

Financing and Cost Recovery

Background

Providing access to drinking water services poses a serious and growing challenge in developing countries. Current rates of population growth increase competition for this scarce resource, and ageing infrastructures continue to deteriorate. The financial challenge is particularly acute, largely due to the lack of institutional and administrative management capacity at district and regional levels, contributing to a lack of adequate financial investment in the sector.

Drinking water programmes and projects are known to bring a wide range of benefits to communities, in the form of health, opportunities for women, and poverty reduction. Given the overall societal gains that can be achieved, especially for the poor, water and sanitation services are correctly targeted as a key development intervention. However, in spite of all efforts, the absolute number of people without improved water supply and sanitation services has remained practically unchanged for the last 10 years, with the majority of those without services living in rural or peri-urban communities.

Only by identifying new and imaginative approaches to financing new systems, and ensuring cost recovery from existing services, will substantial progress be made towards increasing access to sustainable water and sanitation services.

The other side of this sheet briefly summarises the conceptual basis of our approach to financing and cost recovery for the drinking water sector in rural and low-income urban areas, in the context of decentralisation and sector reform

Knowledge gaps

Governments, development agencies and communities in different parts of the world are struggling with the issue of decentralisation and cost recovery. Few countries have realistic policies, operational strategies or plans for cost recovery and sustainable financing for increased service coverage, particularly for the poor.

Community organisations, municipalities and small service providers are failing to generate the revenues needed, either for investments to meet growing demand or for the daily operation and maintenance of existing systems. All of these groups are in need of guidance and support, in the form of policy and institutional models based on real experience, to develop appropriate financing and cost recovery mechanisms.

Due to the lack of such systematic knowledge, strategies for cost recovery are typically short sighted and only address part of the issue of sustainability, for example, by focusing solely on operation and maintenance costs. The result is a degradation of systems, and a failure to deliver reliable water supply and sanitation services. But how can this be reversed, and who will pay? And how to make sure that poverty is properly addressed, while still ensuring sustainability through cost recovery?

Invitation to join a thematic group

To address these questions, IRC and partners have decided to establish a Thematic Group on Financing and Cost Recovery for rural and peri-urban water and waste-water services. The thematic group will allow a meeting of minds between partners interested in exploring the issues surrounding financing and cost recovery of equitable, sustainable and poor-focussed water supply and sanitation services.

Initial activities will include a workshop where interested organisations and individuals will be able to set out their priorities and plan future joint activities around the theme. For the list of upcoming meetings and reports please visit the IRC website: www.irc.nl. We hope that in time the thematic group will become a platform for developing relevant materials and research opportunities, as well as serving as a dissemination pathway for materials developed by others, through publishing, making materials available through our networks, and taking up and supporting advocacy messages.

At the moment we are developing action-research proposals and commissioning case studies focusing on some of the challenges mentioned. If you know of an interesting case that merits being written-up or a research idea you would like to take forward, or if you would like to discuss the possibilities for funding, please contact us for further information and guidelines.

Equally, if you or your organisation would be interested in joining the thematic group (in English, Spanish, Portuguese or French) please contact Catarina Fonseca at fonseca@irc.nl.

Financing and cost recovery for sustainability

In the context of IRC’s and its partner’s work, we see cost recovery as the matching of *all* costs related to providing a *sustainable service*, with *all* the available sources of funding (see figure). These funding sources may lie entirely with the users, but may also include external funding from governments or donors. The crucial point is that unless *all* the costs related to providing and maintaining a service (technical, human resources, institutional) are identified and covered, a system cannot be considered to be sustainable. In particular we need to shift the focus from models that look at the financing of individual systems in isolation to those that deal with service provision to entire populations – otherwise the necessary support structures are left out of the cost recovery picture and hence become a potential source of failure.

In rural and low-income urban areas *user-based* cost recovery strategies become crucial, as communities are progressively made responsible or co-responsible for the financial management of their system. Making communities responsible has proven to be an effective strategy for achieving sustainability in operation and maintenance of systems. However, to date, such responsibility has typically been limited to the funding of system management and organisational and maintenance (O&M) costs with, in some cases, a minor contribution to capital costs.

Our approach to cost recovery aims to look beyond the three year horizon of most projects or programmes financed by support agencies. It also aims to look beyond the individual water system and its users. It considers not only the construction, but the lifetime, rehabilitation and extension of water supply systems and all the elements that are necessary to provide longer-term support to users in rural communities and urban neighbourhoods.

Key items to be considered in this approach include:

- tailoring of cost recovery frameworks to the special needs of the poorest of the poor;
- developing frameworks for transparent cross subsidisation of capital and recurrent costs;
- developing institutional arrangements and legal frameworks that ensure that money from cost recovery is used for service delivery;
- identifying mechanisms for including in cost calculations, the development and maintenance (and capacity) of the institutions to support communities in managing their systems e.g. initial and repeat training, technical back-up etc;
- identifying financial mechanisms to encourage demand management and avoid resource depletion;
- including in cost recovery those costs related to waste water management.

Figure. Sustainability requires the matching of ALL costs related to providing a sustainable service, with ALL the available sources of funding

