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Water pricing and full cost recovery of water services: economic incentive or instrument of public finance?

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Neoclassical economists have advocated the use of pricing instruments as a fundamental tool for achieving sustainability of water systems and an efficient allocation of water resources. This idea has been accepted in worldwide agreed definitions of sustainability, where “full-cost recovery” is considered as a basic requirement. In this paper, we argue that water pricing (aiming at allocative objectives) and cost recovery can often be at odds, while prevalence of one or the other objective also depends on whether the main issue at stake is financing infrastructure development and maintenance, or rather allocating scarce water resources. Therefore, the two issues should be dealt with separately and require different approaches to pricing.

Keywords: [Economic instruments](#), [Full-cost recovery](#), [Pricing of public utilities](#), [Water supply and sewerage](#)

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