

# EAP Task Force

## CONSUMER PROTECTION AND PUBLIC PARTICIPATION IN THE REFORMS OF THE URBAN WATER SUPPLY AND SANITATION IN THE NIS

### EXPERT WORKSHOP

4-5 MARCH 2002, PARIS, FRANCE

### DRAFT REPORT

*The workshop was organised by the EAP Task Force Secretariat to support activities of the Group of Senior Officials on Urban Water Sector Reforms in the NIS. The government of the Netherlands provided financial support to the organisation of this workshop. For more information please contact Ms. Olga Savran, tel. 33 1 45 24 13 81, fax 33 1 45 24 96 71, e-mail [olga.savran@oecd.org](mailto:olga.savran@oecd.org).*

**Secretariat of the EAP Task Force:**

Environment Directorate, OECD • 2, rue André-Pascal • 75775 Paris CEDEX 16 • France  
Tel: (33 1) 45 24 81 85 • Fax: (33 1) 45 24 96 71 • E-mail: [env.contact@oecd.org](mailto:env.contact@oecd.org) • Website: <http://www.oecd.org/env/eap/>  
*in cooperation with*

The Regional Environmental Center for Central and Eastern Europe • Ady Endre ut 9-11 • 2000 Szentendre • Hungary  
Tel: (36-26) 311 199 • Fax: (36-26) 311 294 • E-mail: [info@rec.org](mailto:info@rec.org) • Website: <http://www.rec.org>

## KEY CONCLUSIONS

### **Guidelines on Consumer Protection and Public Participation in Urban Water Sector Reform in the NIS**

This workshop provided an opportunity for the NIS and OECD experts to share experiences and to discuss the key issues of social protection in urban water supply and sanitation in the NIS. They agreed that (1) affordability of water prices, (2) social protection measures to the poor, and (3) consumer and public involvement in decision-making - are the main areas, which need to be elaborated in the Guidelines on Consumer Protection and Public Participation in Urban Water Sector Reform in the NIS.

They further advised the EAP Task Force Secretariat to ensure that the Guidelines provide overall policy recommendations and practical methodological guidance for the NIS governments to address these challenges. The recommendations should be accompanied by a statistical overview of affordability trends and water-related social protection measures for the NIS, comparable with OECD data when possible. The Consumer Guidelines should ensure linkages to other EAP Task Force products, including Tariff Manual and the Project on Legal and Institutional Issues and Utility Reform Models.

The experts discussed and agreed the draft **outline for the Guidelines**. The outline is presented below.

#### Chapter 1: Affordability of water in the NIS

1. Scope of the affordability discussion
  - Political, economic and social aspects of affordability
  - Water prices and income: levels and trends
  - Looking for a balance of interests of the government, utility and various types of consumers, including households
2. Measuring economic/financial affordability
  - Definition of the service and the cost
  - Macro affordability for the population as a whole
  - Micro affordability for the poor: indicators and methods for measurements
  - Data, resources and capacity needs
3. Applicability in NIS decision-making system
  - Water separately or bundled with other services
  - Usefulness for setting criteria for social protection

#### Chapter 2: Social Protection Measures for the Poor

1. Scope and definition of social protection measures
2. Evaluation criteria
  - Equity/Efficiency/Environment/Financial stability of utility; or Targeting, Coverage, Effectiveness, Administrative simplicity, Side-effects (budgetary burden, acceptability, metering)
3. Possible recommendations
  - Income support tied to housing and communal services - possible reform (criteria, resource effectiveness, cash, etc.)
  - Income support tied to water
  - Social tariffs and price discrimination
  - Arrears management

- Other measures for discussion: budget subsidies to utilities, cross-subsidies, privileges, alternative supply; minimal level of services of good quality water

### Chapter 3: Consumer and Public Participation

#### 1. Goals and principles of public participation

- Definition of a consumer
- Social support to reform and ensuring public interests
- Right to information, participation, access to judgement and conflict resolution
- Resources and capacity needs for public participation

#### 2. Tools for dialogue and partnership

- Gaps of legal and regulatory framework; definition of confidential information
- Transparency of tariff setting; relation to public control over local governments (not over utilities)
- Water quality control and consumer satisfaction
- Participation in the development of local utility reform plans and private sector involvement; scrutiny of concession agreements
- Contractual relations and conflict resolution
- Education
- Role of NGOs and consumer associations

It is expected that the first draft of the Guidelines will be developed by September/October 2002, and will be proposed for a review of experts. The second draft will be presented for a discussion and endorsement at the second meeting of the Group of Senior Officials on Urban Water Sector Reform in the NIS. The final draft of the Guidelines is expected to be ready by February 2003, and will be presented at the EAP Task Force annual meeting. The Guidelines are expected to provide an input to the Monitoring report on Urban Water Sector Reform in the NIS for the Kiev Environment for Europe Conference, May, 2003.

The EAP Task Force Secretariat will prepare a work plan for the development of the Guidelines based on the draft Outline and schedule presented above. Given the tight schedule and a very limited budget for this project there might be a need to prioritise further the Outline and to focus the Guidelines on a smaller number of issues.

## **BACKGROUND**

The Almaty Guiding principles identify a participatory multi-stakeholder process as one of the key elements of socially accepted and sustainable water sector reforms in the NIS. They specify that gradual tariff increases required for financial stability of the sector “should take full account of affordability constraints and be part of a strategy for service improvement which has been developed through a participatory process”.

At their first meeting in Kiev, Ukraine, September 2001, the Group of Senior Official on Urban Water Reforms in the NIS discussed social aspects of sector reforms, and adopted its work programme which calls for the development of Guidelines on Consumer Protection and Public Participation.

The Guidelines will be presented to the Group of Senior Officials for their endorsement late in 2002. The Guidelines will provide overall policy and methodology support to the NIS water officials at national and local level, consumer groups and NGOs, and other stakeholders in their reform efforts. They will contribute to the development of a report assessing progress on Urban Water Reforms in the NIS to be presented to the Kiev 2003 Environment for Europe Ministerial Conference.

### **Objectives**

The first expert workshop discussed the main challenges in the area of social protection and public participation in the urban water sector in the NIS, including the following issues:

- affordability of water services (methodologies for determining macro and micro affordability)
- social protection measures to the poor and vulnerable groups (tariff based and non-tariff based measures)
- public participation and consumer consultations

Based on the NIS and international experience, the experts identified some of the key challenges and preliminary recommendations to be further elaborated in the Guidelines. The experts also discussed and endorsed a draft outline for the Guidelines. Summary of the discussion is presented below.

### **Meeting documents**

Discussion papers presented by several NIS and OECD experts laid a ground for the discussion of the 3 main issues outlined above (attached). Workshop participants took an account of workshop documents on tariff reform in the NIS (which took place 25-26 February) and learned about the ongoing work of the OECD Environment Directorate on social aspects of water pricing in OECD countries.

### **Participants**

NIS were represented by state authorities responsible for urban water supply, social protection and anti-monopoly agencies; local government and water utility representatives; NGOs and consumer associations; as well as leading consulting companies working with this sector. Several OECD countries were represented by municipal governments; public and private water utilities; research, consulting and consumer organisations. This broad variety of backgrounds and experiences allowed for a productive cross-sector and cross-border dialogue about effective approaches for consumer protection and public participation in urban water sector reform in the NIS. (List of participants is attached.)

## SUMMARY OF THE DISCUSSION

### Session 1: Affordability of water prices for households

#### OECD experience

The discussion opened with an overview of current policy debate about water affordability and methodologies to measure affordability of water in OECD countries. The overview was presented by Paul Herrington, Water Economist, UK, based on the past OECD work.

It appeared that OECD countries enjoy an overall good situation with water supply, while some improvements are still needed on the side of sanitation. On average, water prices are affordable to the population at large (macro affordability), and remain a relatively small expenditure item for households. At the same time recent developments in the water sector (market deregulation, reduction of subsidies, EU Water Framework Directive, costs of maintaining/improving drinking water quality, incorporation of environmental costs) have already triggered price increase, and the trend is expected to continue. This may lead to a growing affordability problem, particularly for the low-income households.

While there is no one agreed methodology to measure micro affordability of water in the OECD countries, a number of indicators can be used to compare the water bill with household income/expenditure for individual households, including vulnerable and poor households.

1. Water charges in household income (WACHY%) can be measures for households with incomes below a threshold level
2. WACHY can be measured using income distributions: deciles, quartiles and quintiles
3. Measuring the proportion of households with WACHY% above a certain figure (e.g., 5%)
4. Ranking (=ordering) households by household per capita income using “equivalent incomes”, to take account of the size and age of individuals in the household

There are a number of problems in measuring micro affordability, including data availability, effects of non-water financial assistance on water affordability, relation of water prices to other utility prices, and others.

Micro affordability analysis may help governments to target social protection measures for the households with water affordability problems by identifying groups or categories of consumers who may have significant difficulties (e.g. with serious health related water needs). A form of social protection has to be decided by public authorities; income support or tariff innovation and adjustment are seen in the OECD countries as two main approaches.

#### NIS experience

An overview of current approaches for measuring water affordability in the NIS focused on several main issues: methodologies for measuring poverty and affordability of water in selected NIS and the usefulness of such analysis for targeting social protection measures. The overview was presented by Alexander Martusevich based on official NIS statistics and past work of COWI consulting company (Russia and Denmark).

Policy towards full cost-recovery of communal services proclaimed by all NIS governments; significant financing needs of the water sector; low income of the population and growing

disparities of income distribution - are among the key factors influencing households' economic affordability of water in the NIS. Data availability and quality, as well as political interests and interference present main obstacles for an objective analysis of the problem.

A notion of "consumer" or "food basket" is currently used to set a minimum subsistence level (MSL) in selected NIS (e.g. Russia, Ukraine). In Russia, citizens with income below the MSL are considered to be poor; citizens with income below half of the MSL are considered to be very poor. Poor and very poor citizens are eligible for various kinds of social assistance measures, including assistance to pay their housing and communal services' bill. Various categories can be found among poor in the NIS: pensioners, unemployed, large or single-parent families, invalids, working families with low salaries, etc.

The definition of poor is established at a national level, and assistance programmes are financed from the national budget, in principle. Identification of the poor and provision of social measures is carried out at a local level, by local governments or other forms of local self-organisation.

Affordability of water in most NIS is determined in a package of housing and communal services, reflecting the past structure and mechanism of state budget financing of the sector. The level of affordability is often determined as a cap on burden of housing and communal monthly bill (often including rent, electricity, heating and water supply) on a family income (e.g. 15-20% in Russia and Ukraine).

Measuring macro affordability based on average estimates does not allow to address the problem of disparities in income distribution, and to target support measures to the truly poor. Thus, measuring affordability is more useful at a local level.

NIS national and local governments do not measure water affordability separately from other housing and communal expenses, but donors and IFIs interested in selected utility projects often apply a 4% measure as water related affordability level. While the basis for such a level or its validity for the NIS are not fully clear, the application of the measure can give useful information to decision-makers, both for tariff increase justification and for setting eligibility criteria for social assistance and other response measures.

### **IFI approaches for assessing affordability**

Methodologies for measuring affordability were discussed in the framework of a Toolkit for measuring willingness to pay and affordability of water prices. The Toolkit has been developed by COWI with the support of the Danish Environmental Protection Agency, on a request of the EBRD. The Toolkit was presented by Mikkel Birkeland, COWI Denmark.

Willingness to pay (WTP) is a method to reveal subjective preferences of the consumers concerning a price they are prepared to pay for a certain service. Various techniques can be used, including a Survey of Stated Preferences (preferable for identification of affordable level of services) and Contingent Valuation Method (to assess a maximum level of price of a set level of services). These approaches can be useful when considering a major investment project (e.g. to establish an affordable level of service), but might be rather expensive for smaller projects. Many factors can influence a subjective opinion of a person interviewed during a WTP study, in many cases respondents in pilot cities did not even know the water tariff they paid.

Affordability analysis based on statistical data survey is useful to provide more objective data in order to establish an upper limit of water price, which would be economically affordable for the consumers. Levels and trends in water prices and household expenditures, change in composition

of expenditure, income distribution, change in collection rates and simultaneous price increases are among key inputs for such analysis. Affordability analysis can identify distribution of water costs as a share of household income or as a share of disposable income after expenditures on food have been borne.

Data and information provided by WTP and affordability analysis, even the most accurate information, is nothing more than inputs for a political decision. As affordability of water is a combination of political, economic and social factors, only a sound and transparent political judgement can be used to make a decision about the price level which would be affordable and acceptable for the consumers.

### **Minimum level of water services**

Affordability analysis and designing social protection schemes for the poor in the NIS are complicated by an additional factor. The level of water consumption is high in most countries (sometimes up to 400-600 litres per person), while the income level is low, which often leads to non-payment and an increased financial burden on water utilities. Lack of water metering and low water prices do not create incentives to use water efficiently. At the same time, social protection measures provided to the poor support an average consumption of water. Thus, the state is wasting scarce budget resources for subsidising over-consumption of water.

Theoretically, the introduction of a minimum level of services, which is guaranteed by the state for all, might provide a solution. Potential demand for establishing such an official minimum level of services in Russia was discussed by Tatiana Kutakova, Moscow Institute of Urban Economics.

Russia is a water rich country, the price of water and its share in household expenditures is low on a macro level, giving the misleading impression that water is not expensive. Current consumption norms and levels are not considered to be too high by the society, due to lack of information about actual consumption. Prices are kept low and little attention is paid to an increasingly critical situation in many water utilities. Given these circumstances, it would be difficult from a political and legislative point of view to either establish or enforce such a minimum level. But this discussion would be very healthy, and more analysis needs to be done to provide a basis for such developments.

#### **Minimal level - case of Russia**

Average price of water in Russia per person per month - 0.38\$.

This accounts for 14% of housing and communal costs assuming 100% cost-recovery ratio.

Total housing and communal services account for 5% of all household expenses.

Thus water on average is a negligible expense (5% out of 14% of family spending).

Water consumption norms are around 200-400 l per person per day, water is not a scarce resource.

Conclusion: water saving is not a priority for the state or the consumer; minimal level of services is not a political issue in Russia at present.

The above argument demonstrates how fragmented macro economic data can build a wrong image of ample and cheap resources. The presentation becomes less complaisant if it is supplemented with other social data, e.g. that in Russia about 40% of all budgets (national and local) in 2002 were spent to support housing and communal sector, and that a significant share of the population is poor.

## Preliminary conclusions

An attempt to identify best practices and possible practical approaches for the NIS gave some results, but was not fully complete. This reflected the complexity of the subject and the lack of an internationally accepted methodology, and highly political nature of the issue. It further pointed out the need to build more empirical experience in practical application of discussed methods in the NIS, as well as in other regions of the world. A number of additional broad considerations were proposed and recommendations for further research and analysis emerged:

1. In order to measure affordability, it is important to establish **a definition of a service/good**, which is proposed to a consumer, and affordability of which needs to be established. Technical rate of connection to piped water is not equal to real access to water services, as often there is no water in the tap or the quality of tap water is not good for drinking.
2. **A definition of costs** needs to take account of (a) the differences between tariffs recovering full economic costs and currently used definition of cost-recovery reflecting mostly O&M costs (i.e. actual expenses versus needed expenses for rehabilitation and development); (b) actual costs and level of non-payment; (c) costs incurred by a consumer for additional treatment of supplied water.
3. Affordability analysis needs to take into account **trends of prices and income dynamics**, as often it is the rate of increase that plays a more important role compared to absolute amounts.
4. Macro affordability measure does not help significantly local decision-making about tariffs or design of social protection measures for the poor. But an **international comparison of water prices** might be useful to give a sense of economically and socially sensible prices when discussing investment possibilities and conditions for private sector involvement.
5. Measuring micro affordability is a more useful approach to support the design of social protection schemes. **Micro affordability indicators** may include the following (a) cost of water services as a percentage of average or residual household income; (b) change in the composition of expenditures, taking into account simultaneous price increases for other goods and services; (c) income distribution; (d) change in collection rates.
6. **Methodologies for measuring affordability** need to ensure a balance of interests of various users (households, industry, budgetary organisations), municipalities and utilities, e.g. while users naturally prefer to pay a lower prices for any good or services, tariffs need to ensure economic and financial stability of water utilities. Willingness to pay method (stated preferences survey of contingent valuation method), revealing subjective preferences of consumers, needs to be counterbalanced with an economic and statistical analysis of macro and micro affordability of prices.
7. There are certain **limitations for official application** of WTP and water affordability analysis by NIS governments. Currently they do not measure water affordability separately, but in a package with all housing and communal expenses. Even when WTP is used by IFIs to identify an affordable level of water service, the results may come into a conflict with existing consumption and sanitary norms, e.g. if the level of payment, which the population is able and willing to pay, would allow to finance only a very basic water supply with insufficient treatment of drinking and waste water below official hygiene norms.



8. There is no one and agreed approach for measuring affordability, in particular on a micro level, as affordability can be seen as a combination of economic, social and political acceptability of a price for a consumer. Various currently used methods and indicators can only provide more or less accurate data and information to a decision-maker. **Sound political judgement** is the only approach for a final decision about affordability.

## **Session 2: Social protection measures to the poor**

### **OECD experience**

An overview of social protection measures in OECD countries presented by Henri Smets launched the discussion on this issue.

OECD countries agreed to apply “user pays principle” for water pricing policies. They also agreed on a common target to provide safe drinking water and adequate sanitation to all their citizens before the year 2010. While water remains a low item for OECD households on average (e.g. 1.3% of income for an average UK family), poor families have to pay a much higher share of their income for water (e.g. 10.5% of income of the most poor UK families). Thus, exceptions from the “user pays principle” are accepted for the poor as water is considered a special good and a basic human need. Identification of the poor in these cases is always done by public authorities.

In the OECD countries a number of methods are applied to reduce water price, ranging from a general water subsidies and income support for the poor to innovations and adjustments of water tariffs and technical and legal measures. General and cross-subsides are used in most OECD countries, but there is a trend to reduce and phase out these traditional methods due to budgetary constraints and requirements of fair competition. Progressive, raising block and lifeline tariffs are now seen as a good tool to promote effective use of water resources. Special social tariffs for selected categories of low-income users are also used to provide targeted assistance to the poor. Additional technical and legal measures, such as non-enforcement of disconnection for non-payment, provision of a limited quantity of free water, arrears restructuring and forgiveness are also common in the OECD countries.

The selection of specific social protection measures depends on country conditions (availability of water resources, traditional forms of water supply, pricing and metering policy, social protection policy, etc.). While macro water affordability has not been of a concern in the OECD countries, assisting the poor households to ensure their water consumption has been among key priorities. Recently more attention is given to balancing economic and social concerns with and environmental requirements, such as efficient use of water resources and increasing requirement to waste water treatment.

### **NIS experience**

An analysis of the social protection measures in the water sector in the NIS was presented by Alexander Kucherenko, PADCO consulting company, Ukraine, and supported by a co-presentation by Tatiana Kutakova, Moscow Institute of Urban Economics.

Following the declaration of “full cost recovery” in housing and communal sector in all the NIS (except Turkmenistan), water prices started to increase: relatively slow in some NIS (e.g. Armenia, Belarus, Georgia), gradually and fast in others (e.g. Russia, Ukraine), extremely fast in a few (e.g. Kazakhstan).

In order to prevent water and other utilities from financial collapse (in case of non-payment) and to protect the population, NIS governments put in place social protection programmes, including housing and communal services subsidy programme (e.g. Russia, Ukraine, Kazakhstan). These subsidies are normally provided for a package of expenses for rent, electricity, heating, water and wastewater; financed by the state budget in non-cash form they cover household expenditures above a set burden cap (e.g. 20% of family income in Ukraine).

While housing and communal services subsidy programme provided a vital support to both utilities and the households during a rapid price increase, there remain a number of areas where improvement of this mechanism is needed. Calculation of subsidies is based on very high consumption norms, it is not transparent, the financing mechanisms needs improvement, the mechanism does not provide an incentive for efficient use of water resources.

#### **Russian experience of housing and communal services subsidy programme and reform**

Russian housing subsidy programme allowed citizens to apply for a subsidy using one of two possible eligibility criteria: share of costs in household income or minimal subsistence level. This creates a significant complication and leads to higher budget spending; it also violates the principle of means testing when the subsidy is provided under the second option.

Russian government is currently considering a move from non-cash to cash form of subsidy (similar to experience of Moldova). Moving from direct transfers to utilities to individual accounts for consumers with earmarked subsidy transfers may ensure greater transparency and possibly provide an incentive for a more efficient resource use.

Meanwhile, in most NIS an old soviet form of privileges remained unchanged. Privileges are provided to categories of citizens without any relation to their income, e.g. rich citizens are often entitled to higher subsidies under this scheme than poor citizens. Privileges should be provided by state budgets, but in reality there is often no funds allocated to this scheme, moving the burden of its implementation to utilities. It is obvious that this mechanism needs to be abolished, but there are significant political obstacles.

Another form of provision of social support to the poor, which has been recently introduced in several NIS, is income support programme. Income support is normally provided in cash form, financed by the state budget and provided by social protection agencies (based on scores or minimum subsistence level) or by local self-organisation units (e.g. Mahalia in Uzbekistan). While such programmes can provide a significant financial relief to poor families, they are not tied to water or other communal and housing expenses.

Budget subsidies, cross-subsidies and arrears forgiveness/restructuring are among other forms of direct or hidden support to the households, with a trend towards reduction of state budget financing and gradual phasing out of cross-subsidy by higher industrial water charges.

#### **Preliminary conclusions**

The discussion, which followed, focused on two main questions: (1) what are the ways to further improve the housing and communal services subsidy scheme - the main method of social assistance in relation to water supply and sanitation in several NIS, and (2) what other additional and/or alternative mechanisms can be proposed to the NIS based on international experience? A number of additional considerations were proposed and preliminary recommendations emerged:

1. While macro or absolute affordability may not be a problem across the NIS, there is a number of consumers (small or more significant share of the population) who cannot afford to pay

their water bill without a serious reduction of other essential spending. In the NIS, where households sometimes spend about 60% of income for food, water affordability might be a significant challenge, therefore **an effective form of providing assistance is needed**.

2. There are **two main approaches** for providing assistance: to relocate the access affordability of well-off consumers to cover the low affordability of the poor either (1) through price/tariff discrimination (cross-subsidies, rebate tariffs for poor consumers and higher tariffs for luxurious use of water), or (2) through targeted subsidies.
3. In many parts of the world, and particularly in the NIS, decisions about tariff reforms depend upon the election cycle more than on economic data and analysis; a clear regulatory framework and tariff regulation process are needed to prevent **political interference** and ensure economically and socially grounded decisions.
4. **Housing and communal services subsidy programme** appears the main form of social protection related to water in the several NIS. This form has played an important role in raising cost-recovery to utilities and protecting the population. There is a need to further improve this mechanism: eligibility criteria, calculation formula (consumption norm), form and transparency of payment mechanism (from the consumers' and utilities' point of view - cash form, distribution among utilities) need to be examined and improved.
5. No examples of **water tied subsidy programme** were found in the NIS. It would be useful to analyse if this mechanism can be recommended in the future, e.g. can it be interesting for a city where a major utility loan is considered and tariffs will be increased, and how to deal with regional disparity in this case.
6. **Cross-subsidies**, common in the OECD countries, are also used in the NIS, with an overall trend to reduction. The most common cross-subsidy scheme provides for a higher tariffs for industrial users and smaller, often several fold smaller tariffs for households. Industrial users are often unwilling to subsidise households and refuse from water utility services switching to their own water sources. Many "budgetary" organisations, such as schools, hospitals and other public enterprises, often fail to pay their bills, but water utilities are obliged to continue supplying water to them, thus providing a hidden subsidy. Thus households, in many cases, become the main consumers and financiers of water utilities.
7. **General government subsidies** exist in many OECD countries. While there is a general trend towards their reduction and phasing out, they continue to play a key role for infrastructure development. (In the NIS full-cost recovery goals lead towards reduction of state subsidies, but it remains to be seen if rehabilitation and development of infrastructure can be fully financed by the users in the near or medium future.)
8. **Regional cross subsidies** can be found in some OECD countries, while in general they contradict to the "user pays principle". Mergers of utilities, which may be cost-effective for administration, can lead to regional cross-subsidy when prices are set on a regional level; utilities may favour cross-subsidies to ensure extension of networks to new consumers. Analysis of this mechanism in the NIS has not been sufficient yet.
9. **Tariff based measures**, currently used and increasingly popular in the OECD countries, did not find wide practice in the NIS. Such tariff methods as lifeline and raising block tariffs can give a strong water conservation incentive, but can only be used when individual meters are in place, which is the case for a small number of households in the NIS.

10. **Privileges**, which can be regarded as a “social” tariff in the NIS do not target the poor and present a serious burden on the budgets and utilities, and therefore need to be phased out. Other “**social**” **tariffs** for selected categories of consumers are sometimes provided by utilities in OECD countries, often financed through cross-subsidy between households. This scheme can be effective to target small and well-defined groups of “water” poor, but plays a marginal role in the social protection for large groups of poor.
11. **Penalties** might be a strong tool for enforcing payments, particularly to those consumers, who have no reason not to pay. **Arrears restructuring** may be an effective tool to assist poor families to pay accumulated water and other utilities debt.
12. Various examples of other **technical, legal and educational measures** to protect poor households and ensure access to safe drinking water exist in many countries.

### **Session 3: Consumer and public involvement in urban water reforms**

#### **NIS experience**

The session opened with a presentation by Anna Tsvetkova, Ukrainian NGO Mama 86, about Consumer and Public Involvement in Urban Water Sector Reform in the NIS.

Declining quality of water and of services, growing prices and unclear contractual relations are among the key problems from the point of view of a consumer.

International agreements (Agenda 21, Arhus Convention and Almaty Guiding Principles) together with national NIS legislation can provide a sufficient legal framework for consumer protection and public participation in urban water sector. At the same time certain gaps remain (e.g. in many NIS urban water supply sector is not considered a local monopoly), local implementation of laws remains a major weakness.

Legal frameworks for ensuring the quality of drinking water - the main concern of the consumers - are not efficient. Water quality standards are often unrealistically stringent in many NIS. There is no legal provisions or technical possibilities to control water quality at the tap (e.g. the Decree of the Cabinet of Ministers of Ukraine allows utilities under certain circumstances to supply water of quality below established standards).

Following the decentralisation of the sector, state regulatory function has been weakened. Unclear contractual relations complicate consumers position (e.g. households normally do not have direct contracts with water utilities, intermediary service providers ZHEKs are not obliged to ensure quality and efficiency of services). Model contracts currently proposed by Ukrainian legislation are introduced very slowly, and have a certain discrimination of consumers’ rights, given providers more rights for arbitrary decisions. Lack of clear contracts and trust between stakeholders, inefficient legal and administrative systems create obstacles for efficient conflict resolution.

At the same time, international and NIS experience provide a variety of tools, which can be proposed for building partnership and dialogue in this sector. Information provision to the consumers is the first and crucial element for public involvement. In addition to general national level information, consumers need user-friendly information about water quality, price, and their rights. Local governments, utilities and NGOs can play a key role in this area (e.g. information about the state of utility and municipal development plans, informative and educational water

bills, utility “hot” line and other). Studying consumer preferences should precede the adoption of sector development plans.

Public participation in decision making (public hearings, working groups/councils, public scrutiny/control) can ensure social acceptability of local development plans, including tariff reform, private sector involvement, level of service and alternative supply. But there is a danger that too much public participation can make the decision-making process too inefficient (e.g. public voting on tariff level can undermine economic and financial stability of the sector).

Public and government education is another crucial element to ensure social support to reforms. On the one hand, there is a need to raise consumers’ awareness about actual costs of water provision, efficient use of water, consumer rights and obligations. On the other hand, the capacity of local governments to work with the public and consumers need to be increased.

## **International experience**

Robin Simpson, UK Consumer Council and Consumer International, presented an overview of international experience of public involvement in water sector.

There are various forms of consumer representation around the world. General principles for representation may include: relevance for water, independence, research capacity and resources for operations, access to information, and right to appeal. Price, quality, coverage and complaints - are usually among the issues of interest for a representative body.

While in some NIS public hearings in the water sector are envisaged by the law (e.g. Ukraine), in the West consumer involvement in water decision-making is not a legally established right, it is possible in principles, but not actual; as a results there is mostly anecdotal evidence about such cases. Also, the role of a representative body (like consumer association) remains unclear in conflict resolution.

## **Preliminary conclusions**

The discussion that followed mainly focused on mechanisms to ensure transparency of water tariffs and raised several additional questions.

1. **Definition of a consumer** for the forthcoming Guidelines need to distinguish between separate individuals, who ultimately consume water, subscribers, or clusters of consumers/households/families, who have a contract with the supplier, and other categories of consumers, including industry and trade, budgetary organisations (schools, police, hospitals, etc.), agriculture, and others.
2. Several approaches exist in international and NIS practice, which can be used to ensure the **transparency of tariff setting**:
  - In Poland to propose a tariff change to the local council, utilities need to apply clear and standard rules, which makes the analysis easier and the decision more transparent; this is the approach often used in the NIS. But local governments and individual consumers do often not have skills and capacities to analyse tariff proposals.
  - In Chile a tariff study has to be carried out when a change is proposed. The national regulatory body can use an expert group when preparing a decision based on the tariff study, built of representatives of a municipality, utility, and one independent expert, who can be proposed by the consumers.

- In Kazakhstan the antimonopoly agency and its regional units are regulating water tariffs, expert councils established by the agency assist to analyse utility tariff applications;
  - Kazakhstan antimonopoly agency can also organise public hearings, especially in cities where a social conflict can be expected due to a significant tariff increase. But the agency does not favour the mechanism of public hearings, as often the participants on the public side are not prepared for the discussion, and some information that they require might present a commercial secret. Generally, public hearings are not very common for tariff review.
  - Quasi-court procedures for tariff setting - with the participation of individual consumers and with the involvement of consumer groups or associations.
  - In France when independent checks of tariffs are required, regional accounting courts can be contacted.
3. When the government has a mechanism for tariff regulation (e.g. Kazakhstan) public participation can be at a smaller scale, when such a mechanism is missing or weak (e.g. Russia, Ukraine) a broader public participation may be needed.
  4. Softer approaches for **conflict resolution** might be more effective in the water sector; administrative commissions might be a practical approach.
  5. Public participation is crucial in **concession agreements**. This participation can be meaningful only if sufficient and timely information is provided to public representatives.
  6. When discussing **public control and scrutiny**, it was recommended to focus on public control of local governments, rather than utilities. When utility and municipality boundaries do not coincide, consumer involvement may be less focused. Using the experience of the Netherlands and the UK, benchmarking can be used as a form of reporting to consumers, including on water quality.
  7. The Guidelines may need to address the issue of a potential conflict between existing and potential consumers.
  8. While in most countries individual consumers have a right to complain, consumer groups or associations do not have this right. The Guidelines may need to address this issue.