering/raising prices.
- Give them money (e.g., *Bolsa Familia* in Brazil and *Oportunidades* in Mexico). Chile's government directly subsidizes the poor (limited consumption, urban and rural different); water is fully priced, within the system.
- Full cost recovery allows some for free, pay for more.
- I have argued that all citizens should be paid a dividend for the use of the nation's water wealth. That user fee disproportionately falls on heavy water users, which implies that the poor can make money when water is sold at fair market value.

Full cost pricing:

- Who here wants to work for free? And who wants to work for free on a job I choose? We need choices and/or incentives. Both are better. We MUST have water service, so we MUST pay people who run that service the full cost (non-profit or for-profit) of provision.
- Is sustainable, financially, operationally and environmentally
- Many examples of full cost recovery (public and private) that serve the poor (Chile, Singapore, Phnom Penh – water bill dropped by 66% and quality WAY up) and below-cost tariffs that do not (India, Jo-Burg).

To our debate partners. Wenonah is an anthropologist by training. Perhaps she is familiar with *Weapons of the Weak*, by James Scott. That book explains how the relatively rich take advantage of the relatively poor, by controlling access to scarce resources. Full-cost (even for-profit pricing) helps the poor b/c everyone with the means to pay gets access (e.g., mobile phones).

Anil is an historian by training. Perhaps he is familiar with the history of water infrastructure in the western US (e.g., Cadillac Desert, Chinatown), where government subsidies to costs led to boondoggles that helped rich farmers, land speculators and politicians – and harmed poor farmers (lost access to water and land) and raised prices for poor urbanites (they lost service to the suburbs). It's easy to see that pattern repeating in LDCs around the world.

Anil says in “Inadequate government policies lead in many countries to a loss of access to adequate water and sanitation. . . and thus violate the right to water” (Key Principles for an International Treaty on the Right to Water, 2005). Let me fix that: “Inadequate *governance* leads to a loss of access to adequate water and sanitation. . . and thus violate the right to water”

I compared access to an improved water source with World Bank indicators of governance for 170 countries as of 2008. The correlation between the two (good governance leads to access to water) was 66 percent. That's not perfect, but we've got countries like Belarus and North Korea reporting 100 percent access to water (Somalia has zero governance and 30 percent access).

In conclusion. But this debate will not be won on examples.

It will be decided on sustainable model for operating a water service.

Subsidies are not sustainable (by definition).

Government failure will lead to an interruption of funds and/or services (e.g., Ireland's see-saw from paid, to free, to underinvestment, to leaks, to missing meters, to budget hole, to 2014).

Eventually, the poor will suffer, and the shock will be greater when previously running taps go dry (e.g., USSR to the fourth world).

Separation of water service from government subsidy means that government failure need not affect water service (e.g., US Govt shutdown closes national parks, but not Disneyland).

Keep water agencies (public, private, communal) separate from government subsidy (but not appropriate and transparent regulation), make them pay full costs, and see good water service help the poor.

STOP HERE?

Problems with human rights, subsidies and a fetish for public ownership.

- Quoting Anil (Key Principles for an International Treaty on the Right to Water, 2005): “States shall guarantee that water is provided to everyone...on a not-for-profit basis...not-for-profit precludes the provision of essential water services where profits are provided to private shareholders. This provision not intended to prevent situations in which a publicly owned water utility makes a profit which is then paid to a public shareholder such a municipal government.” How is this different from for-profits?
- Non-profits can be very lucrative businesses; they may not pay profits to shareholders, but they can sure take care of employee-owners-stakeholders. (Seen the World Bank HQ?)
- Wenonah’s call for government subsidies to public (not private) water systems in the US (10 Mar HuffPo) is fruitless on two counts: the government is broke; subsidies go to communities with political connections (e.g., farmers, Wall Street in the US), not need. Her approval of Catarina de Albuquerque’s call for public toilets to the homeless and water service to Native Americans brings up an interesting twist in human rights. If citizens have a right to water, does the government have a right to force their relocation to the water service? (Opposite – pipes across the desert – is clearly not true.) Full-cost pricing does not have this problem.
- In the 2 Dec 2010 HuffPo, Wenonah criticizes Suez for making “a fortune profiting from the exploitation of a natural resource,” but does that same critique apply to governments that use resource rents to pay for their military and their palaces and ignore their poor (e.g., oil in many LDCs) or that award water rights to preferred vendors (often friends) on a preferential basis?
- And we know how Cochabamba turned out. Bechtel et al. were kicked out, and the same old bandits took over. As Jim Shultz – a pro-poor writer – wrote in 2010: “Half the homes in the area served by the public water utility still have no water service; many of those that do have service only have it a few hours a week. A decade after people shed blood in the streets to retake their water, the company that manages it remains riddled with corruption, mismanagement, and inefficiency a source of graft for the citys mayor and the union that represents the companys workers.”