

CHAT TRAFFIC IN WEBINAR “DON’T FORGET THE SMALL ONES”

ANSWERS/COMMENTS BY PANELLISTS PROVIDED DURING AND AFTER THE WEBINAR

Thea Bongertman: Maybe there will be some attention for the governance part later? My experience is that many people are involved in small-scale water and sanitation systems. All with different roles and responsibilities along the life cycle of the system. In many cases there is a misalignment of institutional roles, with 'challenges' along the way.

Stef Smits @ Thea Bongertman: Good point on governance. And indeed, you cannot address the finance issue in isolation of the governance issue. For example, if you want to work on tariffs, the role of a regulatory body is important. Thea, so clarifying who does what in the governance framework, and their financial responsibilities.

Anoek Backx @ Susanna Smets: You just mentioned that due to the COVID-19 crisis it is less likely that more taxes money will be used to finance to improve access to good WASH. Should it not be put forward that in light of prevention of disease and disease spread there is currently even a bigger case for local and national authorities to prioritise access and good WASH? So, could the effect of the COVID-19 crisis not be the inverse of what you expect/predict?

Susanna Smets @ Anouk Backx: Surely COVID-19 can be a motivator to expand services those without WASH; however, fiscal budgets will be constrained and will be diverted to health system strengthening, social assistance, private sector development, and overall will be impacted by the economic recession. Hence it will be even more important to have an integrated WSS financing strategy, where transfers and taxes are prioritizing rural areas, and efficiency improvements in urban areas are optimized (reduce cost strategy). The State of the Sector report identifies that there is a large scope for improving efficiencies (10-30%) of many utilities in the Danube region.

Stef Smits @ Anouk Backx: If I can add to what Susanna wrote. In some countries, we see that the govt uses taxes to cover operational costs of utilities due to COVID-19. This is done because for example people cannot physically go and pay their bills, or utilities don't have the possibility to go out and read water meters and send invoices. It is of course ok to use taxes as a kind of emergency measure, but any Euro spent from taxes on keeping utilities afloat, goes at the expense of future investment capacity. So, there is indeed a risk that future investment capacity of countries is negatively affected by COVID-19.

Stef Smits @ Natalja [...]: Thanks for the question on financing of private dug wells and water quality control. The starting point on that is that the household itself would finance its own wells (i.e. tariffs) but often those are not safe and complying with water quality standards. So, some countries use small subsidies (taxes) to improve them in such a way that risks are reduced. The Government of Scotland is for example using such a mechanism, and a case study about that is included in the document, including more references to the Scottish example.

Diana Iskreva: Affordable services is an issue for significant percentage of Bulgarian population. The new W&S Act will consider affordable service only for 50 l/water per person per day. Anything above this consumption is expected to be paid according to the real cost of the service. It is also expected that the cost of the service would rise by 40-60% for various suppliers in the immediate future (due to planned investments to meet fully the requirements of EU water legislation). This situation is extremely frightening as already a number of suppliers fail to offer supply at affordable price on average basis, not on the basis of the most vulnerable groups of the population.

Harold Lockwood: How would you account for cross-subsidies from the supply side, such as larger utilities/urban populations?

Stef Smits @ Harold Lockwood: There are two ways in which this can happen. The first one is where a utility has a service area that contains both rural and urban populations and operates small-scale systems for the former populations. This is for example the case in the Netherlands, where we have provincial utilities that cover both urban and rural areas, but with a uniform tariff. This means that de facto the urban populations pay a price that is above the cost level for provision in the urban area, and rural populations pay a price that is below the cost level. This is a real cross subsidy between urban and rural areas. The second way is in which you have separate providers for urban areas and for rural areas. In such cases, a real cross-subsidy is not possible, and these providers have different financial systems. Rather, it would have to go via taxes, whereby maybe small-scale providers get extra subsidies to cover for suboptimal scale. But to my knowledge this rarely happens. Most of the subsidies are related to the poverty profile of the population served by a provider, rather than by the scale of the provider.

Sandra Hille: Would there be a possibility to get bonus/awards for protecting the landscape surrounding the wells (e.g. by extensive agricultural land use), which could protect water quality of the wells and would thus surely reduce maintenance costs?

Stef Smits @ Sandra Hille: What is proposed is a kind of payment for environmental services. But now that I read the suggestion in more detail, one has to ask who should pay whom for what. In some cases, it may mean that the utility needs to pay farmers (e.g. for extensivizing their land use). The utility would need to charge these costs on to users, but hopefully this gets reflected in lower costs for treatment. In other cases, the utility may need to get paid (but by whom?) for doing proper source protection. In some countries, source protection is even the responsibility of the service provider. The costs of that need to be included in the costing framework as explained in the guideline document.

Barbara Mateo: How the affordability criteria of the human rights to water and sanitation is ensured in this process, not only for WASH services but also to other essential services? Can you elaborate it a bit more?

Stef Smits @ Barbara Mateo: Affordability is indeed a key issue. In the section of the document that deals with tariffs to cover operation and maintenance and capital maintenance costs, it is clarified that this needs to start with clear tariff regulations which should reflect affordability criteria. There is not yet a quantified benchmark for affordability. This is still being worked on, as part of the SDG 6 indicator framework. But a rule of thumb is that expenses on water shouldn't be more than a certain percentage (e.g. 3%) of all households expenditure for the lowest wealth group (e.g. the 10% or 20% lowest income households). The specifics of affordability criteria are ideally worked out at country level. The [OECD report](#) also presents some calculations for the EU member states to check affordability.

Susanna Smets @ Barbara Mateo: The affordability criteria can be applied to say the 50 lpcpd consumption that is deemed necessary for human consumption. When the regular increases of block tariff structures by the utility are not supporting such affordability criteria for the poorest, there are other "social support" measures that can be applied. Here the simplicity of targeting, costs and gains of such programs are important, and also who is actually "paying" this social support (e.g. the utility through subsidizing its customers, or the state through a national fund allocation). Please find a presentation on "Lessons from social tariffs in the EU" [at this site](#). There are many ways this can be done depending on contextual factors of the individual countries. I can also recommend [this publication](#) to learn more on affordability and the way Flanders has developed its social tariff.

Stef Smits @ Alexandra da Cunha: In many countries there is resistance to service area aggregation. Communities and municipalities see it as a threat to their autonomy. How did you overcome that? Only by financial arguments?

Alexandra da Cunha @ Stef Smits: Yes, we have also hard resistances and that is why Government gives priority to these aggregations to access European funds.

Sean Furey @ Alexandra da Cunha: What are the barriers to aggregation of small systems in Portugal?

Alexandra da Cunha @ Sean Furey: There are mostly political barriers concerning the municipalities authority.

Barbara Mateo @ Alexandra da Cunha: Does ERSAR have different types of social tariffs based on the specific household budget situation? Or is there only option for all applicants? Where can I find more specific information about this? Also, in line with my previous comment, how this social tariff does take into account the affordability criteria for WASH services AND for other essential services/needs, in line with the content of the human rights to water and sanitation (affordability criteria).

Alexandra da Cunha @ Barbara Mateo: ERSAR has a recommendation from 2009, which defines a social tariff and the criteria's access, and a Portuguese recent law for social tariffs in water sector (Decree 147/2017) has some other rules, but each municipality defines the way to apply. The point for the regulator is that the social tariff should not be subsidized by other consumers but only by the municipal budget. The social tariff is independent of the affordability result because the social tariff is only applied for poor people and affordability indicator measures the ability to pay for the whole population and not for each household.

Marieke Adank @ Corina Andronic: Where does/should technical support to rural service providers come from (beyond guidelines)? Local public authorities? Bigger utilities? Private sector? How are/should these direct costs be covered?

Corina Andronic @ Marieke Adank: The objective of the ApaSan project support was to establish an assistance and support service for small water and sanitation service providers. The need for support, guidance and troubleshooting from rural water and sanitation service providers was documented and covers juridical, technical and financial issues. With political will and vision, this can be part of the regulator's work (department for small operators). Unfortunately, in the Republic Moldova the regulator deals only with urban licenced water & sanitation utilities.

Maartje Pronk: What does the WHO consider to be 'small-scale'?

Bettina Rickert @ Maartje Prank: There is no unified WHO definition for small-scale systems, and descriptions differ between countries within the pan-European region. Typical criteria for definitions are the number of people connected, the type of management or technology, the quantity of water provided or wastewater treated, and whether a water supply is piped or non-piped, centralized or decentralized, rural or urban. A general distinction used is between small-scale centralized systems and individual onsite systems. Examples of definitions for small-scale water supplies prevailing in the European region can be found in the publication [“Status of small-scale water supplies in the WHO European Region. Results of a survey conducted under the Protocol on Water and Health”](#)

Danka Thalmeinerova: Is there an estimate of number of people lacking water supply and sanitation services in Germany?

Steffen Krause @ Danka Thalmeinerova: To my knowledge, nobody in Germany is lacking water supply and sanitation services in Germany. We have a number of about 350,000 people living in remote areas who are not connected to central systems. They operate their own decentralized systems, which are included in the surveillance, both drinking water and wastewater with less stringent requirements.

Thea Bongertman @ Corina Andronic: What is your suggestion on how (by whom) facilitate dissemination and application of the new publication?

Corina Andronic @ Thea Bongertman: Communicate about the publication to the national stakeholders and sector actors, the community of practice and Protocol on Water and Health national counterparts.

Sean Furey: Is the political challenge on tariffs at the local level or national - or both?

Alexandra da Cunha @ Sean Furey: In Portugal, the political challenge on tariffs is only at a local level.

Corina Andronic @ Sean Furey: In Republic of Moldova, for licenced operators the regulator (based on the calculations made by the operator/service provider) approves the tariff. In this case, there is less political interference. For the small/rural water and sanitation operators, the local council approves the tariff. In many cases, the approval process is more of a quarrel and not a financial analysis. (Local political arrangements and any tariff raise might lead to less votes in the following elections, lack of knowledge and operation/maintenance literacy).

Steffen Krause @ Sean Furey: For Germany, in my perception, it is exclusively on the local level.

Susanna Smets @ Sean Furey: In my experience, political challenges can be both at local and national level. Often for rural service providers, there is no national economic regulator assigned, and the tariff approval process is fully left to the local government councils, at best with a clear guidance and method for the service provider/government to calculate a cost recovery tariff and the requirement of public hearings. At local level such "unwillingness to charge" is well documented (while population often is ready to pay). Changes in the legal framework are often needed (law on local self-governance) to adopt a more formal tariff approval process, combined with strengthening the regulatory capacity of national (or sub-national branch) of regulatory authority. This will in turn require national-level political buy-in and support. As in Portugal, and many other countries, tariffs for rural service providers may be recommended (such as by ESRAR), but incentives are used for local governments to adhere to these recommendations, such as access to subsidies. In Austria, a minimum tariff is for example required from small water service providers if they wish to obtain access to federal subsidies (e.g. above 1 Euro/m³). You may find more about regulation, policies and incentives in [this report](#) (although more oriented to urban).

Stef Smits @ Susanna Smets: Same question to you. You mentioned that in some countries in the Danube, aggregation has worked better than in others. To what extent were financial arguments used in the successful aggregation processes?

Susanna Smets @ Stef Smits: The issues of utility aggregation is multi-facetted and complex. It is not a panacea for success and the context and objectives of aggregation can be different and should be made clear upfront to judge what is meant with "success": Is it economies of scale, or scope to improve efficiency, is it to expand services and address equity objectives, is to increase the capacity to absorb investments in infrastructure, specifically wastewater. The implementation of the

UWWTD has been a key driver for aggregation for EU accession countries and has delivered tangible benefits on these goals. However, aggregation, has not always delivered on the universal access agenda, as illustrated in for example Romania. The successes and challenges of aggregation in the Danube have been discussed [here](#). A key message is that in a portfolio approach may be needed that includes: i) support to aggregation with equity objectives; ii) if local rural service delivery models continue to exist (e.g. as aggregation/ consolidation of service providers is not mandatory by law) ensure these are properly supported and monitored; iii) support self-supply for remote areas. Further information can be found on aggregation, with various cases studies [here](#).

Danka Thalmeinerova: Some countries undertook "decentralization" of services with a hope to "get closer to local circumstances". The experience from Portugal shows that "aggregation" might work better. Some opinion?

Stef Smits @ Danka Thalmeinerova: For me, it is important to differentiate between the decentralisation of the authority functions (i.e. the functions of local government to identify and appoint service providers, to exercise monitoring and oversight over them, for planning, etc.), and the provider functions (i.e. the functions of the day to day delivery of services, by operating and maintaining infrastructure). Broadly speaking the experience with decentralising authority functions has been good in the sense that local governments are in best position to plan for expanding new services and being accountable to their citizens. The flip side is that many local governments have appointed very local providers (e.g. small municipal utilities or lots and lots of community-managed providers). Many of those struggle to perform and suffer from economies of scale. Moreover, the sizes of local government differ a lot from one country to another. The case from Portugal showed a municipality with just 4000 people. The average size of a municipality in the Netherlands is 40,000 people, and in other countries, the size of a rural district is easily 200,000 people. In my view, in a particular context one has to find a 'good enough' scale, whereby: (i) Authority functions remain decentralised. But if there are many small local governments, it may be useful to aggregate certain technical functions. (ii) Service providers get aggregated to a scale that allows economies of scale, and whereby ideally a single service provider serves a number of local governments (this also has the potential benefit that the provider doesn't depend on the whims of a single mayor, but is overseen by a number of authorities). In practice, we observe a trend whereby indeed some of the technical authority functions get aggregated to for example a provincial level. And hopefully we will also see more processes of aggregation towards regional providers, or town providers, that also serve rural areas. But it is all about finding the right balance.

Susanna Smets @ Danka Thalmeinerova: See my response above. In addition to Stef's response, I like to highlight the issue/problem of decentralization of functions/mandate to local governments, without the necessary resources and capacities to execute the mandate. This phenomenon leaves rural water supply in an unfunded vacuum many times. The aggregation/delegation of service provision across multiple local governments can help, if well designed and supported adequately not to favour the typical "urban and district centre bias". Or, as in other countries (e.g. Albania), territorial reforms can help to create larger local government units, where more capacities, taxes and resources are located, who then delegate the service to their municipal or regional companies.

Sarah Hayman: Thanks for all the great presentations. Several have noted the need for increased cooperation/collaboration (like to improve efficiencies and pursue options like cross-subsidies), and the need for increasing staff capacity/support to small-scale providers around specialized areas like strategic and financial planning and business or regulatory skillsets etc. Have there been any findings on effective practices or investment in capacity building itself and the impact/returns, such as through Water Operator Partnerships?

Stef Smits @ Sarah Hayman: To my knowledge there are no cost-benefit type of analysis of capacity building. There are many studies about the results of Water Operator Partnerships (see for example GWOPA, who are leading research and knowledge management in this), but whether they have done full assessments of the return on investment.

Susanna Smets @ Sarah Hayman: I like to highlight some effective capacity development programs in the Danube, such as DLEAP, hosted by IAWD, which also benefits from a peer-learning approach (see [here](#)).

Carla Chiaretti: In the EU, the new Drinking Water Directive will have an economic impact on water supplier's costs and consequently on users. The European Commission is also thinking of revising the Urban Waste Water Treatment Directive addressing treatment of micropollutants, energy efficiency + production, and circular economy. The update of these two pieces of legislation may result in higher costs also for smaller operators. Affordability mechanisms will be fundamental since the OECD estimates that expenditures in the water sector should increase by at least 20% in all countries to cover the costs of this update. How can the sustainability of affordability mechanisms be ensured so that they work for the more vulnerable users?

Stef Smits @ Carla Chiaretti: My answer would be in a similar vein as the one provided above. One would have to assess the impact of expenditure increases on tariff increase, and then of that tariff increase on the poorest 10% of households. The OECD study, I think, even does some of those analyses. If the tariff increase would go beyond a certain threshold, there are two overall options: (i) Make up for the shortfall through public expenditure (i.e. funding from taxes). (ii) Increase the tariffs for the better off even more, so they can cross-subsidize. Alternatively, which is what some countries in Europe do, is not to apply any social tariffs at all within the water sector. Denmark and the Netherlands are two examples. Their argument is that such social welfare policy should not be done through tariffs for public services, but rather through general welfare support to poorest households (e.g. by raising state pensions, or welfare grants).