

WATER AND WASTEWATER SERVICES IN SERBIA

APPRAISAL OF DRAFT DECREE REFERENCE PRICE OF WATER

BELGRADE, SEPTEMBER 5, 2016

- ▶ Water Law
 - ▶ Five fees: Use, Discharge, Pollution, Drainage, Systems
- ▶ Reference Price of Water (Article 157)
- ▶ Two Fees
 - ▶ Water Use Fee (Article 155, 156, 158, 159)
 - ▶ Payable for abstractions
 - ▶ Water Discharge Fee (Article 160 – 163)
 - ▶ Payable for Direct AND Indirect discharges
 - ▶ Already applied in Serbia

ASSESSMENT CRITERIA

1. Legally correct
 2. Recovery of environmental and resource costs with adequate contributions from each main sector: household, agriculture and industry
 3. Contribute to the provision of adequate incentives for sustainable (efficient) water use
 4. Revenue generating capacity of the fees
- ▶ *Practice in the EU is far from “perfect”*
 - ▶ *Increasing pressure from EU for Member States to improve*

1. LEGAL FORM AND CONTENT

- ▶ Positive:
 - ▶ Is correctly based on the Water Law (30/10, 93,12): Article 157
 - ▶ Does precisely what is mandated in the Water Law
 - ▶ Is clear and unambiguous
 - ▶ Describes precisely the method of calculation
 - ▶ References officially published (and updated) sources of data
- ▶ Key Issues
 - ▶ The objectives of the fees for which the Reference Price of Water is the benchmark are not specified
 - ▶ Pollution Fee is not addressed

2.1 ENVIRONMENTAL RESOURCE COST RECOVERY

- ▶ Recovery of environmental resource costs
- ▶ Water does not have the same economic value everywhere (scarcity/abundance)
 - ▶ Economic analysis of water use – River Basin Management Planning
 - ▶ No “de facto” standard: large variation in approaches to valuation
 - ▶ EU Practice: level of charge is often unrelated to environmental costs: “arbitrary”
- ▶ Proposed Decree:
 - ▶ Reference Price of Water related to cost of water supply services
 - ▶ It does not reflect the economic value of water in the catchment/basin
- ▶ Conclusion: Draft Decree does not meet the criterion

2.2 ADEQUATE CONTRIBUTIONS

- ▶ Adequate contributions from each main sector:
 - ▶ Household,
 - ▶ Agriculture
 - ▶ Industry
- ▶ Industry versus household: no discrimination / differentiation for water consumption
- ▶ Electricity generation: method of fee calculation not yet clear
- ▶ Agriculture versus others:
 - ▶ Article 156 of the Law on Water
 - ▶ 50% discount on water use fee under certain circumstances
- ▶ Conclusion: Some minor discrepancies

3. INCENTIVE EFFECTS 1

- ▶ Current Fees are very low and only account for a very small percentage of the cost of water
- ▶ Two questions:
 - ▶ How much? Volumetric Basis, Size of Fee in relation to total cost
 - ▶ Who pays? Abstraction Licence Holders and/or End Users
- ▶ Water Usage Fee estimation:
 - ▶ Following the methodology in the draft Decree
 - ▶ Reference Price of Water: 44.9 RSD per cubic metre
 - ▶ Minimum 10% (Article 156): 4.5 RSD per cubic metre
 - ▶ *Current prices are comparable with the Reference Price for Water*
 - ▶ *Size of fee is «self-adjusting» as it is linked to regularly updated statistics on wage rates*

3. INCENTIVE EFFECTS 2

- ▶ Water service providers
 - ▶ Volumetric basis
 - ▶ Pay the fee for all water abstracted, recover the fee from consumers for water sold
 - ▶ Generates some incentive for reduction in non-revenue water
- ▶ Consumers (Household, Institutional, Commercial)
 - ▶ Volumetric basis
 - ▶ Increase in cost of water of about 10%
 - ▶ Significant incentive, but water demand is not always price sensitive for small changes
- ▶ Agriculture
 - ▶ Based on area of land subject to irrigation
 - ▶ Price incentive not directly related to volume of water used
- ▶ Conclusion: Moderate (not large) incentive effect, with less impact on agriculture

4. REVENUE GENERATION

- ▶ Simple estimates of revenue generation
- ▶ ~ € 20 million per annum
- ▶ Conclusions:
 - ▶ Large increase in revenue
 - ▶ Amounts to ~€3 /c/a
 - ▶ Could help co-finance investments
 - ▶ Not enough on its own
 - ▶ Additional revenues from other fees (water pollution) and / or general taxation will be required

| User | Amount Million RSD/Annum |
|-------------------------------|--------------------------------|
| Irrigation | 112 |
| Water Services (Use) | 1,376 |
| Water Services (Discharge) | 765 |
| TOTAL (ex. Others) | 2,253 |

OVERALL APPRAISAL

| | Appraisal | Comment |
|-----------------------------|--------------|------------------------------|
| Legal Form & Clarity | Very good | Pollution Fee |
| Environmental Cost Recovery | Weak | But similar to MSs |
| Adequate Contribution | Good | Irrigation and HEP |
| Incentive effect | Satisfactory | Contributes, but |
| Revenue Generation | Moderate | Contributes, but more needed |

CONCLUSIONS

- ▶ No legal obstacles / issues associated with adoption at this time (+)
- ▶ Objectives of the fees are not clearly defined (-)
- ▶ Scale of fee is unrelated to the economic cost of water resources (-)
- ▶ Volumetric approach – except in the case of agriculture (+)
- ▶ 50% exemption in the Law for certain irrigation users (-)
- ▶ Moderate incentive effect (+)
- ▶ Increased, but still comparatively low, revenue generation (+/-)
- ▶ The apparent lack of provisions for the setting of water use fees for uses that are not volumetric (e.g. power generation) (-)
- ▶ The absence of implementing measures for the Water Pollution Fee (-)
- ▶ The legal framework as proposed does not meet a number of the criteria

[DRAFT] RECOMMENDATIONS

- ▶ Aphorisms to bear in mind
 - ▶ Do not let the perfect be the enemy of the good
 - ▶ The art of the possible
- ▶ Practice in EU Member States is less than perfect
- ▶ European Commission pushing for increasingly rigorous implementation
- ▶ Adoption of the draft Decree in its current form would introduce a number of very important improvements (scale, updating)
- ▶ Subsequent adjustment / refinement likely to be needed
- ▶ Water Pollution Fee also needs to be addressed, especially given the large efforts needed to meet the requirements of the Urban Waste Water Treatment Directive



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