

EVENT SNAPSHOT

EVENT DETAILS

Water Tariffs in the Pacific: A snapshot of issues
28 February 2024

Panelists

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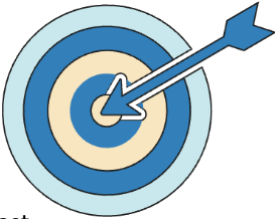
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Event recording and resources available [here](#).

Water regulation and tariff setting requires a balance between the financial sustainability of water utilities and the public good requirement to provide affordable water to all. Utilities should receive sufficient income to provide an agreed or expected level of service to their customers. Where adequate cost-recovery of services aren't in place, utilities can fall into a vicious cycle of declining service levels – both a symptom and a cause of declining tariff payments.

Tariffs in the Pacific

The diversity of Pacific Island countries has led to the price of water varying significantly from no or low tariffs to very high tariffs across the Pacific. With water utilities providing services to the majority of households in Pacific urban areas, coordination and cooperation between regulators, governments and water utilities is vital for the provision of water to meet basic needs, while ensuring the adequate cost recovery of service providers to deliver sustainable operations.



Creating the political appetite for water tariff change is difficult anywhere in the world. The Fijian Competition and Consumer Commission (FCCC) and Water Authority of Fiji (WAF) reported that customers are willing to pay more for improved and more reliable water services, yet the political will to increase tariffs remains low. Utilities benefit from predictable revenue streams and cost recovery to a certain level of service delivery is essential. Cross-subsidizing is common to build business continuity – for example, water services subsidizing sanitation services, or energy subsidizing water services. A key task for regulators and utilities then is to present evidence to politicians on how increased tariffs will lead to improved service delivery, likely a politically favorable outcome.

The webinar explored several key topics:

- Water tariffs in the Pacific – how appropriate tariffs can be determined based on cost of service provision to agreed service levels.
- The regulation of tariffs, and how regulators and governments can work with water utilities to ensure suitable tariffs and subsidies are set to ensure access to water and sanitation services for all.
- The business viability challenges water utilities face to balance between service cost-recovery, the cost of provision of water to meet basic needs, and seeking tariff increases.

Webinar overview

ADB Technical Assistance (REG TA-6551), in association with the Pacific Water and Wastewater Association, hosted the first Pacific WASH Webinar for 2024 to explore how water tariffs are set and regulated in the Pacific. The panel included water regulation and tariff specialists from the FCCC, WAF, and Chuuk Public Utility Corporation (CPUC). The event was attended by 62 participants, including 32 from 9 Pacific countries.

Case Study: Chuuk, Federated States of Micronesia

Chuuk is a small island state with a small customer base, making the financial sustainability of water service delivery difficult for Chuuk Public Utility Corporation. The utility delivers both electricity and water services, and electricity tariffs currently subsidize water and sanitation services. CPUC has no subsidies but cover almost 100% of the costs associated with the provision of water. While there is a willingness to pay, there is political pressure not to change the current tariff rates. A \$35m grant from the ADB will support the development of new water lines and associated infrastructure, tripling the customer base for water services and hopefully reducing the amount of water lost via Non-Revenue Water. The hope is that as more customers are connected in the coming years, tariff change will be accepted politically, improving the utility's financial condition.

Case Study: Fiji

Fiji has the cheapest residential water rates in the Pacific – while the cost of water is 15 Fijian cents per 1,000 liters, it costs Water Authority of Fiji over F\$1.20 to produce the same amount of water.

98% of Fiji's urban population is serviced by WAF for the supply of residential water. The country's water tariff rate has remained unchanged for over 20 years and WAF is forecast to need F\$8 billion to invest in wastewater improvements by 2050.

Water is a human right enshrined in the Fijian constitution, the country has a Free Water Allowance - a scheme that recognizes the fundamental human right to water and ensures everyone has access for their basic needs. Without changes to tariffs, the utility is dependent on government grants to meet the difference between the cost of providing water and wastewater services, and the cost to customers to pay for these services. The FCCC's role is to look at what is required to ensure WAF can cover the costs of providing water and wastewater services. National discussions are underway on the need for WAF to corporatize and people in Fiji have expressed their desire to pay more in exchange for improved water services. Politically, however, there is currently a desire to restrict any increases to water tariffs due to cost of living pressures and inflation.

Regulating water tariffs

Regulation and tariff setting is approached differently around the world but there are common models, challenges and approaches that are used.

- National and state regulators that are specific to water and sanitation services are set up as independent to government. They can provide licences, set and monitor performance standards, set tariffs, and undertake audits. Multi-sector regulators perform similar roles except that they play this role for multiple sectors – for example energy, water, communications, etc. These are the norm in higher income countries and where utilities are corporatized and ring-fenced.
- Self-regulation models are where local council, or a designated board made up of local government, or a government ministry regulate the utility.
- Regulation by contract is another model where performance contracts are set between the government and a private entity who is then responsible for delivering service standards. The monitoring of that contract in effect becomes a similar function to that of a regulator.
- Hybrid regulatory models of the above include a mix of approaches adopted to suit the context.

Learning Snapshots

- *There is no 'one size fits all' approach to tariffs and regulatory models for water services. A 'best fit' regulatory system is one that suits the country's policy, institutional and political economy context.*
- *As urban populations continue to grow, effective water financing arrangements are critical for the sustainable management and expansion of water services. This includes ensuring basic services are available to all – including vulnerable groups, and that measures are included to build resilience to climate change and future-proof infrastructure and asset needs.*
- *National leadership is important, as is regulator maturity. Water is a politicized matter, however utilities do need predictable revenue streams to provide reliable services whether by government subsidy or grants, cross-subsidy or increasing tariffs.*

Pacific WASH Webinar Series



Past ADB Pacific WASH webinars can be accessed here: [Pacific WASH Webinars](#)

ADB continues to support government and water service providers in the region to build resilience, capacity and knowledge to manage threats in our changing world.