

Aquasan Position Paper

Prevent further negative trends in the water service sector by establishing economic prices of water services

Association for Water and Environmental Protection "Aquasan Network in BiH" advocates for transparent approach in calculating water service prices based on economic principles, respect for social standards and affordability of water service prices.

Local Government Units (LGUs) and Public Utility Companies (PUCs) face numerous challenges in the process of delivering water supply and wastewater collection and treatment services. Due to the accumulated challenges caused by the long-term stagnation of the water services sector in Bosnia and Herzegovina (BiH), LGUs and PUCs need to be supported to initiate the process of change and consistent respect of roles and responsibilities of all actors in the water service sector. This should enable the improvement of the quality and ensure preconditions for achieving the sustainability of public water services.

Some of main challenges and factors affecting the overall operational and financial performance of most PUCs in BiH:

- Political influences in making decisions on financing and development of water services at the local level,
- Public service contracts between LGUs and PUCs are not signed or consistently applied,
- There is no clearly-defined methodology for calculating water service prices,
- Number of employees is generally higher than the optimally-required number of employees,
- Lack of qualified employees in LGUs and PUCs,
- Lack or inconsistent implementation of internal procedures,
- Cost accounting and cost centres are not established or are only partially established,
- High physical and administrative water losses,
- High costs of electricity for the operation of pumping plants,
- Fixed assets - communal water infrastructure (water supply and sewerage networks with facilities and devices on the networks) is not fully registered in business books,
- Depreciation is not calculated for all fixed assets used by PUCs in the process of water service provision,
- LGUs and PUCs Business Plans are not harmonized,
- Significant reduction of water consumption due to depopulation,
- Insufficiently developed system for monitoring PUC performance through business indicators (benchmarking) and improvement measures based on these business indicators,
- Cross-subsidization between different categories of service users, where prices of services for legal entities are 1.5 - 3 times higher than prices of services for individuals, whereby PUCs provides cost recovery.

The process for proposing and adopting water service prices is generally a challenge throughout BiH, as it often happens in practice that the adopted water service prices do not fully cover costs and PUCs do not have a basis to generate sufficient revenues for water infrastructure management because the adopted prices barely cover operation and maintenance costs. The most common reason for not adopting economic water service prices is of a political nature. Political influence in considering and adopting water service prices seeks to keep water service prices as low as possible so as to maintain "social peace". However, the fact that water service prices have changed very little or not at all over the past years cannot be ignored. Compared to prices of other types of services, which cannot be considered essential and which are based on market / economic principles (e.g. mobile telephony, internet, cable television, etc.), water services prices are still low; hence, a serious shift is needed from the existing practice of proposing and adopting water service prices.

Adequate prices of water services are required to ensure the necessary amount of revenues needed to cover costs incurred when delivering water services and to ensure the quality of water services at a satisfactory level as well as the sustainability of water services. At the same time, socio-economic constraints must be taken into account in order to have socially acceptable and affordable prices for water services. These requirements are particularly relevant when considering water infrastructure investments that are supported by domestic and international financial institutions. When LGUs and PUCs plan investments in water infrastructure, one of the core conditions for approval of credit arrangements or grants is the sustainability of investments, which must be ensured through economic prices of water services. Failure to adopt economic prices for water services often results in an insufficient amount of revenues to cover costs thus leading to negative business results. In order to reduce the effect of lack of revenues on PUC business results, a negative business result is most often reflected in a decrease in the value of PUC capital, which is a common practice that should be avoided whenever possible.

It is necessary to define the water services vision and policy that will include internationally-acceptable principles and standards in accordance with the socio-economic context in BiH:

- **User pays principle:** Service users bear costs of the delivered service.
- **Polluter pays principle:** Polluters bear costs of pollution reduction measures in accordance with the extent of the damage or exceeding the acceptable level of pollution.
- **Economic efficiency principle:** Optimization of all costs related to the provision and development of water services.
- **Full cost-recovery principle:** Price of water services includes all costs incurred in the process of providing and developing water services (operating costs, depreciation costs, investment costs).
- **Affordability principle:** Introduction of tariffs that the average family can pay on a monthly basis (bill for services provided does not exceed 4% of the total monthly family income).
- **Fairness and equality principle:** Water services are provided for all under equal conditions.
- **Conservation of natural resources principle:** Introduction of regular and special water charges with the aim of encouraging the rational use of services in order to protect existing resources from overexploitation.

Bold vision and determination of decision makers at all levels is required

Adoption of economic prices of water services should be prioritised by decision makers when advocating for policies that will ensure the long-term sustainability of water services. Without economic prices of water services, full coverage of costs incurred in providing water services and the sustainability of water services will not be ensured. In this process, Aquasan Network in BiH continues to advocate and support the dialogue of all relevant actors in the process of reforming the water services sector in order to prevent further stagnation of the water services sector with the aim of improving the existing situation and creating the necessary preconditions for the development of the water service sector in BiH.



Economic-based prices of water services (full cost-recovery) ensure:

- Quality and continuous 24/ delivery of water services at a satisfactory level,
- Sustainability of water services and sustainability of PUCs,
- Providing water services to service users at affordable and affordable prices,
- Transparency - structure of all costs included in the prices of water services is known,
- Sufficient funds to cover costs of management, maintenance and financing of rehabilitation, reconstruction and expansion of communal water infrastructure,
- Readiness of LGUs and PUCs to apply for funds made available by domestic and international financial institutions, which require that a price for all water services be clearly defined i.e. its structure be known, based on economic bases, i.e. that full coverage of all costs is ensured through water prices.