

Experiences and Lessons Learned in Financing Municipal Water Services

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1. **Water a necessity for life and an economic good.**

As an introduction I would like to say a few words about how I look upon our common water resources. Water is the most important foodstuff in the world and must be available to everyone, poor and rich, all over the globe. Growing population but unchanged water quantity and worsened quality give humanity a great and joint challenge about how to handle our water for acceptable quantity and quality now and in the future.

I believe that water also must be seen as an economic good that we have to pay for - but not more than is absolutely necessary. The water utility must be operated as effectively as possible to guarantee low costs and price combined with acceptable quantity and quality. Another condition is that drinking water and sanitation must be seen as inseparable and be treated as such to guarantee quality, health and sustainability in both a short and long-term perspective.

2. **Water a Monopoly**

In my opinion a water utility must be seen as a monopoly activity. It is difficult and uneconomical if there are parallel plants and networks, etc. It is necessary that the authority and access to the water resources are in public hands. I think we all know that regardless whether the municipal water is operated by a public authority or department, a public company, or a private company, there is a fundamental need for leadership, organisation, and skilled and motivated personnel for the activity to be successful. The composition of the board is also of great importance. Personally, I think it is good for a public utility to have its board composed not only of politicians but also of independent experts (at least as advisers with the right of free speech). Finally, if a public water utility is organized and operated effectively without profit making, the utility will have a great chance to give the inhabitants good service to the lowest possible price. My opinion is based on the Swedish and Scandinavian way of "thinking water" and from my years as Finance Director and CEO for Stockholm Water Company, as well as finance Director of the City of Stockholm.

3. **A Swedish Perspective**

In Sweden we have a special law regulating technical and economic conditions concerning drinking water and waste water. This law has recently been revised and I will make some comments about the law:

- Establishment of water and sanitation treatment plants and network for a municipalities and cities is defined in the law as "a public water and sanitation installation ". Here the municipality has a juridical right of determination. The tariffs consist of one tariff for connection to the utility's networks for water and sanitation as an isolated case and one tariff for water consumption that includes wastewater treatment.

- The tariffs must not exceed what is needed to cover necessary costs for organisation and operation of the water utility. No profit is accepted.
- It is allowed to set aside eventual surplus to cover future investments within the water utility, provided that there is an investment plan and that the deposition is related to a specified project.

If the water consumer has any complaints he can go to the Swedish Water Court.

Earlier a water utility's operations were financed both by tariffs and taxes and investments in new waste water plants partly by governmental subsidies and partly by bank loans. Today almost every utility finances yearly operations and management entirely by tariffs that also cover instalments and interest to the banks for loans to investments.

What's the explanation? One reason is that the municipalities need the income from taxes for other purposes like schools, hospitals, elderly care, etc. Thus, the water utilities are forced to finance their activities completely through tariffs. Since it's mostly the same people that pay taxes and tariffs, water utilities have been pressured to keep the tariffs low and to rationalize the organisation. At the same time both the government and the municipalities have raised the standards concerning water quality and waste water treatment for environmental and sustainable reasons. This has necessitated new initiatives from the water utilities – both to finance new investments to meet the requirements and to avoid noticeable raisings of the tariffs. From my time as CEO of the Stockholm Water Company, let me mention a few of these activities:

- Communication and cooperation with the inhabitants, including schools and households.
- As members of the municipality, the inhabitants are indirectly the owners of the water utility. Water quality, environment and tariff levels are very much depending on their behaviour.
- Cooperation with other municipal departments and enterprises within and outside the municipality. Large-scale advantages can be obtained through joint plants, bulk purchase and coordinated work plans, street and network repairs etc.
- Cooperation with industry and universities for new and more cost effective technical solutions
- Cooperation with other big water utilities among the Nordic countries . Among others we have developed a common system of performance indicators for comparisons between Nordic and other European public and private water actors to see how effective we are and find new ideas from others that we could use. We also provided our result and detailed figures to institutions like the World Bank and Ofwat for international comparisons. So far we are very proud of the results.
- Concentration of the management made by our own resources, first of all to normal operations and maintenance of plants and networks, including administration, short and long-term planning and also with some resources for applied research. All of this is done to guarantee and take responsibility for quality and quantity both in the short- and long-term perspectives. We buy all other specialist services through "hardest" possible competition. As an example Stockholm Water Company buys about 50% of its turnover in competition in order to receive good quality at the lowest possible price, while many other operators buy less than 20-30% outside their own concern.

4. Engaging People living under poor conditions to pay for acceptable water and sanitation solutions, experiences from projects in Eastern Europe.

Shortly after the disintegration of the Soviet Union, when the Baltic States regained independence, the Stockholm Water Company was engaged as a twinning partner to the water utilities in Riga (Latvia) and Kaunas (Lithuania). Their water and sanitation systems were in miserable condition, as was the water quality. Before the independence almost all revenues to the water utilities came from industry - an industry that to great extent had now collapsed. A normal house had paid practically nothing and the cities needed large investments in waterworks, waste water treatment plants and in networks. Discussions with different banks such as EIB, EBRD and NEFCO ended in the establishment of thorough conditions for the governments and the cities. No loan without guarantees from governments and city councils that the Water Utility could pay back the money. It was necessary with drastic raises of the water tariffs for the consumers. Time is too short to describe all different problems and efforts, but I will mention a few important steps.

- We had to convince our friends in Riga that Stockholm Water Company was not going to take over Riga Water. We were just colleagues and speaking partners to support and give advice to the city.
- We used our experiences from Stockholm to work with schoolchildren, households and others through different channels like young school informants and advertising in newspapers, television and tube stations, etc. The main message was: You can give you and your children much better health and a future with clean drinking water, you can eat the fish in the river and swim in the Riga Bay, but it will need great efforts from you and we know that money for water must come from an already very poor economy. Every month we will give you a report about progress in our work. All information to the inhabitants in Riga and Kaunas was of course given only by the water utilities personnel from Riga and Kaunas.
- Result: Numerous and large tariff increases during the years "opened the doors" to aid given from governments in Finland, Sweden and Switzerland and loans from the banks. Ten years later, the two cities had modern water utilities with good drinking water quality and sanitation conditions.

5. Comments concerning two projects in Africa.

About ten years ago at a meeting in Cape Town I mentioned to Mr. Kalyan Ray from UN-Habitat in Nairobi about how Stockholm Water Company had educated young children in water knowledge beginning at the pre-school age through young "water ambassadors" who had a suitable exam from universities. Purpose: to see this activity as an investment for the future, with the children as the next generation responsible for water, health and environment and, in the short term, as our spokespersons towards parents, grandparents, etc., in order to increase their interest and behaviour concerning water care and the value of good water. This was the start of a water education program in cooperation between Habitat and Stockholm Water Company together with several African capitals, their water utilities and schools. Thus far, interest from the participants has been great. Of course this is also like in Stockholm, Riga and Kaunas a way not only to stimulate understanding for water quality and environment but to increase public willingness to pay for necessary measures via the water utilities and make external financing possible.

Together with the International Water Association (IWA) and Sida (the Swedish development cooperation aid agency) I have been involved to engage target communities in order to improve the water and sanitation conditions for small and middle-sized cities in Africa. In this project IWA seeks to pilot test an effective and replicable approach to community engagement called the "Local Action Agenda" (LAA) approach. The main objective of this project is to provide people with better quality of life through improved social, economic and environmentally acceptable and sustainable solutions through better water supply and sanitation conditions. However it's always difficult to finance investments and secure tariff stability for repayment and operation and maintenance. There is thus a need for a speaking partner like a water utility with good experiences.

I believe many public utilities in Europe and other parts of the world would be interested, but in most cases they need external money and can't use their own money to participate because of their legislation.

6. Some thoughts about the way forward.

- I think it is a very good idea to establish a network between public utilities – both south/south and north/south, and as a result of network contacts even directly between municipalities and their water utilities. Activities within the network must be combined with practical projects that develop best practises, local knowledge and responsibility.
- The water problems are huge around the world. Therefore it is necessary that all available resources take responsibility and cooperate. A forum for dialogue between public and private water companies not at least between operator from western countries in order to find ways to support colleagues in developing countries.
- Industry must develop more cost-effective and sustainable solutions for water in developing countries suited to local conditions and to different kinds of settlements. Industry must also have a long-term economic view where they not only sees current (or the lack thereof) possibilities but also the opportunity at gaining a foothold in future markets
- It is important that aid organizations and other financial institutions limit their activities not just to institutional development but also give support to different practical projects (investments and operation and maintenance) to increase the number of best cases so that people can see real improvements in water quality, quantity and how this influences health and environment.
- Last but not least : Understanding and respect to local competence and devotion but also to local traditions, religions and cultures are vital for good cooperation and progress.

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