



water for people

In Search of Balance: Affordable and Sustainable Tariffs

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The community of El Candungo in San Antonio de Cortes, Honduras, had a fixed monthly tariff for each family of 30 Lempiras (HNL) (USD 1.30) for 2015. This was insufficient to cover the operating and maintenance costs needed for its new drinking water system. The community water committee, the service provider rural areas of Honduras, with great leadership succeeded in raising awareness among users and establishing a fixed monthly tariff of HNL 85 for each family. This covers 100% of the operating and maintenance costs – the monthly amount needed is HNL 3,453 Lempiras (USD 150). Furthermore, they are also now saving for 30% of future replacement costs.

There are many communities like Candungo looking to establish a tariff which allows them to have services provided in a sustainable way. But it is also important to balance considerations of affordability. This blog analyzes whether the current tariffs achieve a good balance between sustainability and affordability.



**Image 1. Assembly for approving the sustainable tariff.
El Candungo Community, San Antonio de Cortes.**

According to the framework law of the drinking water and sanitation sector in Honduras, “It is up to the water committee, as the owner of the service for the community, to set and approve the tariff system to be used.” The general regulations for water and sanitation committees indicate that “Tariffs must reflect the real costs of services, including operating, maintenance and administration costs, and where necessary they will include investment costs”. These articles reflect the principle of **financial self-sufficiency** of systems. On the other hand, the human right to water requires the provision of affordable services. This implies that when calculating tariffs, it is important to strike a balance between sustainability and affordability.

To find this balance, the pertinent government authority, *Ente Regulador de los Servicios de Agua Potable y Saneamiento* (the Regulatory Entity of Drinking Water and Sanitation Services), has developed guidelines for calculating tariffs. Moreover, the municipalities, as owners of the service, should approve the tariffs. However, many of the tariffs are approved without any technical analysis, or considering the recommendations of the pertinent authority. In 2015, the average monthly tariff per family in the country's rural piped water systems was HNL 28 (USD 1.23).¹ However, we don't know whether these tariffs are based on the principle of **financial self-sufficiency**, and whether they meet the criteria for affordability.

In response to this situation, **Water For People-Honduras** carried out an analysis of tariffs in the three municipalities where it works in, using the tool called At What Cost. This tool makes it possible to analyze whether the current costs are sufficient for the sustainable operating and maintenance of the service and to set an appropriate tariff. The analysis, carried out in 45 water committees the municipalities of Chinda, El Negrito and San Antonio, shows the following results:

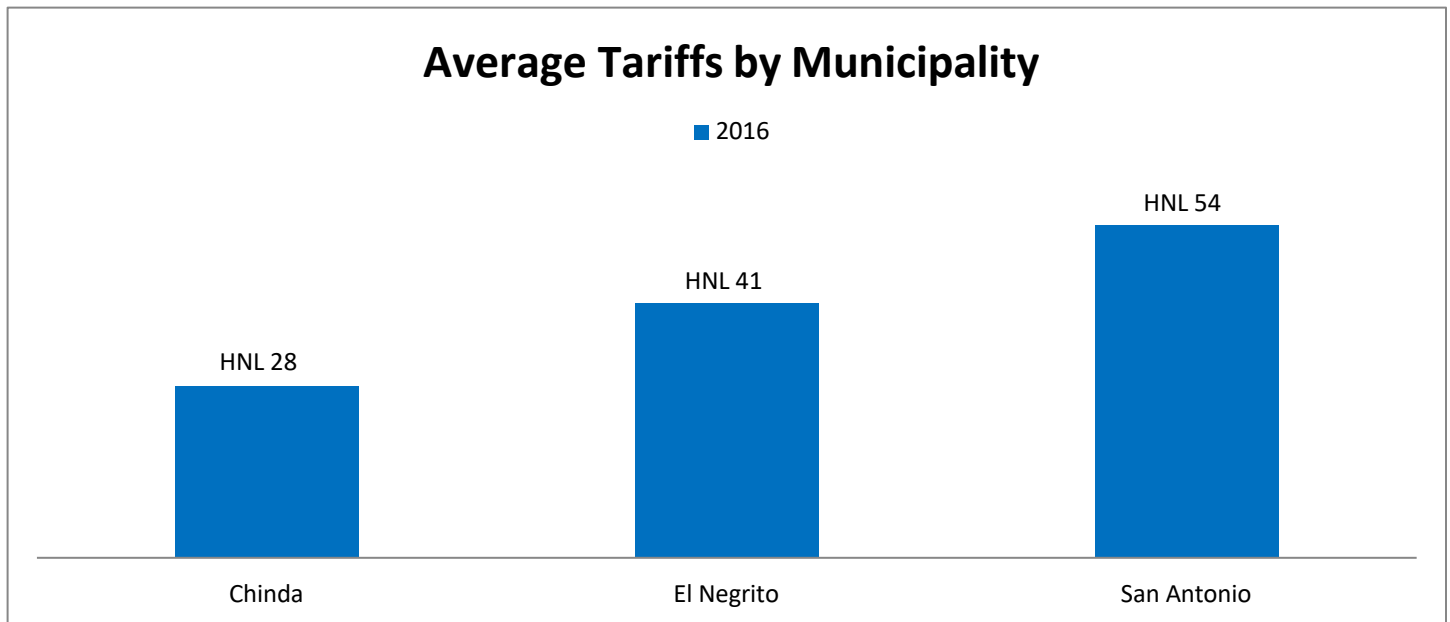


Figure 1: Average tariffs (per family per month) by municipality, 2016.

The annual balance projected by the tool shows very clearly how much deficit or surplus there is, to cover the OpEx (operating and maintenance) costs and a percentage of the costs that will be required for replacements in the system.

Municipality	% OpEx	%CapManEx
Chinda	45%	0%
El Negrito	66%	2%
San Antonio	70%	6%

Table summarizing the percentages covered by the current tariffs in OpEx and CapManEx.

The table above provides a summary of the percentages of OpEx (operating and maintenance costs) and CapMaxEx (replacement costs) covered by tariffs in the municipalities; the tariffs are so low that they do not cover 100% of the operating and maintenance costs, and do not even cover 50% of the operating and maintenance costs in Chinda. Put another way, the operating and maintenance costs are below that which is required for service provision, and they are not covered by tariffs. Furthermore, the tariffs only allow a minimal saving of contributions towards future replacement costs.

¹ Source: SANAA *Sistema de Información de Acueductos Rurales* (Rural Pipelines Information System) (SIASAR), 2015.

In light of these results, it should be a priority for us to set tariffs that, at the very least, cover 100% of these operating and maintenance costs and gradually, over time, a percentage of these tariffs should be used to cover replacement costs.

Using the same tool, we made a model of what could be a sustainable tariff. The shortfall needed to close this gap and to have sustainable systems in the municipalities is significant (see figure 2). In some cases the tariffs would need to be quadrupled!

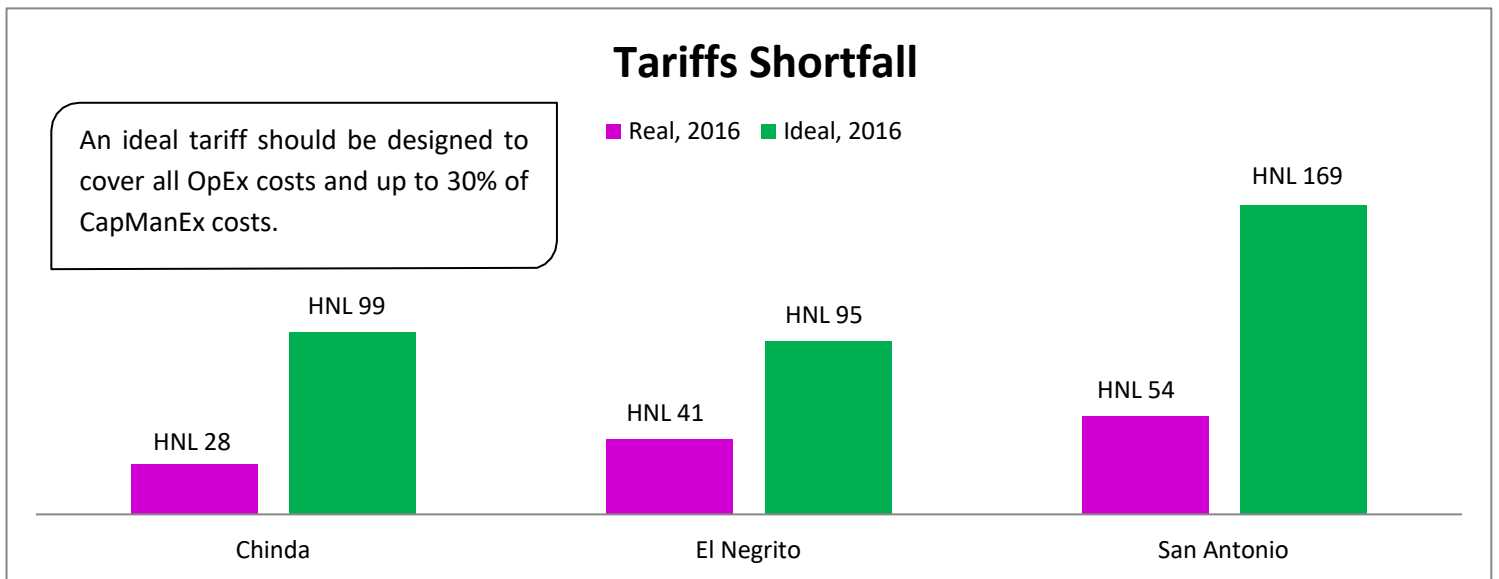


Figure 2: Tariffs shortfall needed to have sustainable drinking water systems in the municipalities

The question is whether these tariff increases are affordable. Therefore, we made a comparison between the ideal tariff and the average monthly family income which, according to the National Statistics Institute (INE), in rural areas is HNL 7,907 (USD 344). The sustainable tariffs represent on average just 1.53% of this income, which is below the international benchmark for payment for water services: 5% according to the United Nations Commission for Human Rights. It is evident that the ideal tariffs can indeed be paid. But it is worth mentioning that if we analyze the incomes of families living in extreme poverty, at 1.5% of the average income, it could be that these tariffs are not affordable. This is an analysis that is yet to be carried out.

Finally, we should consider that financial sustainability relates not only to the tariff amount, but also to the scale of the service provision. Figure 2 shows that for San Antonio the difference is greater than in the other municipalities. This is due to the large amount of investment in drinking water systems, some of which few families have been able to connect to due to elevated required financial contributions. Other families did not connect simply because they didn't believe, due to the magnitude of the projects, that the systems would actually be completed. .

On average, only 80% of the families are connected to their community's drinking water systems and among that 80%, there is a 10% default rate in the payment of the tariff. If the number of household connections was increased and the default rate was reduced to 0%, many communities would cover 100% of their operating and maintenance costs and a small percentage of replacement costs. In other words, we can improve the balance between sustainability and affordability by also analysing other factors such as the number of families connected and default rates.

We conclude that the current tariffs remain a long way off from allowing sustainable service provision. To cover the minor operating and maintenance costs and a percentage of replacement costs, they would have to increase significantly. Although this represents a big leap, they would still meet the criteria for affordability, at least for families with average incomes in rural areas.

The search for the balance between sustainability and affordability can also be supported by other means such as encouraging more families to connect, increasing coverage and reducing the current default percentage. For this to happen, above all we need municipalities and the regulating body to play a more central role in the regulation of tariffs on the one hand, through consultation with the water committees regarding calculation of tariffs, and through periodic review and approval of the tariff structure based on calculations, using tools such as At What Cost., on the other hand. In this way, they can ensure that the tariffs allow the service provider to offer a sustainable service and that the service is affordable for the user. It is important to stress that the regulation of tariffs is a

long-term process, which after technical analysis of the tariff – which has strengthened the water committees– requires multiple efforts on their part to raise awareness in the communities of the importance of having sustainable tariffs.