

COST RECOVERY^[1]

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My name is Bert Smedema and I have been asked by the organising committee of the 9th IDW to initiate and facilitate an Internet discussion on the theme of “cost recovery” of land drainage projects.

For those of you who are preparing a workshop paper or are otherwise considering making a workshop contribution to this theme, below please find for your guidance some thoughts on how such a contribution might be approached and which aspects of cost recovery might be highlighted.

These thoughts are merely meant as an opening of this (Internet) discussion. I am certainly not an expert on this theme, just your humble facilitator. I would very much appreciate your comments and suggestions and will respond accordingly. In due time, when the workshop papers come in, I will also try to incorporate the substance of these papers in our discussions.

Hope we will have fruitful but also enjoyable exchange and that we will succeed in ending up with increased understanding of the involved factors and with some sensible and tangible conclusions.

1 DEVELOPMENT MODELS

Current thinking on the recovery of the costs of drainage projects should be seen against the backdrop of the shift in development thinking which occurred during the 1970/80's when the *central planning model* was largely replaced by the *market model*. While in the first model, the initiative and the management and financing responsibilities of development projects rested primarily with the governments, the new model reserves a much greater role for the users and other stakeholders. Environmental protection/enhancement, long term sustainability, participatory development and ownership are the key elements of the new model.

It may be noted that almost all drainage development in the developed countries was completed before the 1980's under the old central planning model. Almost all existing drainage infrastructure in Europe and North America was in fact developed with strong governmental support.

Discuss :

- appropriateness of the market model for drainage development
- drainage in developed vs developing countries
- specific cases of positive and/or negative policy environments
- role of international donor and financing agencies

2 PUBLIC VS PRIVATE GOOD

A leading principle of public finance is that (based on efficiency and equity considerations), the financing of activities from public resources should be restricted to *public goods* and that *private goods* should be financed from private resources. In drainage, this public/private goods distinction is closely linked to the typical three level hydrological and institutional ordering of the drainage activities within a drainage basin (*basin level, district level and farm level*). For proper application of the above enunciated public finance principle, the public/private goods content of the drainage activities needs to be established at each of these three levels.

In the most developed countries, the drainage activities at the basin level were traditionally considered to a public good, a mixture at the district level and a private good at the farm level. Most developing countries also adhere in principle to this division. In practice, however, drainage activities at the farm level were considered to have a considerable public good content and as such entitled to public financial support. The above described shift in development thinking has in many countries led to a limitation the public financing of drainage activities at the on-farm and also at the district level

Discuss:

- appropriateness of the public/private goods distinction to drainage development

- appropriateness to subsistence farming in developing countries
- public/private good content of various drainage activities
- appropriate classification criteria

3 CAPITAL VS O&M COSTS

In cost recovery consideration and practices, often a distinction is made between the capital costs and the O&M costs. Apart from the fact that the capital needs to be available as a sum to finance the planned development, financially the two costs are quite similar, both posing recurrent annual burdens (although administratively treated separately).

The commonly made cost recovery distinction, therefore, is based on other, non-financial, considerations. The distinction is usually that capital costs are not recovered from the direct beneficiaries. This holds for much of the main drainage infrastructure but in many cases also fully or partly for the on-farm investments. The main consideration is usually that recovery of the invested capital from the direct beneficiaries is beyond their means while development as such is desirably, justifying it to be considered a public good. The O&M costs of drainage projects at the other hand are as a rule born by the direct beneficiaries, because it is considered to be affordable but also on principle, to promote responsibility, ownership and sustainability.

Discuss:

- justification of non-recovery of capital costs of drainage project ; specific cases requiring special consideration (recovery/non-recovery)
- capital cost recovery justification for main vs on-farm systems
- cost recovery of rehabilitation projects
- cost recovery of replacement/improvement investments

4 SPECIAL COST RECOVERY CONSIDERATIONS

It may plausibly be argued that some drainage activities should be given special cost recovery consideration. This applies e.g. to drainage development project which demonstrably contribute to poverty alleviation, social development, rural development, combat of public health, improvement of residential living conditions, environmental protection, natural resource conservation and other objectives with a high public good content

It may even be argued that much of the drainage development for salinity control of irrigated areas in the arid fall in this category, the arguments being that such projects are environmental protection projects, national resource conservation projects. An additional argument for special cost recovery consideration may be that in many cases the water logging and salinization of the land is not (solely) caused by the farmer.

Discuss:

- extension, elaboration, articulation of the mentioned cases justifying special cost recovery consideration.
- justification of special cost recovery consideration of drainage for salinity control

5 BENEFICIARY IDENTIFICATION, ASSESSMENT BASE AND AFFORDABILITY

Almost all those residing and/or economically engaged in the drainage basin have in one way or other an interest in the quality of the drainage conditions and drainage services in that basins. This applies first of all to the landowners and the farmers but also to homeowners, businesses and industries. The level of interest between these various may however differ greatly and this should be properly accounted in the cost recovery. Interest may also greatly at the different hierarchical levels. Proper identification of these various categories of beneficiaries and the establishment of a solid basis for assessing these derived benefits is therefore an essential requirement for a fair and equitable system of costs recovery.

Rates may be simply determined by dividing the annual costs to be recovered by the total assessed interest of the beneficiaries. Other systems also prevail. In some cases it is also justified to take into account the financial positions of the beneficiaries. In some countries, upper limits are set on the contribution which can be demanded from farmers (say not more than 20-30 % of their net crop based income).

Discuss :

- descriptions and analyses of various beneficiary identification and assessment systems followed in different countries
- identification of best cost recovery practices
- overviews of actual and relative cost recovery rates (expressed in term of derived drainage benefits, net income or otherwise)
- merits and justification of affordability considerations

6 ANALOGIES WITH OTHER WATER SECTORS

Although each sector is unique and specific, view may be developed and lessons may be learned by comparing and analysing principles, considerations and experiences with cost recovery in other water sectors.

First of all comparison with the irrigation sector comes to mind although the provided service is technically clearly quite different (water supply vs water removal). In the public/government/official view, the provision of irrigation services has often a much higher public good content than the provision of drainage services and cost recovery in treated accordingly.

Technically, land drainage systems are much closer to sewerage systems and quite similar cost recovery principles are followed. As with drainage, different beneficiary groups are usually identified for the different hierarchical system component (in-house facilities, lateral, sub-main and main lines, treatment and disposal facilities). Affordability considerations quite similar to those discussed above, have also been advanced in many developing country cases to justify lower or otherwise adapted cost recovery policies

Discuss:

- analogies and lessons to be learned from irrigation projects
- analogies and lessons to be learned from sewerage projects
- other analogies

7 RECOVERY MECHANISMS

Various modes of cost recovery are applied: crop based (higher rates for higher value crops), area based (with possible differentiation between higher and lower land), incorporated in other fees (general or local taxes, part of a land tax, part of an irrigation fee), collected by local/regional/central government or by public drainage organization or water user organizations, allocation and use of the collected funds. Various combinations of each of these elements are found in different countries and for different projects

Discuss:

- pro's and con's of the possible alternatives
- detailed descriptions and analyses of specific cost recovery practices or combinations of specific cost recovery practises in specific countries or on specific projects specific projects
- suggested judgement criteria, suggested best practices.

8 OTHER SUBJECTS

The above subjects are suggestions, not restrictions. All relevant subjects are welcome. Case studies, descriptions and analyses of successes and failures, factual/anecdotic information, all this is particularly welcome.

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