



# KRIHS Policy Brief

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## **Orientations to improve local water rate systems taking equity and sustainability into consideration**

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1. Local water services are experiencing deteriorations in financial soundness due to continued decreases in production cost compensation rates, and there are increasing gaps between major cities and small regional cities in water rates.

- The production cost compensation rate of water services in Korea reached its peak of 89.3% in 2003 followed by continued declines down to 76.1% in 2014, remaining at around 80% afterwards.

- Compared to the capital and metropolitan cities, residents in counties pay KRW 200 more per cubic meter for water services.

2. In particular, the sustainability of water services in small cities is at stake due to decreases in demands following population declines and heavy dependence on subsidies.

- Areas with lower production compensation rates for their water services are experiencing population declines or at risk for extinction.

- Water services in counties are more dependent on subsidies (50%) than revenues (23%), and municipalities are paying a large portion of their annual expenditures for water services and water quality management, implying that the financial risk of water services may negatively affect the overall fiscal soundness of the municipalities.

3. Improving the long-term sustainability of local water services requires regional integration and revamps in water service rates to reduce the regional gap.



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## Policy proposals

1. Regional integration is required to improve the economic efficiency of local water services and maintain the performance and quality of the services above the marginal level.
2. Regional integration should start with integrating operating systems as it would cost less, and service rate system integration should be pursued to ensure improved equity and sustainability.
3. Product cost compensation, improving equity in service rates, increasing users' contribution, long-term prospects, and considerations for business plans should be clearly expressed as principles in the Water Service Act to strengthen legally binding power and encourage improvements in service rate systems.
4. It is needed to establish and use water service funds to reduce impact of rate rises on users, along with plans to help vulnerable classes