RESOURCE

Cost Recovery in Urban Water Services: Select Experiences in Indian Cities

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Description / Abstract

India's Jawaharlal Nehru National Urban Renewal Mission (JNNURM) requires urban water service providers to recover the costs of their services through "reasonable user charges". Internationally, the trend is for tariffs to cover the full costs of water supply and sanitation, including capital replacement and the remuneration of equity. In India, however, tariffs generally fall far short of recovering costs; even in as far as they attempt to do so, the common practice is one of operational cost recovery, and tariffs do not take into account capital costs.

Setting adequate tariffs and improving tariff practice would therefore have to be part of urban service delivery reform. This field note argues, however, that even while tariff reform is still in progress, service providers could improve cost recovery considerably by introducing more efficient operational practices. The evidence shows that—even at existing tariff levels—none of the cities included in the study achieves its revenue, and some are as much as 80 percent below their potential. Greater efficiency can go a long way to redressing this problem, and improving service delivery and cost recovery.

The report draws on a Water and Sanitation Program (WSP) study from 2008 which made a comparative analysis of 23 urban local bodies (ULBs)—looking at seven cities in detail and another 16 based on secondary data—to understand the factors affecting cost recovery in India and provide an indication of current performance. It also draws out examples and lessons to inform reform approaches and guidelines for reform.

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