

# GOVERNMENT, PAY YOUR WATER BILLS

Non-payment and empty promises are undermining the human rights to water and sanitation

POLICY BRIEF. August 2020



## KEY MESSAGES

Access to safe water and sanitation are **human rights**. Water and sanitation service providers must be able to operate and stay financially viable to serve everyone. But this ability is often at risk due to non-payment - including by government institutions. Water that is treated and delivered has a cost, also water meant for public office buildings, security and policing facilities, and other public institutions such as public hospitals and schools. Except when they are exempt from payment by law, **these public institutions should receive water bills and are expected to pay them**. However, there is evidence to show that many do not, or that they pay with crippling delays.

These arrears contribute significantly to the financial and operational challenges faced by utilities. In Africa, governmental and institutional customers often account for 20-30 percent of billing. **Non-payment thus has direct impact on the ability of utilities to provide adequate service and hampers the realisation of the human rights to water and sanitation.**

**Someone always pays.** When governments don't pay, people do. The burden shifts to those who face increased tariffs and those who are left with poor or no service, who pay with their health, time, and productivity. The impact on affordability of service is severe. The long-term social, economic and environmental costs are dramatic.

**There are many ways to address the issue** and improve collection rates from government entities. These include improving metering, billing, and collection processes (payment by institutions or direct transfers from Ministry of Finance), as well as upfront budgeting for essential services, limiting abuse of power, ensuring effective controls on expenditure, and enforcing clear rules. Such measures require determination and concerted action from sector stakeholders and public institutions.

The lack of payment from government institutions is in part related to the financing gap in the sector and to gaps in the regulatory framework. However, it is also **an issue of willingness, priorities, integrity, and long-term thinking**. Living without water and sanitation is a permanent crisis, not just during pandemics. **Utilities must improve systems to ensure collection of payments. Governments must ensure payments to utilities are given due priority and urgent attention.** This is essential, to ensure resilience in crises, avoid costly bailouts, and safeguard the human rights to water and sanitation for all.

## 1 EXTENT OF THE PROBLEM

Non-payment of water and sanitation utility bills by public institutions is not unique to one region of the world or level of development but it appears to be particularly prevalent in countries in the Global South. Generally, the size and complexity of the impacts of non-payment vary from country to country, region to region, and utility to utility.

It is a sensitive topic and some stakeholders face pressure to downplay it, but 95 percent of utilities surveyed in research for this brief still indicated it was problematic. There is reason to believe and anecdotal evidence to show that the issue is a bigger concern than is generally reported.

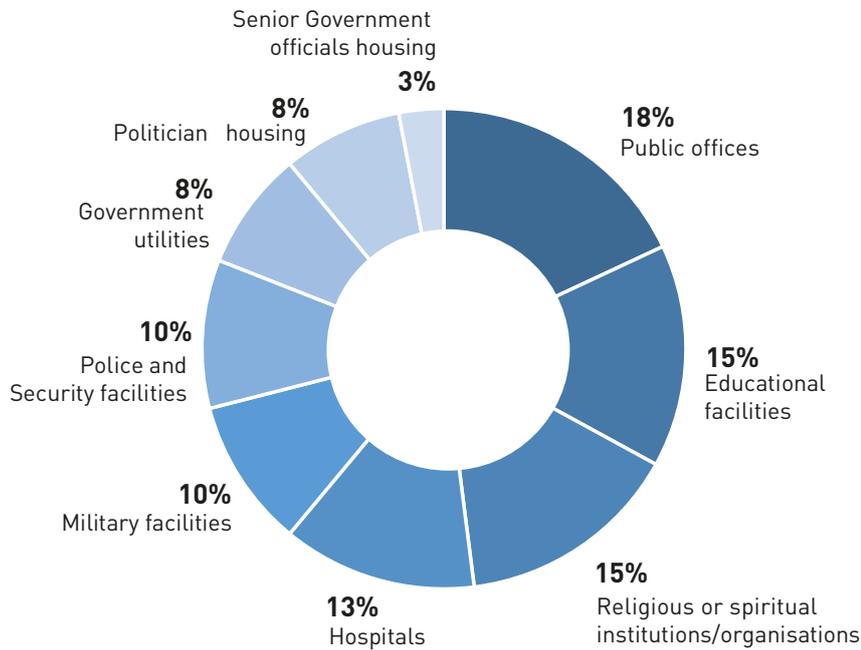
For some utilities, government and institutional customers represent over a third of their billing. Collection rates are consistently lower for government customers than they are for private customers and in some cases are strikingly low: only 40 to 50 percent for some utilities in Bangladesh, 30 to 25 percent in Chad, down to 1 to 3 percent for some utilities in Kenya. Most arrears are accumulating and there are cases where arrears are so high, they can represent up to 50 percent of revenue. Examples of the scale and impact of non-payment can be seen in Table 1, which highlights how much the arrears represent in comparison with total operating revenue, where data is available.

**TABLE 1: EXAMPLES OF THE SCALE AND IMPACT OF NON-PAYMENT**

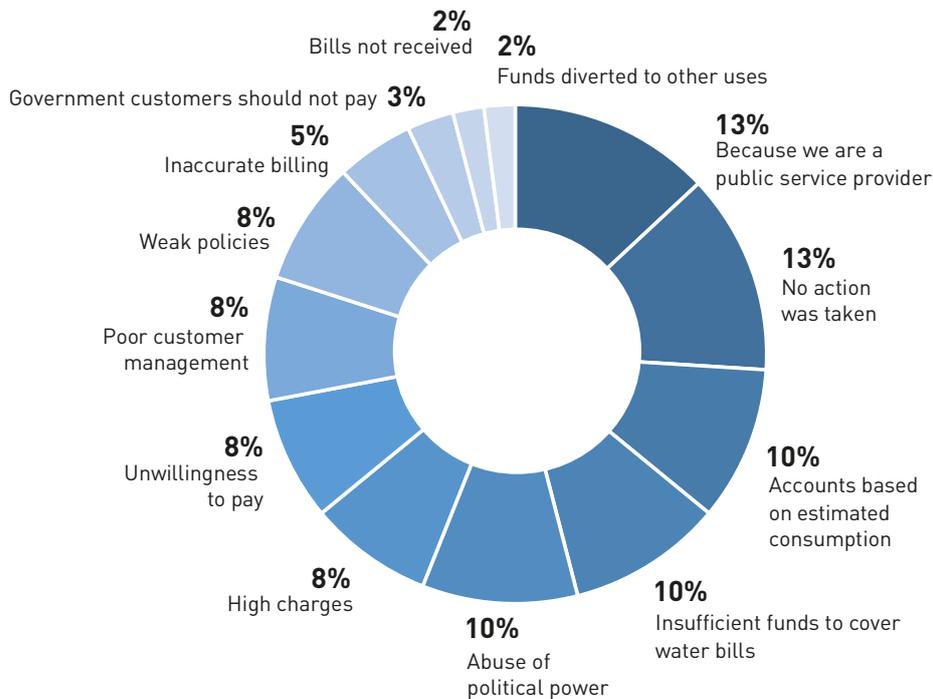
Country/City	Year	Arrears from public institutions (Millions USD)	Operating Revenue (Millions USD)	Percentage of Utility Revenue
Jamaica	2018	16	209.0	7.6
Botswana	2017/18	29	154.0	19
Kenya/Nairobi	2020	7	80.0 (in 2018)	9.7
Zambia	2019/20	28	55.6	50.3

The public organisations that were cited most frequently for non-payment include public offices, military, police, and educational facilities, as well as hospitals and religious institutions (Figure 1). The reasons given for non-payment vary from absent or inaccurate water meters and the belief that public institutions don't need to pay, to a lack of enforcement against non-payment, abuse of power, and lack of accountability and transparency in governance structures (Figure 2).

**FIGURE 1: COMPOSITION OF GOVERNMENT INSTITUTIONS AND POLITICALLY-LINKED PROPERTIES IN ARREARS**



**FIGURE 2: REASONS GIVEN BY GOVERNMENT INSTITUTIONS TO UTILITIES FOR NON-PAYMENT**



## 2 CONSEQUENCES OF NON-PAYMENT

Surveys conducted by the Water Integrity Network and End Water Poverty (2020) indicate that non-payment by government customers has both direct and indirect impacts on utilities, which can impact all customers as well as society and the environment.

### Impact on utilities

- Inability to pay for operations and maintenance
- Inability to invest in new infrastructure and other assets
- Increasing debt to suppliers, resulting in penalties and a loss of access to services such as electricity
- Inability to access new or pay existing loans
- Disgruntled customers who are not willing to pay their bills

### Impact on customers

- Reduced level of service, poor coverage, particularly affecting poor communities and marginalised groups
- Negative impacts on social wellbeing and health
- Dissatisfaction with utility services
- Bills based on inaccurate meter readings or estimates of consumption
- Inequality between private customers who are sanctioned for non-payment and government customers who are not
- Higher tariffs as utilities attempt to increase revenue

### Impact on society and the environment

- Increased prevalence of waterborne diseases and general negative impact on public health
- Service level protests and general community unrest
- Reduced funds to expand coverage in unserved communities and address the human rights to water and sanitation
- Increase in the unauthorised extraction of water from other sources, such as boreholes (which lower the groundwater table) or illegal connections
- Damage to aquifers as a result of over-extraction
- Introduction of non-traditional water purveyors providing lower quality water at higher cost and exposure of communities to potential extortion.

### 3 POSSIBLE SOLUTIONS

As the context in which each utility operates varies, there is no best strategy to address the issue. Multiple interventions are needed in the areas of **governance and regulation, utility operations, and community engagement.**

Based on their research and with new insight on why government customers do not pay, WIN and EWP have compiled a catalogue of measures applicable in different cases (Figure 3). The measures must ensure that the rules about who must pay are clear, that the systems are in place for stakeholders to know how much is owed, and that there are controls and stakeholders empowered to enforce payment.

**FIGURE 3: PROPOSED MEASURES TO ADDRESS NON-PAYMENT BY PUBLIC INSTITUTIONS**



Utility managers, independent regulators, and national government departments have been identified as being most responsible for improving the level of payment by government institutions. Utilities play a major role but cannot shoulder the burden of resolving the issue of non-payment alone. To provide impetus for behaviour change, several instruments have been proposed to influence key actors and build political will to support the effort, including:

1. The combined efforts of leaders, NGOs, utility managers, and the media to raise awareness of the benefits and reasons why government institutions should pay for water services;
2. Support programmes to strengthen both civil society and water utilities (for example through the use of community-based regulation); and
3. Political and financial conditions tied to accountability and transparency criteria by financing institutions including donors and development banks.

### 3.1 Governance, Regulation, and Controls

The political will to institute change, as well as effective governance structures and regulations are essential. In many regions, the rules are still blurry about who must pay, how much, and what can be done when institutional customers don't pay.

- Regulators must ensure that tariffs are **fair, affordable, transparent**, and economically viable. If the government decides to exempt public institutions like public schools and hospitals from paying for water and sanitation, this needs to be either covered by subsidies or taken into account when calculating the tariffs.
- Within the framework for water and sanitation services in place, the actual provision of services needs to be protected from abuse of political power. The legal framework must provide for independent regulation, transparency on service levels, as well as an adequate corporate governance structure of utilities. Such adequate corporate governance imposes **due process and professionalism in the selection of water utility board members**, prevents patronage, and makes directors accountable for their actions, thus **enabling managers to sanction customers that are unwilling to pay**, no matter who they are.
- The practice of government entities **budgeting for water and sanitation** in advance has proven to be useful. This requires 1) that water utilities provide reliable estimates to government customers of the amount to be billed in the coming fiscal cycle and 2) that appropriate allocations for paying these services have been made.
- Besides these steps, public finance actors can take additional measures such as the **conditional disbursement of funds on adherence to a maximum threshold of arrears**, or drawing adequate attention to an **institution's debts towards utilities in audit reports**.

There is the added complexity that some government institutions house or are used by non-voluntary and vulnerable populations, such as prisons and schools. The human rights to water and sanitation of these populations must be safeguarded. Provisions should therefore be made to ensure service. For the consumption from such institutions, dedicated or ring-fenced budgets could be made available from the Ministry of Finance to pay utilities directly.

## 3.2 Utility Operations

Though utilities can be vulnerable to abuse of political power and are affected by external factors, there are activities that they can undertake independently to enable change.

- A key factor in addressing non-payment is the ability of utilities to deliver accurate and understandable bills to customers regularly. A survey respondent stressed the importance of “accurate and timely delivered bills to respective ministries” as well as “constant reminders and follow up on payments”. If the foundation of the **water metering and billing system** is solid, administrative and legal measures can be used to enforce payment.
- To support government institutions to plan and allocate funds for the payment of water bills, a utility needs to be aware of government budget planning processes and support the institution with the **best possible information on arrears and finances as well as reliable consumption estimates** to ensure that funds are accounted for and present in annual budgets.
- Willingness to pay is often linked to quality of service. Utilities must have strong integrity measures in place to stop corruption and ensure payments and funds are used transparently to improve and expand service.

Other sector stakeholders can support these processes. Donors and development finance institutions can tie loans and financial aid to conditions such as adherence to corporate governance standards in targeted utilities. Performance-based finance can start with small investments (e.g. in the metering and billing systems,) and condition major investments to performance targets such as reducing non-revenue water and improving collection efficiency among government customers.

## 3.3 Community Engagement and Advocacy

Empowered consumers and communities can create public pressure through participation fora such as public hearings, tariff consultations of utilities, or the budget process, especially at the local level. Media can equally play an important role in sensitising the public and decision-makers on the issue, as well as naming and shaming institutions that do not pay their bills.

# 4 NOW IS THE TIME TO ACT

The COVID-19 crisis has put a spotlight on the importance of water, sanitation and hygiene services in preventing the spread of the disease, particularly in poor communities where water and soap for handwashing are often not available. It is absolutely crucial that water and sanitation providers be able to operate and have the financial stability to withstand the crisis and provide essential service.

As a consequence of the pandemic, the overall revenues of many utilities have reduced dramatically. Revenue collection has fallen in many countries. This is partly a consequence of announced and needed measures to suspend billing or provide water for free to people in need, a consequence of reduced ability to pay by hard-hit customers, or of reduced consumption from commercial customers because of the economic downturn.

There are reports that some utilities are already at danger of bankruptcy. Others are receiving immediate support to ensure basic services but will not be able to invest in necessary mid-terms plans, a situation that may jeopardise future service quality and the advances made to improve coverage towards the realisation of SDG6. We cannot afford empty promises for support and better service.

Considering the scale of government arrears for many utilities, **paying bills now can be an important lever to urgently support service provision.** For the long term, water sector stakeholders must work together to put in place measures for government institutions to receive accurate bills for quality service and for them to pay them in a timely manner. These are **conditions to ensure sustainability of service and resilience of utilities to future crises**, potential disasters (floods and droughts...), and climate change.

## EXAMPLES

### In Romania: a multi-pronged approach

Romanian water utilities experienced a problem with the non-payment of water services by government institutions until about ten years ago. Stakeholders were able to solve the issue through a lengthy but successful process centred on improved corporate governance for utilities and supported by newly independent regulators.

Measures put in place to address non-payment include:

- Structural changes in water utility governance to reduce risk of abuse of political power.
- New election processes for board members have been introduced that assure minimum qualifications and diversity. Although the board members are endorsed by decision-makers, they are no longer allowed to hold key political positions and can be removed as directors if the utility is not performing well. The performance of board members is also tracked.
- **Clarified course of action to be taken when institutions default and new means to enforce payment through neutral executors, who have power to involve police.**
- Requirement that adequate provisions be made for water services in annual budgets of public institutions, based on new yearly estimates sent by the utilities. Public institutions must be able to show that the funds are used for those purposes and are not allowed to purchase other assets (such as furniture) if their water accounts are not paid.
- Establishment and legal strengthening of independent regulators.
- **Development agency funds granted conditionally** based on proper budgeting, billing, and revenue collection performance. As co-signee of the loan agreements, the national government had an interest in meeting the conditions.

### In Botswana: improving customer relations and collection processes

Outstanding bills from public institutions constituted the larger share of unpaid bills to the Water Utility Corporation in Botswana until it implemented a debt reduction strategy. The work focused on customer relations: hand delivering bills to government departments and district councils and persuading various institutions to pay their bills.

### In Zambia: open data on government debt and a focus on debt collection

The National Water Supply and Sanitation Council (NWASCO), the Zambian regulator, uses an indicator on government debt in its utility reporting and publishes information on this in the annual sector performance report.

The Lusaka Water and Sewerage Company implemented a strategy to improve bill collection with technical assistance from development agencies. The measures had a major impact on the financial position of the utility.

### In South Africa: involving public finance actors

The National Treasury reports on outstanding government debt to utilities. A further breakdown of arrears was recently given by the South African Parliament, which requested the national department responsible for water to report on the status of customer debt in the water boards, because of the issue of non or late payment by municipalities.

## Find out more and join the call at [waterintegrity.net/GovPayYourWaterBills](https://waterintegrity.net/GovPayYourWaterBills)

This brief is based on an initiative and research launched by the Water Integrity Network and End Water Poverty, with the support of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), and in partnership with the Eastern and Southern Africa Water and Sanitation (ESAWAS).

The research team developed a survey and distributed it to water utilities and sector organisations, such as the Inter-American Development Bank, the Global Water Partnership, as well as regulatory and utility associations such as the African Water Association, AquaFed, and ESAWAS. More than 200 organisations received the questionnaire and 52 utilities in 18 countries responded. The research team conducted interviews and desk studies to complement the survey results.

The research team thanks the survey participants for their courage, openness and willingness to speak out and share information. We also thank the organisations who shared the survey and provided valuable feedback and specifically the support of the many civil society organizations in Ghana, Kenya, and Zambia and the Water Service Providers Association of Kenya (WASPA). In particular, we wish to thank SWIM – Solutions for Water Integrity and Management and the Freshwater Action Network – Mexico for their support in the research and conducting the survey.

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The Water Integrity Network (WIN) supports evidence-based advocacy for collective action to prevent and reduce corruption in the water sector worldwide.

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End Water Poverty is an international campaign calling for sanitation and potable water for all.

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