

## Financial Sustainability and its Impact on Service Provision



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**Technical Note**  
**November 2018**

## Context

Like other countries where Water For People works, the Honduras Country Program’s work is focused on achieving Everyone Forever, and this means that its municipalities should have financial sufficiency to achieve it.

It has stood out as a country where policies and laws have been established that favor the achievement of the organization’s and other stakeholders’ main objective. However, meeting this objective continues to be a challenge. The Framework Law of the Water and Sanitation Sector, the National Policy of the sector, and the Financial Policy assign the responsibility of ensuring service provision to municipalities (CONASA, 2015). However, there is no reference to how much this would cost municipalities in time and money nor the level of prioritization to cover this responsibility (IRC, 2017).

The structure is clear, which is measured in the Sustainable Services Checklist (SSC), a tool developed by Water For People. There must be a service authority with sufficient financing that operates and provides technical assistance to rural communities and water and sanitation service providers.

## Description of the Problem

When carrying out the evaluation with the SSC tool, we notice that the main problem in our intervention municipalities is the financing metric, for both the service authority and service providers.

### SUSTAINABLE SERVICES CHECKLIST RESULTS - 2018



The difficulties identified at the service authority level are:

- The estimation of funds needed to achieve Everyone Forever.
- The allocation of funds for the operation and maintenance of educational centers.
- The municipality is not covering the costs of mobilization of technical personnel.

At the service provider level, this refers exclusively to the fact that the tariff for each provider covers the operation and maintenance costs and a 15% savings for the replacement of its assets. Additionally, that provider must be efficient and try to have delinquency levels lower than 10%. According to the evaluation, it is evident we face the largest gap with this metric. Given this problem, the first question is: How does one metric really affect the other?

## Technique

To respond to this question, an analysis was conducted by applying two cost estimation tools:

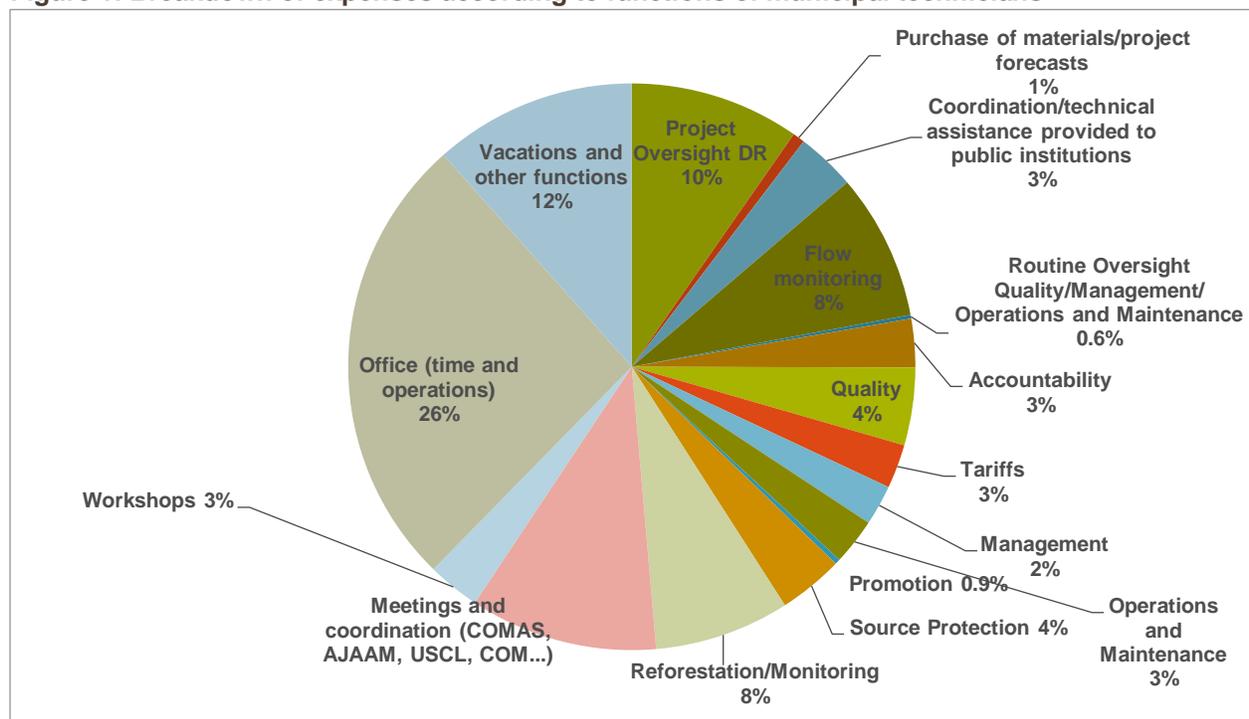
1. Direct Support Costs: This is a tool that evaluates municipal financing based on the **dedication of technical staff time and the financing** required to provide technical assistance to the municipality, considering municipal structures (COMAS, USCL, AJAAM).<sup>1</sup>
2. AtWhatCost: This is a tool that evaluates the financial sustainability of rural providers, forecasting costs that are required for the **operation, administration, maintenance, and replacement** during the useful life of their assets.

## Evaluation of Financial Sustainability of Services Authorities

The entire municipal structure is evaluated as a service authority, considering all functions and the time devoted and assigned to them, in addition to having the financial resources for such goals. Depending on the size of the municipality, sufficient personnel to cover technical assistance are considered.

In the previous year, the municipality of San Antonio de Cortes contributed HNL 272,160.00 (US \$11,340). This amount corresponded only to salaries of technical assistance personnel. Figure 1 shows the percentage of expenses distributed according to the time spent on each function.

**Figure 1: Breakdown of expenses according to functions of municipal technicians**



and sustainable services.

<sup>1</sup> COMAS: Municipal Water and Sanitation Commission.  
USCL: Local Supervision and Control Unit.  
AJAAM: Association of Water Boards.

Currently, the Country Program has supported the municipality of San Antonio de Cortes with expenses to implement its functions. Thinking about Water For People’s exit from the municipality, they must assume those expenses, and the most favorable option would be:

- Personnel expenses: HNL 414,493.33 (US \$17,271)
- District Water and Sanitation Office (UTMAS) operations: HNL 379,848.04 (US \$15,827)
- UTMAS travel and transport expenses (gasoline, maintenance, and depreciation of vehicles): HNL 100,713.00
- Meetings and training events (room leasing, refreshments, per diem of participants, etc.): HNL 125,300.00
- Other expenses (specific consulting services, annual monitoring, public institutions): HNL 153,835.04

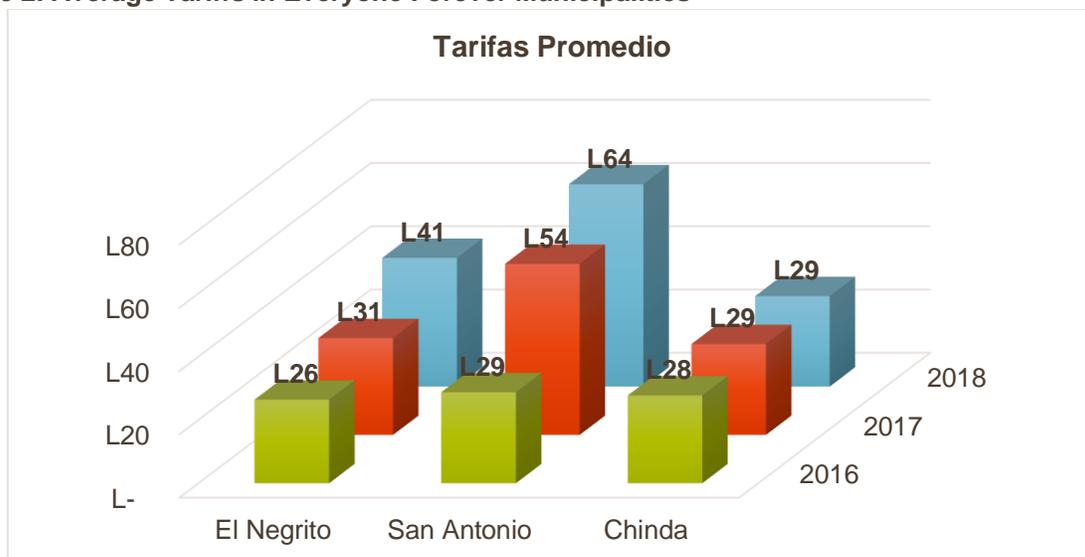
In addition, municipalities should consider a better distribution of staff time to support communities, especially those with lower indicators based on monitoring results, such as water quality and tariffs.

### Evaluation of Financial Sustainability of Service Providers

In Honduras, the Regulatory Body of Water and Sanitation Services (ERSAPS) has well-defined and regulated parameters and principles for sustainable tariffs, but it also allows users, in general, to approve tariffs (ERSAPS, 2006).

At the country level, the average tariff for water services ranged around HNL 28.00 (US \$1.20) in the last revision. In our intervention municipalities, we can summarize the progress of the last 3 years in Figure 2.

**Figure 2: Average Tariffs in Everyone Forever Municipalities**



If we compare the average tariffs of these municipalities with the average for the country, the tariff in San Antonio de Cortes is almost 3 times greater. When we performed a more detailed analysis with the AtWhatCost tool, the results showed that only 50% of the communities are covering their

operation, maintenance, and administration costs of systems, and 25% have savings for future spare parts.

In a tariff calculation, the most influential variable is the number of users of the system, since fewer users mean a higher tariff (per user), even when including just the minimum parameters of the tariff structure established by regulation:

- Water quality
- Operation and maintenance
- Environmental sustainability

For San Antonio de Cortes communities to have optimal tariffs, they should increase up to 5 times the average national tariff, and technical staff should spend more time to raise awareness among users about the importance of prioritizing water service.

## Conclusions of Evaluations

For a municipality like San Antonio de Cortes, financial sustainability means that:

At the service authority level:

- ✓ To guarantee that the municipality will allocate the necessary financing to provide technical assistance, it should invest approximately 10.5% of its operating budget solely for water and sanitation. Its total budget is around HNL 19,000,000 (US \$792,000) and it is restricted by the central government to use only 40% (around HNL 7,600,000 (US \$317,000) in operating expenses.

At the service provider level:

- ✓ Municipal technical staff should dedicate more time to raise awareness among users about the importance of having sustainable tariffs.
- ✓ The SSC must consider two of the tariff structure principles, which are the social impact and increases. Tariffs can be increased to an extent that would allow communities to pay them. For many years, they have established tariffs well below what is necessary, and it is difficult to increase tariffs from one year to the next, up to 400% of what they currently pay. With positive measures and actions carried out by municipal technicians, tariffs can be improved, but over a period of time.

## Additional References

[CONASA, 2015. National Policy of the Water and Sanitation Sector of Honduras.](#)

[ERSAPS, 2006. Regulation of Water Administrative Boards. Regulatory Body of Drinking Water and Sanitation Services.](#)

[IRC, 2017. Public financing for direct support of rural water and sanitation service provision in Honduras.](#)