International Association of Water Service Companies in the Danube River Catchment Area

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SECOND YEAR OF COVID-19 CRISIS: IMPACTS AND MITIGATION MEASURES IN THE WSS SECTOR

The Covid-19 pandemic has impacted the water sector everywhere in the Danube region, causing financial, technical and operational challenges, and requiring short-term adaptation to ensure the continuous safe delivery of water-related services. The crisis has exposed existing weaknesses of the water services sector in many countries but has also increased awareness for the necessity to improve resilience, both by proper crisis management arrangements and preparatory planning and through maintaining an efficiently operated and well-funded water service sector.

Mr. Stjepan Gabric of the World Bank set the objective for the session, to review and discuss the overall impact of the Covid-19 crisis on the WSS sector in countries of the Danube region, aiming to highlight the importance of including water-related investments in government recovery packages and their contribution to broader water security and resilience efforts.

A survey of the sector – the impact of Covid on WSS

Mr. Ivailo Kastchiev, external expert for water service provision and regulation, then took the stage with the findings of a survey conducted on Covid-19 crisis impact on WSS sector in Danube River Basin in summer 2021. Mr. Kastchiev started his presentation by noting that there was very quick transition from normal to all-out emergency, and that the crisis affected different industries in different ways. Many industries felt negative impacts, and the water and sanitation sector was one of them. He further mentioned expectations of increased economic activities for the current year after minus 6.2 GDP in European Union for the past year. However, inflation has been rising and problems with the energy sector in Europe leading to price increases and low supplies of natural gas and electricity that have placed huge additional burdens on many sectors.

Mr. Kastchiev then outlined the major challenges facing water supply and sanitation in the region including huge non-revenue water and low water supply and sewerage services coverage in many rural areas. The survey explored economic regulators and water sector organizations in less developed countries of the Danube region, including Serbia, North Macedonia, Ukraine, Bulgaria, Albania, Moldova and Montenegro. The objective of the survey was to understand the overall effect of the Covid-19 crisis in 2020, compared to 2019, and to understand the cumulative effect of the various types of support measures in the countries surveyed.

The survey found water supply services (WSS) operators forced to rearrange the organization and provision of services and to introduce remote communication channels in response to lockdown measures. However, the crisis did not prompt major changes in activities, local organization, standards, and supply chain management in WSS, except in the period between March and May 2020, when extreme lockdown measures were in place. During that period, the supply of materials was affected, but the impact on operations was only short-term. The survey authors also note that during the initial phase of the Covid-19 vaccine rollout, WSS company staff was not given priority in vaccination programs. Still, the vaccination rate among employees in the sector is remarkably high.

The survey further states that although the WSS had to purchase additional protective equipment and disinfectants, the crisis did not significantly affect the regular operation costs of WSS operators. On the influence of the covid-19 crises on water consumption, the survey observed that there was an insignificant increase of on average 4% in domestic water consumption in the surveyed countries. However, there was a significant reduction in non-domestic water consumption ranging between 18 to 40% and even 50% in some countries. This reduction in consumption corresponded to a reduction in payment for water supply services.

It emerged from the survey that the Covid-19 emergency led to investment reductions, particularly for water supply. However, the crisis did not lead to even temporary cancellation of any standards and requirements, although some deadlines for certain tasks were postponed. Some regulators extended deadlines for regulatory report submissions. Furthermore, it emerged that support measures introduced in the surveyed countries were directed to reduce debt payments. It is interesting that the most commonly applied measure to reduce payments was a reduction of principal payments to commercial banks and public owners as well as to local tax authorities, although such measures were applied in less than 15% of all the respondents.

Furthermore, since many countries did not consider the water sector as a priority, targeted support programs were generally not applied for the sector in 2020. The survey observed that there were significant differences between tariff setting processes, business investment planning, performance monitoring and benchmarking, and a lack of relationship between the tariffs and the quality of service. Therefore, the authors conclude that an introduction of common European level requirements in the countries of the Danube region could lead to a unified organization of the sector, levelling playground for service providers and other stakeholders. This would lead to more solid planning, coordination and public communication in the sector.

In many countries, the water sector is quite fragmented, with some of operators serving less than 5000 customers. Such small-scale businesses cannot introduce sophisticated management models and international best practices. They rely heavily on external support and financing which may not be reliable in crisis conditions. Hence, the survey considers the COVID-19 crisis an opportunity to consider consolidation on a national level to establish, solid, financially sustainable and resilient bigger utilities.

The authors also state that the water sector is very capital-intensive, that service provision and quality rely on the condition of the assets, and that therefore, proper asset management is critical. Water supply and sanitation assets have a lifetime of 100 years and more, and wrong investment planning and maintenance decisions and practices will have negative impacts that last decades. ISO 55,000 mandates the implementation of standards for life-cycle asset management in the countries of the Danube region. Furthermore, proper, detailed financial management, accounting and reporting on costs and assets is essential and would help WSS operators to quantify the impact of crises on their operational costs.

The survey further recommends introducing digital solutions, especially in customer services, remote metering, SCADA and telemetric systems and the application of GIS systems for effective geo management as important steps towards improved resilience in times of crisis.

Performance monitoring and benchmarking is not only helpful for asset owners: The survey states that voluntary sector benchmarking, based on homogenous, reliable data should be encouraged everywhere in the Danube region, because it motivates utilities to share best practices and innovative ideas. It also mentions that at the onset of the COVID crisis, many countries in the region lacked crisis management plans. Furthermore, most operators lacked effective organizational structures, overall human resource strategies, job descriptions and protocols to assess employee performance. To improve resilience in the water supply sector in the Danube region, the survey recommends stronger capacity building and coordination to achieve more expertise and better service quality. This is essential for asset management, financial management, customer support and human resources management. In his final remarks, Mr. Kastchiev reiterated that the water sector was not given priority during the Covid-19 crisis, which calls for significant efforts to change the attitudes of politicians and customers while at the same time, the water sector needs to revise and modernize organization and performance.

Water supply services sector response to Covid-19 in the Western Balkans

In a second presentation, Mr. Hari Shutoski of the GIZ provided a summary of a GIZ survey carried out on the sector's crisis response. The GIZ open regional funds for modernization of municipal services in southeast Europe obtained additional funds from the German federal ministry BMZ to implement several rapid covid response measures to support municipalities and water utilities in the Western Balkans. Water and sanitation services were in the focus of this response, together with regional capacity development networks in Southeast Europe, public utility companies associations, association of municipalities, and their regional networks.

The survey presented lessons learnt and good practices of WSS delivery during the COVID-19 crisis. The survey observed no major interruptions in the quality of services. However, a notable lack of crisis management strategies and standard operating procedures was present in the sector. The survey observed that although central governments lent support to WSS operators, it was often too little and too late to mitigate the crisis impact. Water utilities requested financial assistance in form of tax exemptions and reduction of social security contributions. It also emerged that almost 80% of the surveyed utilities were hit by revenue losses in the range between 5-20% during the pandemic. Most utilities reported no significant cost increases except costs related to cleaning agents and disinfection.

A chance to leapfrog to the future

After these two insightful presentations, Mr. Stjepan Gabric handed the stage to a roundtable discussion.

Mr. Grgo Peronja, General Manager of Odvodnja-Zadar, a Croatian wastewater service provider in a large coastal community that significantly depends on tourism for its revenue, reported that Covid 19 affected the coastal regions of Croatia disproportionately, hitting tourism especially hard. His wastewater service, proud of meeting European Union treatment standards, was hit by a revenue reduction of almost 30% during the summer season, delaying most planned major investments.

Dr. Jo Burgess, of Isle Utilities, South Africa, observed that during the first crisis year, most water supply service providers postponed activities like asset maintenance. However, there is light at the end of the tunnel. In a survey carried out in 92 countries, nearly 20% of the respondents had postponed some of their ongoing or planned maintenance during the early phase of the pandemic, but now they're back on track and 83% of them report that there's no significant delay any more in maintenance and asset management. Situational adaptations brought changed monitoring regimes, changed methodologies in asset condition and performance monitoring and a huge leap towards digital technologies and remote monitoring systems. Dr. Burgess also observed an uptick in the utilization of rapid test kits for microbiological safety. In terms of capital projects among water utilities, about 30% saw no delay at all during the pandemic. A few percent of the capital projects were delayed less than three months, a few by about six months, and another 30% were knocked back three to six months and more. The longer-term impact is that 20% of the capital projects are still frozen two years into the crisis. Such delays also impact non-revenue water management that has increased between two and 8% as reported in some utilities. Consequently, where capital expenditure would be necessary to reverse, e.g. non-revenue water losses, it still isn't happening. Therefore, the non-revenue water continues to increase, and the impact will be felt for many years to come.

Ms. Midori Makino, a Lead Water Supply and Sanitation Specialist for the Water Global Practice, covering the Latin America and the Caribbean Region at the World Bank, noted that the deferred capital expenditure presents a risk of delay in the achievement of the SDG goals, in addition to socially disadvantaged population groups left behind. On the positive side, Ms. Makino highlighted the importance of preparation of the sector for the future, finding it encouraging that many utilities in most countries are exploring options to deal with such crises. She closed the roundtable on an optimistic note, urging that the utilities take advantage of the current situation to make a turnaround, to leapfrog and to build resilient utilities of the future.