



Palestine Economic Policy Research Institute (MAS)

# **The New Water Tariff System in Palestine Between Economic Efficiency and Social Justice**

**2013**



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Between Economic Efficiency  
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**The Palestine Economic Policy Research Institute (MAS)**

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

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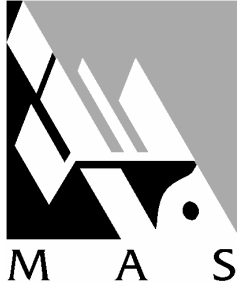
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- ◆ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ◆ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ◆ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ◆ Disseminating up-to-date socio-economic information and research results.
- ◆ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ◆ Strengthening economic and social policy research capabilities and resources in Palestine.

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## **Foreword**

The purpose of this study is to provide critical review of the new water tariff, which was prepared by the PWA and endorsed by the Palestinian Cabinet. The study investigates whether the new tariff has succeeded in assuring free access to clean and safe water to all, particularly to the poor people. It also examines if the new tariff will lead to more rational use of water for all purposes including households, industrial and commercial enterprises, and tourism.

Arguably, the new tariff should allow water suppliers to achieve financial sustainability and foster their ability to cover operational and service costs through the surveillance of the efficiency and quality of performance of public and private suppliers and distributors. The study discusses these issues with relevance to the unique status of the oPt, being an occupied territory in which Israel fully controls and manages Palestinian water resources.

With the release of this study, I would like to thank the involved researchers and reviewers, particularly the PWA's experts and editors, as well as all participants in the public workshop held to discuss the findings and recommendations of the study. Finally, I am especially indebted to the Arab Bank for Development in Africa and the Islamic Bank- Al-Aqsa Fund for funding this study, which in part of the PNA's research priorities program.

**Dr. Samir Abdullah**  
**Director General**



## **Executive Summary**

The issue of water is subjugated to lots of interests from various countries regarding the difference of their economic progress. In the context of the debate about the necessity of balancing between the economic value of water on the one hand, and the importance of its availability at fair prices for different social classes on the other hand, an unanimous majority of literature and experiences of countries in the field of water emphasize on the need to achieve three basic principles in the management of the water sector. First, is the ability of the water facilities to recover the costs of the water from the participants. The second objective is to attain the principle of social justice and taking into account the different social strata, especially the poor. The third and final objective is to achieve the principle of economic efficiency and guiding the use of this rare and unsustainable natural resource.

Water holds special significance for Palestine in terms of political, economic and social arenas where the Palestinian Territories suffer from the Israeli occupation's control over the water resources, along with the deterioration in the infrastructure of the water networks and high water wastage. Water prices also vary significantly between the various Palestinian areas due to the lack of a unified tariff system which serves to reduce the disparity in prices. As a result, the previous problems and features affect the ability of the Palestinian consumers in meeting their water needs or in the water quality obtained, in addition to an imbalance in the realization of the principles associated with the recovery of the costs of water supply and achieving social justice and economic efficiency.

The challenges that are faced by the Palestinian water sector require an organization of this sector addressing the distortions that hinder the application of its management system in a scientific and modern manner. Under this context, the Palestinian Water Authority has prepared a proposal on the water tariff policy which has been endorsed by the Palestinian Council of Ministers while awaiting its publication in the official newspaper in order to resume with enforcing it. The adoption and implementation of the unified water tariff system is an important means to achieve this end. The purpose of this study is to shed light on the reality of the current water tariffs in the Palestinian Territories, and on the theoretical backgrounds and the different approached and methodologies that were used to determine the tariff. This study also dealt with the past experiences of some countries in the field of water pricing; all for the

purpose of evaluating the water tariff system that was recently set forth in order to assist in developing it and improving its chances and its applications' specifications.

The study reviewed both the institutional and legal frameworks for the water sector in Palestine. The institutional organization for the water sector is divided into four levels: the political level representing the Council of Ministers and the Water Council, the organizational level representing the water authority, the operational level representing the National Water Authority, and the regional level, in addition to the weaknesses of the water council in determining the appropriate water policies (the inability of the water supply to meet the demands). This deficit is shown due to an increase in the rates of technical losses (the deteriorating condition of water networks) and non-technical losses (thefts) which are estimated to be around 40%, along with the lack of high water quality available (especially in Gaza), and the restrictions imposed by the Israeli authorities regarding water usages.

The results of the study showed water tariffs vary significantly between the various Palestinian areas; this discrepancy is due to the adoption of water suppliers, in many cases, to non-objective bases for the determination of prices, where covering the costs is the most important basis for price-setting strategies. Nevertheless, the majority of suppliers suffer from a financial deficit because of their inability to recover the costs. Other related factors, such as the lack of control of the costs and the weaknesses in obtaining receipts, contribute to the inability of suppliers to recover the costs of providing the locals with water. Additionally, other relevant factors were not considered such as the average income, the population size and their consumption abilities, and the marginal costs and utility of the water prices, which could have contributed to the principles of social justice and economic efficiency.

In order to assess the proposed tariff system, the research team inquired on the experiences of many countries which have adopted different approaches and bases in the preparation of their tariff systems. The assessment took into account the uniqueness of the Palestinian situation in terms of economic and social objectives for adopting and developing a unified tariff system. In context of assessing the tariff system, the study provided many observations and comments which have been dispersed into five sections. The first section dealt with the objections of the system and the mechanisms of its application; and it has been apparent that in many cases there is a conflict in achieving the objectives, where the goal

of achieving social and economic justice sometimes collides with the goal of cost recovery. The second section of the analysis showed the presence of interferences of the different authorizations of the competent parties when applying the system. As for the third section, it introduced the issues that were clouded by uncertainty and indeterminacy, which remain susceptible to varying interpretations and explanations, where the system did not specify, for many subjects, specific indicators or rates to measure performance. The fourth section presented a number of issues that the system overlooked, including the imposition of sanctions on those who violate the provisions of the rule. Looking at the fifth and final section, it has provided observations and final comments regarding the structure of material, typos and misspellings.

The study offers a set of proposals that could contribute to improving the current situation of the Palestinian water sector in general, and the development of the tariff system in particular in order to allow it to be responsive to the reality and the needs in the water field:

- ✧ Make the necessary amendments to the legislation governing the affairs of the water sector in Palestine, and adapt it towards setting the authorizations of the supervisory, regulatory and operational parties of the water facilities, especially the authorizations relating to the preparation and adoption of the tariff system and the determination of prices of water in the Palestinian Territories. In this regard, the study proposed an amendment to the water act and the law of local bodies and the agriculture law.
- ✧ The Water Authority is working on preparing a draft of the new Water Act, and it is important to expedite the completion of this law because of its impact on the organization of the Palestinian water sector and is working on addressing the contentious issues in the current law.
- ✧ Speeding up the preparation and the issuance of the procedural rules and regulations necessary to implement the new water tariff system is needed since these regulations contribute to clarifying the mechanisms of the implementation of the system and its ease of application in reality.
- ✧ Complete the implementation of the establishment of the National Water Authority, and the completion of the establishment and development of the four regional water facilities: Coast Water Authority, Center Water Authority, Northern Water Authority and Southern Water Authority, as the executive tool for the Water Authority.

- ✧ The reconsideration of the structure of the National Water Council, which would allow the regulation of the cyclical meetings according to the law, to carry out its assigned role in the adoption of policies, programs and regulations prepared by the Water Authority, and especially the water tariff policy.
- ✧ Accelerate publishing the unified water tariff system in the local newspaper so that it becomes enforceable, after the introduction of the amendments contained in the study, to reduce the variation in the price of water between different regions in the Palestinian Territories, and to achieve the financial, economic and social goals, which the system was created to achieve.
- ✧ Mobilize the financial resources necessary for the rehabilitation of the water networks in the different regions in order to reduce the rates of technical losses caused by the poor conditions of the extensions and the lack of maintenance. This will reduce the costs for producers, and therefore will reduce the water prices on the consumers.
- ✧ Prepare an awareness campaign for citizens to make them more alert about the importance of the water resources and emphasize on the need to direct their water consumption habits, and address the illegal connect to the water network by some consumers (non-technical losses). This campaign should be accompanied with strict enforcement measures against offenders and to those who evade paying their water bills.
- ✧ Adjust spending the water facilities and supply institutions, and this includes the operational and administrative expenses, in addition to improving the performance of the collecting sections in these facilities in order to achieve the goal of cost recovery.