



Impacts of Decentralisation in the Water Supply and Sanitation Sector

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Setting the scene

Decentralisation process led to major modifications in management and operation of the water sector
→ transfer of responsibilities, tasks and assets!

Different dimensions of the decentralisation process:

- **Administrative decentralisation** – redistributing authority and responsibility
- **Fiscal decentralisation** – revenue raising potential
- **Political decentralisation** – integration of the voice of citizens

Setting the scene

- Decentralization can lead to a more efficient allocation and use of resources.
- Lowest level of government can effectively perform functions effectively.
- Integrates local people in the decision making process and creates a higher degree of transparency and ownership (subsidiarity principle).

But decentralisation process is regularly associated with the formation of a fragmented structure of the water service industry.

Problem analysis: Fragmentation of the water sector

Fragmentation of water sector – the existence of small water utilities rendering services to a small number of households

Problems linked with a fragmented water sector:

- **inefficiency in service provisions** (reflected in higher costs)
- limited access to **funds for investment**

But ...fragmentation (small water provider) not per se an obstacle for efficient service provisions (for example water sector in Austria, Germany, France)

Problem analysis: What is the optimal size of water utilities?

Literature – no unique answer – optimal size cannot be identified as too many factors are influencing

- UK study - optimal size: 400,000 connected properties.
- German study – optimal size of a water supply utility is about 66,000 inhabitants (18,500 connections)
- Japanese study revealing that the optimal sized water supply company would service 766,000 inhabitants

Many factors have to be considered – some of them can be adapted (political, legal, economic, financial, etc) others cannot be influenced (geographical, hydrological)

Overcoming the problem of fragmentation?

Setting up of inter-municipal cooperation (IMC)

Reason for IMC – why to establish IMC?

Achieving of efficiency gains in different areas, such as labour conditions, financial and economic area, access to capital market

What do we understand under IMC?

- A unique and widely accepted definition of this term cannot be found in the literature

What is understood under inter-municipal cooperation?

IMC: provision of public water services in a municipality is not provided by an individual municipality. Instead a single water operator formed by more than one municipality provides water supply and wastewater treatment services to the water consumers located in these municipalities.

The form of IMC: purely inter-municipal: only between municipalities but also between institutions of mixed character (private and public institutions)

The reasons for forming IMC

Making use of economies of scale in the water sector:

- institutional issues (labour force – improving the skills of employees)
- operational / financial aspects (in the field of procurement, reduction of transaction costs)
- access to capital market (increase of the creditworthiness)

Policy-driven reasons / pressures:

- National funding scheme (preference given to IMC: Austria and Hungary)
- EU funding scheme

Benefits / advantages of IMC

- Increased cooperation between municipalities can lead to cooperation in other public services;
- Improvement in the coordination and management of water utilities because the lack of capacity and expertise at the local level can be resolved easier;
- Improved access to water resources in water scarce areas;
- Access to finance and international donors;
- Cost sharing between high- and low-cost service areas;
- Economies of scale in procurement and support functions.

Constraints / disadvantages of IMC

- Lack of incentive to share water; sharing of water access would lead to tariff increase for water-rich municipalities;
- Higher risk for municipalities due to joint liabilities for the loans;
- Loss of democratic accountability;
- Resistance of communities with lower costs to subsidize those with higher costs;
- Administrative boundaries are often not aligned with river basin boundaries;
- Political will required at all levels (central, regional and local)

Summary of findings

Setting up of inter-municipal cooperation is always linked to some benefits - economies of scale will be achieved!

The realisation of other benefits crucially depends on country-specific factors – for instance, IMC may improve access to international capital market but not automatically leading to favourable conditions – as it also depends on the creditworthiness of the country!

A larger number of potential benefits of IMC are identified in the financial/environmental/geographical/hydrological area than potential constraints as compared to the political/institutional category where more potential constraints can be identified.

Summary

- Countries are in different stages of the decentralisation process
- Political and historical context – decentralisation part of the institutional, legal and administrative framework in Western Europe since centuries as compared to the situation in Eastern Europe
- Large variations with regard to the existence and development of IMC in the water sector
- Transfer of experience between countries is rather difficult

Summary of findings

The political/institutional category requires special attention:

- Political interests and ideology must not be in the forefront when decisions regarding the setting up of inter-municipal cooperation are on the political agenda!
- An example: potential constraint of setting up an inter-municipal cooperation along administrative boundaries may contradict the given geographical borders!

IMC is always linked and requires abandoning of political power and responsibility

Summary of findings

Inter-municipal cooperation in the water sector can be an approach and policy measure of providing water services efficiently and at affordable costs for water consumers

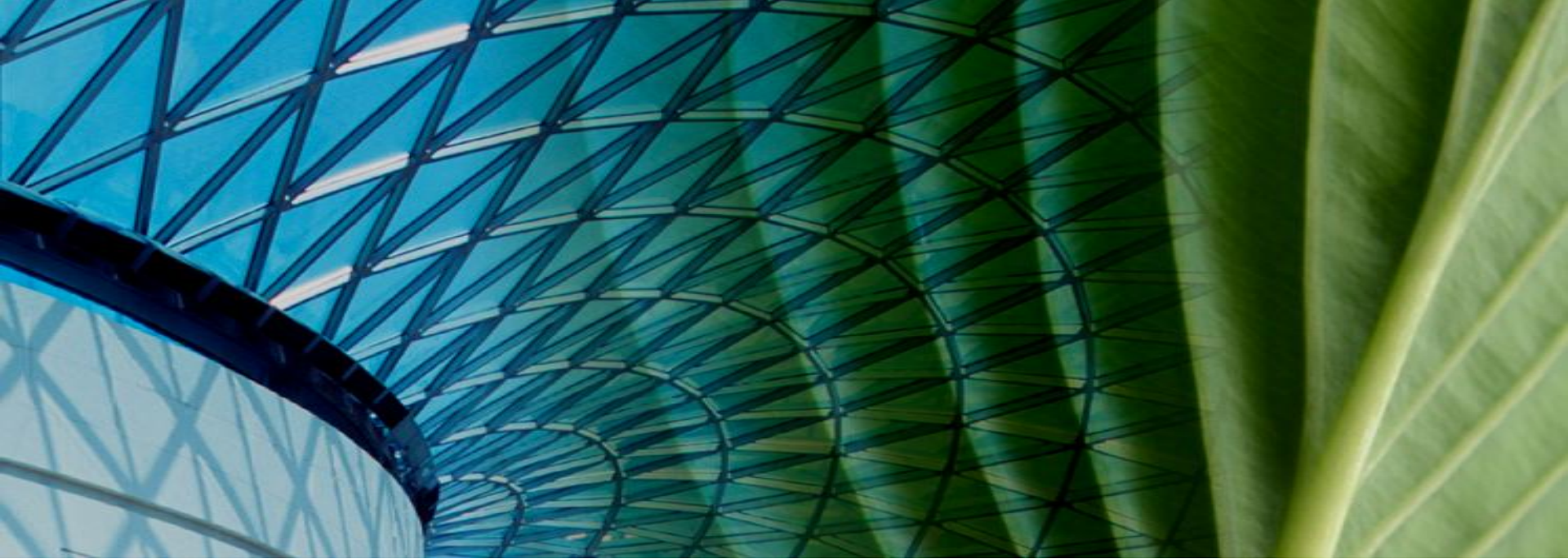
BUT it is definitely not a panacea to overcome all obstacles the water sector is currently facing.

Typology of IMC

| | | | |
|---|--|---|---|
| Objectives and drivers in the area: | | | |
| Policy (driver): decision to achieve pre-defined objectives | <p>Drivers: identification why to set up IMC? What are the reasons?</p> <p>Objectives: IMC to set up with the clearly defined aim to achieve pre-defined objectives! Which objectives can be identified based on experience?</p> <p>Drivers and objectives may overlap – but they are depending on the prevailing conditions (institutional, legal, economic, political, etc.) of the respective country!</p> | | |
| Geography/Environment (driver) access to water in water scarce areas | | | |
| Capacity (driver): professional staff | | | |
| Finance (driver / objective): access to capital market, EU funds, private operators | | | |
| Economics (driver / objective): efficiency / economies of scale – cost reduction | | | |
| Degree of cooperation / transfer of responsibilities | IMC at national level (water association – voluntary part.) | IMC of individual communities (voluntary part.) | Regionalisation of the water sector (IMC at the regional level - mandatory) |

Typology of IMC

| | | | | | |
|---|---|-----|---|-----|---|
| Drivers in the area: | | | | | |
| Policy (decision to achieve pre-defined objectives) | Austria – national water association (lobby, PR, training) | | | | Romania – high priority |
| Geography/Environment (access to water in water scarce areas) | | | Austria – water dry areas in the South-East | | |
| Capacity (professional staff) | | | | | |
| Finance (access to capital market, private operators, etc) | | | | | Romania – high priority |
| Economics (efficiency / economies of scale – cost reduction) | | | | | Romania – secondary priority |
| Degree of cooperation / transfer of responsibilities | IMC at national level (water association – voluntary part.) | etc | IMC of individual communities (voluntary part.) | etc | Regionalisation of the water sector (IMC at the regional level - mandatory) |



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