



Country Water Action: Socializing Water Tariffs for Cost Recovery

Mongolia's nomadic tribes live in substandard housing with poor public services in suburban areas but pay the same as those who enjoy full urban amenities. For water services, can Mongolia adjust tariffs so that they are equitable yet still pursue full cost recovery?



For Tsedenbal Dulmaa, a housewife and mother of two in Hovd Aimag (province) in northwestern Mongolia, getting water at a much cheaper price means significant savings for her family. They live in a 'ger' area, an informal housing settlement at the outskirts of Hovd's urban center, where public services are now receiving much needed improvement.

"We now pay about 40% less for water than what we used to", Dulmaa said. "We can buy more food and warmer clothes for the children". Mongolia has the harshest weather in the world; wintry almost all-year round with temperature that can drop to 40 degrees below zero, and with a very short summer season.

Suburban ger areas are considered temporary, unplanned settlements and, therefore, receive minimal public service provisions, such as water, electricity, heating, and sanitation services. Most of the residents are poor. Each family lives in a 'ger', a big circular felt-lined tent. Used by nomadic and semi-nomadic families, the traditional ger can be easily put up or dismantled and carried by camels or a truck to another location. A simple stove at the center heats up the ger during winter.

Over time, and especially since the late 1990s, the ger area population has increased substantially due to in-migration. More and more nomadic people are settling in Ulaanbaatar, the country's capital, and in other aimag centers. Dulmaa's family is among those that settled in one of Hovd's ger areas several years ago. Ulaanbaatar, the coldest city in the world, now has about 709 ger areas that share water and other public services with people in more permanent apartment buildings.

The water tariff decrease in ger areas was due to water tariff reviews conducted by the government and the Hovd's Public Urban Service Organization (PUSO) as part of the Provincial Towns Basic Urban Services Project supported by the Asian Development Bank (ADB). The water tariff aims to cover operation and maintenance (O&M) costs, depreciation, and debt servicing. But how can the government recover costs if tariffs are decreased in ger areas?

Water in urban Mongolia

Mongolia's Law on Water covers pricing policies intended to ensure cost recovery and the equitable allocation of water resources. At present, however, only approximately 65% of water costs are recovered through pricing partly because of the country's present economic conditions. For example, although the regulation states that all water used for industrial purposes will be charged, industries are not making enough profit to pay for the real costs of water. Water use for agriculture is free although every user must establish a contract for the use of water while household users pay small fees for their use.

In the 1990s, Mongolia's urban infrastructure deteriorated seriously as the country's economy worsened. The quality of life and productive capacity declined, prompting the government to channel assistance through infrastructure upgrading and financial aid.

The Ministry of Infrastructure has also issued the Ger Area Policy Guidelines, encouraging the Municipality of Ulanbaatar and the smaller urban centers to focus on improving the livability of ger areas. In 1997, the ADB project was approved to help provide improved urban services, especially water supply, in five provincial capitals: Hovd, Moron, Olgiy, Ulaangom, and Uliastay; in western and northwestern Mongolia.

Under this project, all PUSOs of the five towns were successfully corporatized and made more independent from government strings. They prepared their own strategic business plans, which included socializing water tariffs for the ger areas, apartment buildings, and public and commercial institutions, both as equity and cost recovery measures. With more freedom in managing public services, the PUSOs became more efficient in delivering basic urban services.

Socialized water tariffs?

In Mongolia's urban centers, apartment buildings that form the city or town core and public and commercial establishments are equipped with the full range of municipal services; running hot and cold water, central heating, electricity, and sanitation. Excessive water use by apartment residents has been slowly brought under control by installation of water meters. Meanwhile, ger areas, while enjoying some of these services, paid the same price until the water tariffs were socialized.

Tariffs for apartment residents were increased (except in Moron), ranging from 37.2% to 103.2% in real terms, while water tariffs for ger residents were downgraded.

All is not well, however, as tariffs for institutional/public buildings decreased to a lesser extent (by only 21.9% in Olgyi) and even decreased by 40% in other areas (Hovd and Ulaangom).

"It is not fair", said Olzvoi Adya. "I do not mind paying more for water if everyone pays their share. Now they tell me the big businesses and the government don't pay for water as much as I do", Adya adds. She is also a mother and sells meat at the market.

To ease the conflict, achieve the target tariff increase for institutional users and strengthen PUSO's financial capacity, the Government agreed to increase the tariffs for institutional buildings.

Strengthening public urban services

Despite interference from local governing authorities, PUSO staff now set water tariffs for apartment residents, ger areas, and institutions. They also regularly propose rate changes to the provincial governments for approval. To achieve full cost recovery and sustainability, the ADB project advised PUSOs to

- increase tariffs only for institutional and public buildings by 1 - 3% in real terms annually
- keep tariffs for apartment residents constant or increase them annually only to keep up with inflation
- decrease tariffs for informal ger area residents, to ensure that such charges are within the affordability level of 4% of monthly household income on average.

Today in Hovd, households in apartment buildings spend at most 3.7% of their average monthly income on water, while those living in ger areas spend around 3.2%. Water affordability does not exceed the 4% norm for town residents, but could go up to 6% for apartment dwellers when sewer collection bills are added, which ger residents don't have.

Dulmaa and Adya are now both happy. They are paying the right amount for the services they get.

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