Aging water infrastructure in Europe

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Competing need for investment

Need for investment in water infrastructure has many reasons:

- **Deterioration** of existing infrastructure (maintenance and renewal)
- **Demographical** change (increase and decrease)
- Need for **upgrading infrastructure** (combined sewers into separate, upgrading sewerage treatment, etc.) caused by
  - Need to meet new standards (in particular environmental)
  - New developments (emerging pollutants, better technologies)
- **Creating incentives** for resource efficiency in water use (metering)

Upgrading of existing infrastructure in order to meet new standards and development can’t be on detriment of maintenance of the latter and vice versa!
Funding gap

Are we properly maintaining water service assets for the next generations?

Important need for investment in water infrastructure
+ low level of cost recovery
  (affordability, unpopularity of raising tariffs, poor application of polluter pays/user pays etc.)
+ state budgets under pressure
= How to fund the necessary investment?

Maintenance holiday is an expensive shortterm thinking:
Water loss, creates problems in quantity and quality
- Water loss and damage to other infrastructure (roads, buildings, other infrastructure in the ground)
- **Damage**
More damage
3Ts approach

- **Analysis for funding water services: Opex and Capex**
  - EUREAU is promoting the use of the 3Ts approach, developed by the OECD.

- **Tariffs**
  - Charges for water, meters, connection and infrastructures paid by water users
  - Excluded: VAT, any tax collected through the water bill and going to general state budget

- **Taxes**
  - National or municipal subsidies, hidden subsidies (e.g. tax deductions) paid by national (or local) tax payers
  - Excluded: loans

- **Transfers**
  - European funds and private donations, contributions from foreign donors
  - Excluded: loans
9 case studies

Investments: Barcelona 2005 - 2009

Evolution of the 3Ts for the metropolitan area of Barcelona (2005-2009 - Source: Cetaqua).

This graph shows the variability of the taxes and transfers components caused by substantial investments during the period which had been funded by grants from different sources.

- Tariffs
- Taxes
- Transfers
Capex: growing importance of Tariffs

- **3Ts concept into practice in order to promote:**
  - A source contribution increasing **transparency** of the financing of water services and to facilitate the **reporting** obligations on the **costs recovery principle** (article 9 of European Water Framework Directive)
  - A useful **diagnosis and decision-making tool**
  - A means of **informing** on water services related investment targets
  - A tool to **raise general awareness** of sectorial financing issues
EU Funds, loans and private investment

- EU Funds like Cohesion- and Structural Funds or Regional Funds
- European Investment Bank has developed a specific lending policy for water & wastewater
- Attracting private sector participation and funding. This means that risk premiums go up and profit marging needs to be taken into account.
Water pricing as a crucial question

EUREAU therefore asks for proper Water Pricing:

- User pays and polluter pays need to be applied: all water users and all water polluters (and not only households) should properly apply the cost recovery principle and contribute to the costs of water services (financing the investment in infrastructure) and preserving the water resources.

- Subsidies should be reserved for transition periods or specific conditions. Relying on public funds on a permanent basis is not consistent with the principle of sustainability of water services. Price policies and tariff structures have to incorporate a return on capital, to cover the financing needs of the sector.
Thank you for your attention!